

## ABSTRACT

Title of Document: BRINGS THE POLITICS BACK IN:  
POLITICAL INCENTIVE AND POLICY  
DISTORTION IN CHINA

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This dissertation explores why some commendable policy goals set by the central government of China have been left unmet at the local levels. Observing the significance of policy behaviors of local officials in producing policy outcomes in their jurisdictions, it attributes the apparent policy distortion to the “incorrect” incentives that local officials face now. Different from those focusing on the *new* economic incentive offered by the *new* decentralization arrangement during the reform era, this study looks into the nature of political incentives embedded in the *old* top-down cadre management system to see how local officials are “incentivized” politically to produce distorted policy outcomes.

By investigating formal rules governing local chiefs’ turnovers and actual past turnovers of the prefectural chiefs in Zhejiang and Hubei provinces during the reform era, this study finds out that the top-down political incentive is unbalanced by nature in that promotion criteria for local chiefs slant heavily to local chiefs’ achievements (*zhengji*) in promoting local economic growth while their performance in other policy issues are neglected at large. It argues that such unbalanced nature of top-down political incentive has induced local officials to divert more efforts to pursue “mindless” economic growth

at the cost of other commendable goals; policy distortion therefore emerges as the consequence of unbalanced political incentive.

This dissertation continues to explain why the apparent policy distortion has persisted. By investigating five cases illustrating the way the center deals with local policy distortion, it argues that the central government is unwilling, unable and ineffective to sanction policy distortion because of the innate conflict between the indirect management tool the center uses and the multiple governance goals it desires for. The unbalanced nature of current top-down political incentive is therefore predetermined and policy distortion persists.

This dissertation contributes to the general discussion on central-local dynamics in China by bringing back the top-down political incentives as the most important institutional cause for policy outcome. Policy implication of this study is clear: the problem of policy distortion could not be solved without reshuffling the top-down political incentive system.

BRINGS THE POLITICS BACK IN:  
POLITICAL INCENTIVE AND POLICY DISTORTION IN CHINA

By

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## Dedication

To my grandma, Hu Qiusheng (胡秋生, 1925-2002)

## Acknowledgement

It was a long journey in which I didn't travel at ease, but fortunately I didn't travel alone. First of all, I owe to Professor Margaret Pearson, my dissertation advisor and academic mentor. It was in Professor Pearson's China course that I began to conceive the research question of this project; it was in the intellectual discussion with her that I find out the right direction to proceed. When I got lost in my own wishful thinking sometimes, it was her formidable academic rigor and thorough knowledge about Chinese politics that guided me through; even when I drifted away from time to time because of frustration, it was her generous patience and warm encouragement that brought me back. Although this dissertation didn't come even close to the academic excellence Professor Pearson's works embody, I benefited and will continue to benefit from her academic guidance.

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## **Chapter 1 Introduction: Political Incentives and Policy Distortion**

“The central government is a benefactor, the provincial is flesh and blood, the prefectural has some men of honor, and the county is full of bad characters, while those at townships are all enemies<sup>1</sup>.”

---A Chinese folk saying

Distortions are often observed in authoritative relationships: a little boy against his father’s mandate of having a bath by turning it into a water splash game, a student against his teacher’s instruction of taking class notes by drawing a robot, a worker against his supervisor’s order of increasing efficiency by slowing down the assembly line, or as depicted by the folk saying above, the local government officials at various levels in China against their superiors’ commendable policy goals by making themselves the “enemies” of the local people. Such distortions observed in authoritative relations are intriguing for a very simple reason: as conformity to the authority is expected to be the norm, how has the distortion happened in the first place and why, in the second, does the distortion persist?

These two questions are especially perplexing for the policy distortions in central-local government interactions in contemporary China. On the one hand, the rise

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<sup>1</sup> “Zhongyang shi enren, shengli shi qinren, shili you haoren, xianli duo huai ren, xiangli shi diren.”

of local discretion and capacity together with the economic decentralization arrangement during the reform era had allegedly posed a significant threat to the unitary central-local management system. Policy distortion, viewed as a consequence of the increasing localism, therefore could be taken as evidence of the diminishment of the central authority. On the other hand, the unitary authority of the center in China, which had been described as being “decayed,” “declined,” “Balkanized,” or predicted to be “collapsed” by different scholars and observers<sup>2</sup> from time to time, seems to be resilient (if not prosperous) across the years and has been observed as taking the helm in many difficult tasks, e.g. the abolishment of agricultural tax. A black-white depiction of “local conformity” or “local defiance” would therefore fail to capture the full content of central-local interactions: Ironically, policy distortions exist at the local levels, together with obvious respect to the top-down political authorities. This study seeks to understand the symbiotic mechanism of the two seemingly mutually-exclusive characteristics. Specifically, how policy distortions have emerged in a politically authoritative context and why the latter has accepted its de facto existence.

The purpose of the inquiry into this symbiotic relationship between policy distortion and political authority is beyond the clarification of a puzzle. Instead, this symbiotic existence *per se* is reminiscent of an intellectual question haunting the deliberation about the future of an authoritarian regime: Is this symbiosis a stable status in its own right or a transient process leading to an “inexorable cumulative crisis” (Walder, 1994, pp297), i.e. would increasing policy distortions eventually render the collapse of the authoritarian system? If the former is true, then are we going to be

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<sup>2</sup> For example, Hu and Wang (1993), Walder (1994), Chang (2001)

shocked someday by the possible qualitative change in current authority relation, just as those arguing the quantitative stability of the Soviet system later were shocked by its rapid collapse? If the latter is accepted, then how can we explain the invariable resilience of the central authority in China in spite of the frequent and plausible prophecy of its termination? Again, to answer these questions, one should also look into the mechanism for the emergence and persistence of current policy distortion to find out whether current policy distortion symbolizes the underlying eroding force or a working immunization system for the current authority system.

In this introductory chapter, I first define the term “policy distortions.” Then I review the disputes revolving on a prevailing explanation framework for the local policy outcomes focusing on the institutional arrangement of economic decentralization. Largely following those critiques of this “decentralization school” and focusing on the characteristics of the “political centralization,” I present my argument of the two-way relation between political incentives and policy distortions. My research design for this study and testable hypotheses are introduced followed by the outline of chapters.

### ***Policy Distortions, Policy Implementation and Policy Discretion***

Before looking into the mechanism of policy distortion, let us first define what policy distortion is. In this research, I define policy distortion as the policy outcomes produced at the local levels that are incongruent with the commendable policy goals set by the center. This definition is largely inspired by the folk saying quoted at the beginning of this chapter. Specifically, why has the center been viewed as benevolent and the more local the more opposite way? The reason is simple. For average people who are outside of the policy process but directly effected by its consequences, only the

policy goals and the policy outcomes are visible to them; and when the commendable policy goals promised by the “remote”<sup>3</sup> center are left unmet at the local level, blame is then laid on the latter rather than the “benevolent” center. Putting aside the subjective judgment, however, the fact of policy distortion observed is rather neutral: the government system makes a promise which is not delivered.

The definition here is an objective description of a phenomenon viewed from outside. No implication about its causes in the unobservable policy process is attached to this conceptualization. It is for this reason that two similar terms, policy implementation and policy discretion, which are often used in the discussion of the undesirable policy outcomes, are intentionally avoided in this study.

For one, policy distortion is not necessarily due to problems in policy implementation<sup>4</sup>. In essence, governance, especially in such a large country like China, is a complex set of policy decisions that are required to be carried out at the local levels<sup>5</sup>. As the economic pragmatism took leads in the reform era, the economic decentralization answers to this requirement. The policy goals posed by the center were often not

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<sup>3</sup> Downs (1967) argued that the possible reason for this perception of a benevolent center is that the local people falsely equate “remoteness from themselves with efficient centralized control,” pp133

<sup>4</sup> This term is used by many scholars discussing the policy distortion problem I defined in this study. For example, Zweig (1985), Lampton (1987), Manion (1991), Cheung, Chong and Lin (1998) and O’Brien and Li (1999),

<sup>5</sup> “The ultimate decisions must be left to the people who are familiar with these circumstances, who know directly of the relevant changes and the resources immediately available to meet them,” Hayek, 1948, pp83-84.



accompanied by detailed implementation plans<sup>6</sup> but rather with encouragement to “taking actions suitable for local circumstances.” Therefore, if the local government fails to deliver the desired outcome, it is simply an observed phenomenon of “incongruence between the stated intention of policy makers and actual policy outcomes” rather than a diagnosed failure of the local implementation in the sense of “following procedure”<sup>7</sup>: there is often no procedure to follow to fulfill the multiple, “unfunded,” and even self-contradictory mandates.

Following a similar logic, the term “policy discretion”<sup>8</sup> is avoided. As the policy goals are often set by the center without specifying the means to achieve them, policy discretion is necessary to have those goals accomplished. In fact, the central government relies heavily on the local policy discretion to find the “best practice” for the unprecedented reform measures. Policy distortion could well be one type of outcome of local policy discretion, one that does not bring about outcomes desired. However, it is certainly not the only type of outcome that local discretion could produce. In many other cases, among which the most famous is the “household responsibility system” in rural areas, “best practice” was indeed found and the policy discretion was recognized retroactively as “policy experiment” with positive connotations. In other words, policy discretion is a general characteristic of the policy “behaviors” at the local level and the policy distortion is one type of its outcome.

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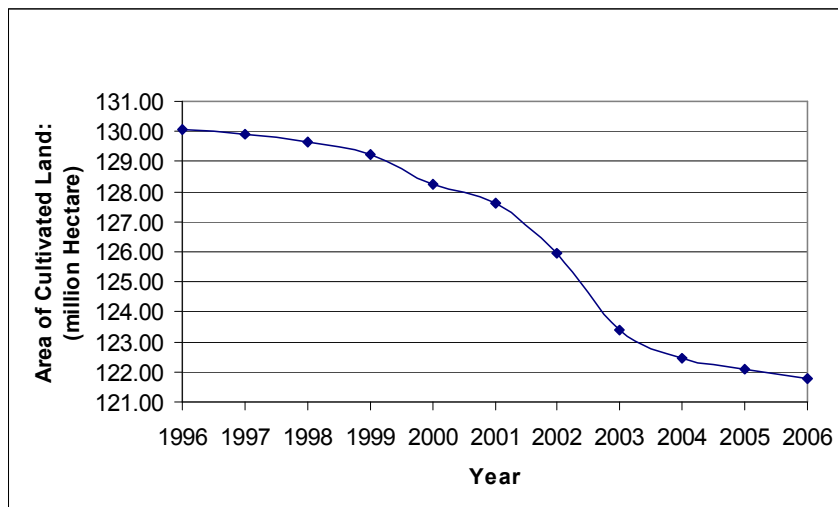
<sup>6</sup> Huang (1994) pointed out that even before the reform the planning capacity of China’s central government was weak and could not extent detailed control to the whole economy.

<sup>7</sup> Lampton, 1987, pp5-7. Lampton defines two type of policy implementation, “following procedure,” “congruence between stated intention and the outcome.” I tend to narrow it to the first concept.

<sup>8</sup> For example, “Central Control and Local Discretion in China,” Jae Ho Chung (2000).

To sum up, the policy distortion is defined in this research more as a factual problem of the whole governance system, i.e. the hierarchical system from the center to the local, rather than a pure “local” problem. Therefore, this research will look into the dynamics of the central-local interactions to find out the mechanism of policy distortions.

Figure 1- 1 Area Change of Cultivated Land, 1996-2006



Source: China Land Resources Yearbook

The example of policy distortion used across this research is the protection of cultivated land. As the most populous country and fastest developing economy in the world, China faces serious challenges in land conservation issues. The government has therefore established the principle of a land policy stressing “protection” over “development.” And “to value land highly, use land rationally and protect cultivated land effectively” is even included as one of the China's basic policies (*jiben guoce*) in the Land Administrative Law of PRC<sup>9</sup> (LAL). Several serious and specific policy goals have been set for the protection of the cultivated land, the most significant of which is the

<sup>9</sup> “To protect cultivated Land efficiently” and the term “basic policy” were added into the LAL in its 1998 revision. (Aug 29, 1998).

“redline” set for the cultivated land inventory, currently as 1.8 billion *mu* (120 million hectares) by the year 2020<sup>10</sup>. However, in practice, this policy goal has not been well fulfilled as shown in *Figure 1-1*. From 1996 to 2006, the area of cultivated land had decreased by almost 10 million hectares and approached very close to the redline planned 14 years earlier<sup>11</sup>. The fact observed here is clear: the governance system established the policy goal of the protection of the cultivated land and the policy outcomes turned out to be unsatisfied. This is then exactly the type of policy distortion that will be explained by this study.

### ***Decentralization vs. Centralization: Bring the politics back in***

One prevailing explanatory model for the local policy outcomes belongs to the so-called “economic decentralization school.” Correctly observing the decentralization in economic policy decision and fiscal sharing as a new institutional factor during the reform era, this school tried to explain the Janus-faced realities in China (i.e. great economic success on the one hand and rampant policy distortions on the other) by looking into the new incentive structure produced by the decentralization arrangement.

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<sup>10</sup> National Prospectus of Land Use (2006-2020). In China, the state controls the purpose of the use of land. And all lands are categorized into three groups: land for agriculture, land for construction and unused land. The cultivated land is a subset of land for agriculture which also includes forest land, orchard, pasture, land for farm facility and aquaculture water surface.

<sup>11</sup> A significant confounding factor here is the huge reforestation effort from 1999 initiated and funded by the central government, which had accounted for about 2/3 of the cultivated land decrease from 1997 to 2003 (Li, 2005). However, the existence of this confounding variable did not change the fact that “conversion to non-farm use” has consistently been one of the most important causes of the quantitative decreases and the most important causes of the qualitative decreases of the cultivated land as those converted were often lands in flat area with better natural and transportation conditions.

According to this model, policy outcomes, be they desirable or undesirable, are the “unintended consequences” of the local government’s pursuit of local economic interests. Despite the obvious success this succinct model had achieved in explaining the correlation between the incentives in the context and the outcomes, this model is increasingly questioned since one very important institutional factor in China’s context is missing: apart from the “new” economic decentralizations, there still exists the “old” political centralization, unchanged largely in the sense that local officials at various levels are still controlled by a top-down hierarchical cadre management system. After all, the state is still an overwhelming presence in China when compared to other social institutions. The state still maintains this world’s largest bureaucratic system. As such, it should have provided, besides the economic incentives, effective political ones, to constrain the local officials. Since the policy behaviors of these local officials are consequential to the local policy outcomes, the institutional arrangements of the political centralization should therefore be a rational factor for the policy outcomes. It is in this sense that we should “bring the politics back in.”

**The prototype of decentralization model:**

Now let us begin with a look at the two influential decentralization models arguing the causality between the economic decentralization and the miraculous economic growth in contemporary China: one is the Market-preserving Federalism (MPF) by Montinola, Qian and Weingast (1995) and the other is the Local State Corporatism (LSC) by Oi (1992) and Walder (1995). Although these two models start their reasoning from slightly

different angles<sup>12</sup>, the logic is similar: the fiscal decentralization has provided the economic incentive for the local government to produce pro-growth policy behaviors. The exact mechanism how this has worked is also slightly different in these two models: for LSC model, it is the “claiming rights” over the fiscal residual accrued at the local levels that induced the “helping-hands” from the local government; for the MPF model, it is the “competition among jurisdictions” that has led to the “experiment,” “learning” and “imitations” (Montinola et al., pp73) for the better practice in promoting local economic development. In a way, these two models complete each other in telling a story about how the economic-interests-centered local government has responded to the institutional contexts of decentralization with “helping hands” offered to the local business, which draws parallel with the logic how the free market maximizes efficiency.<sup>13</sup> For one, property rights, although imperfect, were assured; for the other, competition works as the invisible hand; and pro-growth policy is therefore produced.

One methodological contribution, among others, of these “decentralization-helping hand” models merits a special notice here. As the debate about the role of the state has often causally characterized the state as either a “helping hand” or a “grabbing hand,” the question remains how the state, impersonal and “an arena of conflict”<sup>14</sup> as it is, could

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<sup>12</sup> The MPF started on how the fiscal decentralization arrangement could solve the “credible commit problem” of the “central government” (sovereignty) while the LSC started on how this arrangement would incentivize the “local cadres” (agent).

<sup>13</sup> It is worthy noting that Oi herself explicitly compared the hierarchical governmental relations to the one between the “headquarters of multi-level corporations” and its regional branches (However, she used this metaphor for the sub-county levels and did not attempt to generalize it to the whole system). Oi, 1995, pp1138

<sup>14</sup> See Rueschemeyer and Evans, 1985, pp47.

have produced the teleological behaviors of “helping” or “grabbing” and therefore have been dubbed as “developmental”<sup>15</sup> or “predatory,” respectively? The models mentioned above brought some new ways of thinking to answer this question: the teleological “behaviors” of the state are rather *results* of the intra-state interactions that are framed and constrained by the internal incentive structure. In other words, *institutions matter*. Opponents of these models mentioned above as well as my own research here followed this institutionalist approach and examined the incentive structure governing the central-local interaction to find out how certain policy outcomes are produced. The points at issue are rather the exact incentive structure each focuses on and the actual working mechanism, which are discussed next.

### **Critiques to the “decentralization” school:**

#### 1) Helping hand or grabbing hand?

The first challenge to this model points to the “helping hand” argument. Although proponents of “helping hands” (mostly economists) presented some convincing evidence between fiscal decentralization and economic growth rate<sup>16</sup> (Lin and Liu, 2000; Jin, Qian and Weingast, 2005), many others caught the “hands” not “helping,” which is also embodied in policy distortions discussed in this research. Directly opposing to the MPF and LSC models, several scholars had attributed the “grabbing hands” observed to the pursuit of local economic gains incentivized by the economic decentralization. For

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<sup>15</sup> Classic statement about developmental state could be seen in Johnson (1982). Peter Evans provides the “archetypes” of each of them.

<sup>16</sup> Davoodi and Zou (1998) analyzed a panel data of 46 countries from 1970 to 1989 and showed that fiscal decentralization is detrimental to economic growth in developing country. Lin and Liu believed there are some serious flaws in their measurement of decentralization.

example, the local protectionism thwarting factor mobility (Wong, 1991; Lee, 1998) and market integration at the national level (Naughton, 2000; Bai et al., 2004); “race to the bottom” competing for external resources, e.g. FDI, (Cai and Treisman, 2004, 2006); extreme hunger for extra-budgetary fund and egregious exaction (Wedeman, 1997, Bernstein and Lu, 2000); the overheating of investment (Huang, 1996) and flood of informal finance (Tsai, 2004), etc. At the same time, scholars also noticed that the decentralization has “corroded” the “state capacity” in regulating the policy behaviors at the local levels, which therefore aggravated current problems of “grabbing hand” (Wang and Hu, 1993; Cai and Treisman, 2004). The huge variations in policy outcomes in China as such a large country<sup>17</sup> also yields many counterfactuals to the argument of unified “helping hands.” While “helping hands” are observed in some localities, “grabbing hands” are found in some others (e.g. Sargeson and Zhang, 1999). To sum up, the result of current dispute over the relation between fiscal decentralization and “helping hand” is at best inconclusive (Saich, 2001).

2) Is the fiscal decentralization an explanatory variable, and is it the only one?

While some questioned the causality between the fiscal decentralization and the positive policy outcomes, others take issue with the fiscal decentralization being an accurate and complete description of the institutional context in which the central-local interaction took place: Is fiscal decentralization a qualified explanatory variable for current policy outcomes? And is it the only one?

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<sup>17</sup> Chung (2000) provided a vivid account on how localities varied in their policy implementations. Three types of behaviors of local officials are summarized as “pioneers,” “bandwagons” and “laggard.” Also see, Cheung, Chung and Lin (edited), 1998, pp25-26

Fiscal decentralization, as some critics argued, might not be a new and credible institutional arrangement in the reform era. For one, as Chung correctly pointed out, similar decentralization measures had been adopted during earlier PRC years (e.g. the period of Great Leap Forward). However, “it does not appear that the stipulations of the centre *ipso facto* produce increased local autonomy” (Chung, 2000, pp32), let alone its positive or negative outcomes. For the other, the actual “fiscal decentralization” during the reform era has not been stable and “credible” as it was claimed to be. The “fiscal contracts” (*Dabaogan*) between the central government and the local governments have been at best “weak” (instead of credible) commitments: “the centre had the political clout to introduce *ad hoc* measures<sup>18</sup> that encroached on...the rights that were supposed to be... of local government” (Tsui and Wang, 2004). In a word, the basis of the decentralization model is shaky from the beginning and the observed correlation could simply be coincidence rather than causality.

Besides the questioning on the fiscal decentralization *per se*, the opponents also noticed that another important institutional factor, i.e. the political centralization, was missing and should be included in the analysis of the policy behaviors of the local government. In a comparative study between the result of fiscal decentralization in Russia and in China, Blanchard and Shleifer argued that the “fiscal decentralization with or without political centralization” had resulted in the difference between local officials in China promoting local economy and those in Russia rent seeking. Political centralization in China, i.e. the power “to appoint and dismiss governors,” could “sustain

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<sup>18</sup> For example, the centre can “borrow” money from the local governments without returning it. This happened twice in early 1980s. See Tsui and Wang (2004); Sun Lei (2004).



pro-growth policies” at local level even the local government could only take a small share in the entire revenues. (pp. 175).

Although this inspiring model still aims to account for the positive policy outcomes in China, the introduction of the political centralization as an institutional factor opens roads to rethink the mechanism of policy distortion: could policy distortions be produced, ironically, in a politically centralized regime? Answers from several studies on the central-local interactions in pre-reform China are positive. For example, Shue (1988) provided a vivid account of “honeycomb” for the administrative structure at rural China in which local discretion was used to oppose the explorative mandates from above, which is “policy distortion” in a benevolent sense. Similar pattern was observed by Zweig (1985) in the failure of unpopular political mandates during the peak time of Cultural Revolution when political centralization was much apparent an existence.

Continuity of the scholarship on China’s central-local relations is therefore suggested here by including the political centralization into the whole picture. Put more directly, as political centralization had been proved as a source for policy distortions during the pre-reform era, though the contents of distortion might be qualitatively different from the current ones, it probably has continued to be such a source as the top-down authority in personnel decision did not change much into the reform era.

### 3) Abstract local interests vs. political interests of local “politicians”

Another point of the decentralization school that invites questioning is the definition of “local interests.” For the decentralization school, one implicit argument is that the local government, when given the claim rights, would align its interest with the interests of local society and thus make policy decisions to maximize the so-called “local

interests”. In its analysis, this abstract “local interest,” without discrimination between that of the government and that of the society, is often posed against the so-called “central interest.”

The questioning of this conceptualization of “local interest” starts with the trying to understand the “interest of local government.” In many ways, the local government in China worked as an omnipotent horizontal authority in its territory except that the heads of the local government are always directly appointed by their superiors at the immediately higher level. Since these local appointed officials hold the ultimate administrative responsibility and power for local governance, when we talk about the “interests of local government,” we actually are more concerned about the “interests of local officials.”

As far as this concrete “local officials’ interests” is concerned, its automatic alignment with the more general “local interests” is then questionable: local officials do not necessarily benefit economically from the inflated local coffers.<sup>19</sup> Another factor that makes the “claim rights” over fiscal residuals even less attractive economically is that the turnover of the local officials in China is very frequent, especially for those at the level of prefecture and below, few of whom could even fulfill one full term<sup>20</sup>. Because the term is

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<sup>19</sup> Except those local cadres at township or village levels who can actually be listed as a shareholder in local businesses.

<sup>20</sup> According to one statistics on a random sample of 150 cities in China, from 2002 and 2006, a period did not include a formal “election” year, 86.7% of the sample cities have had at least one turnover in the mayor position and 25.3% even have two<sup>20</sup>. The city of Handan, for example, had 9 different mayors from 1993 until now with the average tenure less than 2 years! Zhang, Jun, 2009. <http://news.sina.com.cn/c/sd/2009-03-24/145917471712.shtml>. Similar observations were also noted by several studies on local cadres. For example, the average terms of mayors decreased

so often shortened, the meaningful investments conducive to local welfare would be very hard to relate to the local officials' personal economic payoffs.<sup>21</sup>

By taking a new look at the “local interests” as the interests of the local officials we will be bringing ‘politics’ back in as an explanation of the policy behaviors of the local government. This will recall the “old school” that had been interested about the political calculations of the Chinese officials. For example, in his seminal work about the dynamics of pre-reform politics in China, Lucian Pye started his reasoning with the assumption that the utmost interests of Chinese officials are “searching for career security and protection of power” (Pye, 1981, pp7). Through this lens, the policy behaviors of Chinese officials should be viewed above all as the means for “political survivals” rather than procedures to realize “policy goals” or economic gains. Specifically for officials’ response to the central policy initiatives, Pye commented that,

“The degree of enthusiasm with which directives are welcomed is apparently more a function of calculations as to their likely effects on cadre personnel than so judgment of their inherent merits” (pp. 15)

The same logic might well be applied to understand the policy behaviors of the local officials now: The “local” is important to them primarily because their “local” performance matters for their career prospects; being “local” does not mean being “localized.”

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“from 3.2 years in 1990 to a mere 2.5 years by 2001,” which is much less than the tenure stipulated in law (5 years). See Landry (2008). Also See Huang (1996), Bo (2002)

<sup>21</sup> See Rauch (1995)

Changes during the reform era brought some legitimate suspicion to the continuity of the “political interest” in the minds of local officials. For example, the political environment has been less volatile and economic interests have been more important to individuals’ welfare, which makes “political survival” less a problem while “economic survival” has become more of a concern. However, one fundamental characteristic of China’s officials has not changed so much after the reform era: the local officials are *de facto* “career politicians” in China. Most of these officials start their whole career inside the hierarchical system and thus seldom switch career tracks either because of sunk costs or pure inability. Exit is not an optimal option as compared to staying in the system, especially since this system still monopolizes the resources of power and can provide better benefits than the private sectors. In other words, even if the economic gain is the major concern, it is in the local officials’ interest to stay in the system<sup>22</sup>. For the local officials to remain in power, although not as imperative as “to survive in the system” may make it sound, they still need to play by the rules which determine their fates inside the system rather than those outside of it.

This focus on the political interests of local officials rather than the abstract local interest” has been adopted by several recent studies in analyzing policy behaviors at the local levels. For example, Zhou (1994, 2007) explained the pervasive local protectionism and redundant construction as a result of the cross-jurisdiction competition in a “championship for promotion,” Edin (1998) argued that promoting economic development as the safe card played by the local officials to avoid uncertainty in career

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<sup>22</sup> In a generic model to analyze local cadres’ behaviors, Tsui and Wang (2007) combine these two incentives by setting the utility function of local cadres as the product of the probability to stay in the post times the local retentions.

advancement, and Cai (2004) maintained that the cause of the irresponsible investment in “image projects” is the local officials’ attempt to impress their superiors (Cai, 2004), etc.

4) The model: Political centralization with economic goals

The introduction of the top-down political incentives and the separation of the local officials’ political interests from the abstract local interests together constitute the framework of the political centralization model I use in this research. According to this model, the policy behaviors of the “political-interests-centered” local officials are induced by the political incentives from above. Policy distortion, as one type of outcome of local officials’ policy behaviors, should in turn be conceptualized as a consequence caused mainly by the political incentives given to the local leaders. Specifically, if the incentives are not designed to induce the desirable policy behaviors, policy distortion is then the result.

This political centralization model clearly adopts a perspective of path dependence since the persisting political incentives, sent from above and attractive to local officials, are cited as the *cause* of policy distortion. However, contents of the persisting political incentives (i.e. what to reward and what to punish) should not be assumed to be invariant across time or arbitrary at the center’s discretion: they must adapt to the goal that these incentives are used for. In this sense, they are the *results* of the intended policy goals. When the “central task” of the regime changes to be “economic construction,” the political incentives have been used to promote economic growth, which should constrain the contents of the political incentives. And if the pursuit of economic growth prevents the political incentives from punishing undesirable policy behaviors, the resulting policy distortion would persist.

This model of “political centralization with economic goals” differs from the model of “economic decentralization” because it aims to explain the local policy distortion by the nature of the political incentives. The two-fold puzzle about policy distortion: i.e. why it has emerged and why it has persisted, is therefore to be solved in this study by connecting each of them, respectively, to the two-sided nature of political incentives: being a *cause* of policy distortion and being a *result* of the intended policy goal.

### ***Local Chiefs: A subset of the local officials***

One more methodological issue needs to be addressed. In this research, when the term of “local official” is used, I refer to the local chiefs, especially those at and above prefecture levels, which is only a small subset of all local officials. By local chiefs, I mean those officials taking the highest executive positions at various local levels (province, prefecture (city), county (smaller city), and township), specifically, the party secretaries of local party committees and the governmental heads<sup>23</sup>. This subset is chosen mainly because these are the most important local “nodes” directly dealing with the higher “nodes” along the central-local lines, with all other local officials left responsive

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<sup>23</sup> A theoretical and rough division of labor is that the party committee is the decision maker of “important policies” and in charge of personnel, propaganda and uniting other social groups, while the government is the policy implementer and executives, see Xie (1994). In practice, the functional difference between these two might be much smaller. Evidence is that all government heads above the county level are without exception party members and the first deputy secretary of the local party committee; also, a very common practice is to have the government head replace the outgoing party secretaries, with very little change in their actual duties. Since the dualism of the “Party-state” system and its possible institutional contradiction is not of interest of this study, I simply treat both party secretary and government chief as the local chiefs, admitting that the former has a little bit more weight than the latter without stressing too much of their differences.

primarily to their own local executive “nodes.”<sup>24</sup> In other words, the interaction between these local chiefs and their superior chiefs are treated here as the central-local problem, while the interaction between the local chiefs and the local officials in their jurisdictions is seen more as a problem of internal control.

This choice of local chiefs as the research objects also has some methodological benefit. Above all, as they are generalist executives who hold ultimate responsibility for and would be evaluated by the policy outcomes in their local territory, we could safely use the local socio-economic data as the indicators of their policy behaviors. In contrast, for other local officials, e.g. the chief of land resources bureau in a local government, the policy outcome in specific policy area in the format of statistical data, e.g. the decrease of cultivated lands, may not be as good a gauge for his/her performance as he/she works for the local chief and usually does not have as much discretion as the latter have.<sup>25</sup> Also, the local chiefs are much more visible a group as compared to other local officials, therefore, the information of these individuals’ political career is more accessible for outside observers.

Also, the local chiefs tend to be more concerned about the political interests as they usually have better opportunities in political advancement than other officials in their cohort. Because of the complexity of generalist governance and the importance the horizontal “nodes” carries in a decentralized system, the experience of being local chiefs

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<sup>24</sup> One county chief interviewee said, “I respond to my immediate superiors in the prefecture city, and you (the functional departments under his jurisdiction) respond to me.” Interview, Jan, 2007, Beijing

<sup>25</sup> The recent regulatory reform from 1998 has seen efforts to strengthen the “vertical management” (*Chuizhi Guanli*); however, current evidence has yet shift the power relation that much between the local executives and the local functional department. (Mertha, 2005).

has been given greater weight than that of other positions. Although no systematic evidence was reported, a quick review of the resumes of current politburo members clearly reveals the advantages held by the provincial chiefs: 18 out of these 25 in China were provincial chiefs immediately before or at the time when they entered this most important decision making body in China<sup>26</sup>. Similar patterns are observed in the composition of the standing committee of the provincial party committees<sup>27</sup>. Therefore, compared to the officials taking positions with fewer career prospects and thus possibly pursuing personal payoffs in other forms, the local chiefs are more likely to focus on the political road.

Last but not least, the personnel decisions for the local chiefs, I think, could avoid to some degree the interference of the informal politics, i.e. the *Guanxi* based on primordial factions or bribery relations, but rather focus more on the personal attributes and performance of the individual officials in a more structured way. In fact, the conventional wisdom on informal politics in China has recognized its relation and reliance with the “formal structures”<sup>28</sup>. Primordial relations per se are not sufficient for the formation of faction (Dittmer, 1995a)<sup>29</sup>, and *Guanxi* could be the “result” of “shared

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<sup>26</sup> The 7 politburo members who are not former local chiefs are: Wang Gang, Liu Yunshan, Liu Yandong, Xu Caihou, Guo Boxiong, Wen Jiabao plus Wang Zhaoguo (who actually had been Governor of Fujian from 1987 to 1990 but mainly worked )

<sup>27</sup> For example, 9 out of 13 standing committee members of Hubei Party committee were local chiefs at the time (or immediate before) that they entered the standing committee.

<sup>28</sup> Most famous is the Trellis metaphor used by Nathan (1973).

<sup>29</sup> For example, the so-called Tsinghua Clique, officials who were graduates from Tsinghua University, might not be “as coherent and tight a political faction as it appears to be,” Bo (2004), pp247. Another well-known faction, the “Shanghai Gang” also presented more inner diversity rather than coherence. (For example, Jiang Zemin and Zhu Rongji actually worked together in



opinions” rather than its causes.<sup>30</sup> Specifically for local officials, their *Guanxi* with their patrons could be the result of their previous performance conforming to the patron’s opinion rather than primordial relations, and the faction per se might embody a systematic preference to certain “formal” individual characteristics.<sup>31</sup> In a nutshell, compared with others taking less important positions, e.g. one of the many deputy positions, functional chief, etc, who could be appointed by dividing “pork” among different factions, the local chiefs, who usually hold unchecked executive power and exert enormous influence on the final policy outcomes as mentioned above<sup>32</sup>, are more likely to be appointed based on their individual attributes and performances.

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Shanghai as Party secretary and Mayor, respectively; however, the rumor is that these two does not agree with each other that much when they later became the General Secretary and Premier respectively.

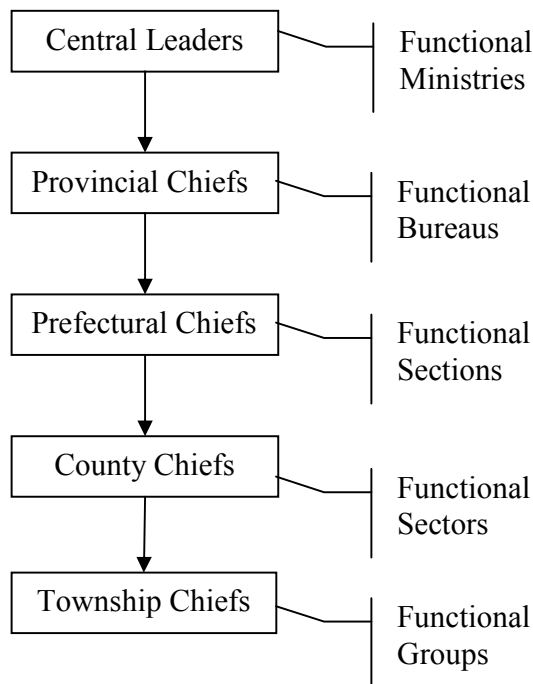
<sup>30</sup> Dittmer (1995b) gave a thorough review on China’s informal politics. He categorized the major arguments on informal politics (Nathan, 1973; Tsou, 1976; Pye, 1981; Teiwes, 1984) based on their purported characteristic of “comprehensiveness,” i.e. whether the informal politics has overshadowed the formal structures (pp.197). However, even Pye, whose purported according to Dittmer the extreme “comprehensiveness” of informal politics, also maintained that there is a “periphery” in factions, the members of which worked as members of “opinion groups” in the sense that faction switch is possible.

<sup>31</sup> For example, the promotion of Qiu He, known for his controversial reform measure as a prefecture secretary in Jiangsu province, is believed to have something to do with his relation to Hu Jintao. However, this relation primarily has something to do with Hu’s preference to Qiu’s reform measures rather than their personal connections.

<sup>32</sup> Local representative bodies, the Local People’s Congress (LPC) and the Local People’s Political Consultative Conference (LPPCC), though reported to be more vocal than before, still work pretty much as rubberstamps for the decisions of local executives. Most representatives to LPC and LPPCC are “part-time” and “insiders.” The share of local cadres in LPC in 2008 is 43.8% (Zheng, 2008) and the share of CCP member is around 70%. Even for the LPPCC, share of CCP members is usually about 40%. A recent trend is observed that the local chiefs are

To sum up, by focusing the political incentives on and policy behaviors of the local chiefs, this study simplifies the central-local mandate system to be a top-down system as illustrated in Figure 1- 2. A caveat is that the internal structure of local governments at various levels and the interactions between the horizontal authority and vertical authority in practice also have important bearings on the final policy outcomes, just as the well-known model of “fragmented authoritarianism” (Lieberthal and Lampton, 1992) has shown. However, as the central-local interaction is the major concern of this research, this simplification, I hope, will better reveal the top-down dynamics at a cost of losing some details at each level.

*Figure 1- 2 The Central-local mandate system based on cadre management system*




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“elected” as the chairman of these representative bodies, often the party secretary of local party committee as the chairman of LPC and a deputy party secretary as the chairmen of LPPCC. This move could be read as a preemptive measure aiming to maintain the dominance by the local chiefs over LPC and LPPCC.

### ***Theoretical Arguments: Political Incentives and Policy Distortions***

The core argument of this study is two-fold as shown in *Figure 1-3* below. On the one hand, as shown in part A, facing the unbalanced nature of political incentives, the local chiefs pursuing political interests would produce policy distortions; and on the other hand, as shown in part B, facing the distorted policy outcomes, the center government with its intended goals in mind could not change the unbalanced nature of political incentives. This two-fold argument explains the emergence and persistence, respectively, of policy distortion.

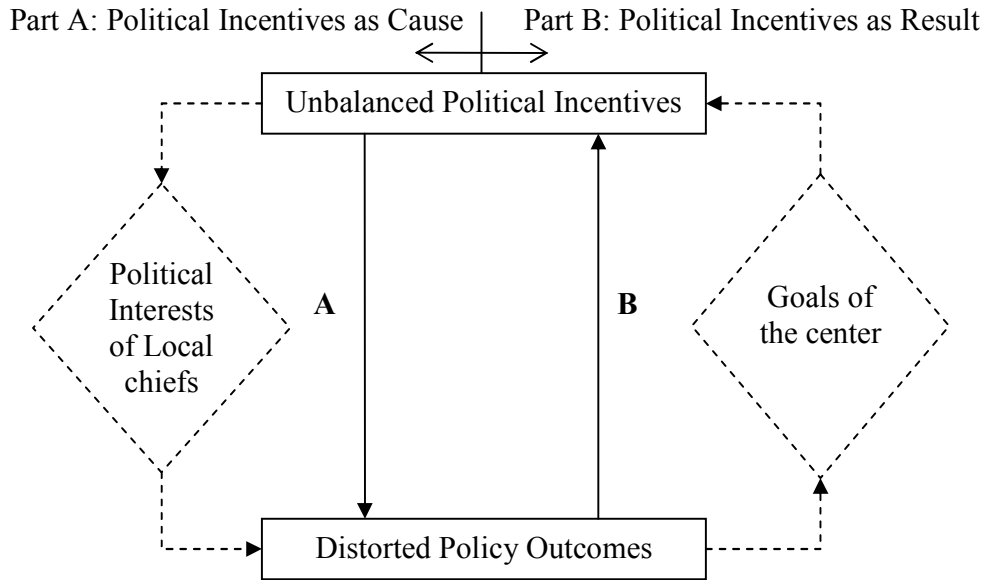
#### **A) Unbalanced political incentives as a cause of Policy distortion**

First, when political incentives are assumed as exogenous and the local chiefs only behave to “respond” to these incentives from above, they would choose to behave in a way that maximize their political interests, i.e. the probability to be promoted (or minimize the one of demotion). To do so, as the local chiefs could be reasonably assumed to be constrained by the efforts they can input<sup>33</sup> and the work of local governance to be multi-tasked, the core of their rational consideration is how to arrange their limited efforts among multiple tasks. Once the expected political payoffs attached to the “performance sets” are revealed to the local chiefs, they would then behave accordingly, i.e. directing more efforts to produce those important performances to be rewarded while much fewer efforts to those performances which are unimportant for one’s political interests. In aggregation level, efforts would be oversupplied for those policy goals that “mattered” while undersupplied for those that do not. Distortion thus happened as the consequences of the unbalanced political incentives.

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<sup>33</sup> This “subjective” boundary could not be as “soft” as the “budget constraint.”

Figure 1- 3: Political Incentive and Policy Outcomes



Specifically for the current policy distortion, I ascribe it to the current unbalanced political incentive that has consistently rewarded the performance in promoting economic growth over that in pursuing other commendable goals. Facing such unbalanced incentives, it is then rational for local chiefs to direct more efforts to produce the “mindless economic growth,” which matters most for their political interests. If the pursuit of another policy goal might compromise this important goal, it is then in the local officials’ political interests to sacrifice it. For example, while the conversion of cultivated lands for construction use is necessary to sustain a fast industrialization and hence fast economic development, local chiefs are likely to neglect the commendable policy goal of cultivated land protection, as far as they find this neglect would not incur immediate punishment.

**B) Unbalanced political incentive as a result of intended policy goals**

The first part of my argument focuses solely on how the top-down political incentives have framed the policy behaviors of the local chiefs. An ensuing question is then why the center, observing the fact of policy distortion, has not changed the unbalanced nature of political incentive. Put more explicitly, as the center *can* use political clout to punish the policy distortion and hence change the local chiefs' expectation about "what to be rewarded/punished," why *has not* the center done so?

As shown in Part B of *Figure 1- 3*, even observing the distorted policy outcomes, the central government is constrained by its intended goals and has to accept the current unbalanced political incentives system. The logic is as follows. In the reform characterized by "focusing on economic construction as the central task," the political incentives are mainly used in line with this central task. And given the complexity of managing local economy in China, being multi-task and requiring intensive executive capacity, the center often chooses to avoid direct intervention of local business but utilize the political incentives in an indirect way, i.e. giving latitude to local chiefs to induce the local creativities in promoting local economy while managing them indirectly based on the outcomes. As a result, despite the political clout it has, the center relies on the local discretion to have its important goal of economic development fulfilled. And because of this reliance, the center might not be willing or able to apply the political clout to local chiefs even if the local discretion develops into severe policy distortion. In this sense, the central government is shackled and "looking the other way" is necessary. (Lipksy, 1993)

In sum, this two-fold argument illustrates an underlying mechanism of the interactions between the central government and the local chiefs. Back to the puzzle I introduced at the beginning of this chapter, my answer is as follows: policy distortion

happens in the politically centralized governance system of China because political incentives used are unbalanced in the first place; and policy distortion persists because the conflict between the intended goals of the center and the indirect management method it uses has restrained the center from using political clouts to sanction the local policy distortion.

### ***Hypothesis and Research Strategy***

To test the two-fold arguments above, two falsifiable questions are to be answered in this study. First, as I argue that the unbalanced nature of political incentives caused policy distortion, an empirical question is then whether the political incentive have been unbalanced, specifically, stressing more on the uni-dimensional economic growth than on other policy issues. Second, as I argue that the unbalanced nature of political incentives are locked-in and political clout could not sanction policy distortions, another empirical question is whether the political clout has been used and whether its sanctions are effective. Three hypotheses are generated in this study based on these two questions.

#### **1) The unbalanced nature of political incentives**

That the political incentives in China are unbalanced and slant to “economic growth” has been a popular belief, and the political incentive system is often characterized in Chinese as being “*mindless GDP-ism*.” In this study, I try to verify this popular belief by examining the political incentives sent to local chiefs.

To deal with subjective problems like “incentives” and “interests,” a natural research method is to survey the relevant parties to see their actual motives. In this case, however, the sample of this research, i.e. the local chiefs in China, are not accessible

systematically for a survey or interviews<sup>34</sup>. Alternative strategy adopted in this study is to look at the “objective” incentives for the local chiefs in the form of the rules that govern them, both the formal rules in the documents and those latent rules revealed in promotion practice.

The rationale of this strategy is as follows. Although the actual personnel decisions in China are still “a black box” and private information of the local chiefs about the promotion criteria certainly matters, the objective incentives revealed in both formal documents and the actual promotion practice, I believe, constitute the basis for the local chiefs in their rational calculation to maximize their political interests. Official documents set the formal prerequisites for appointment, the formal procedures for evaluations and appointments and the “symbolic” promotion criteria. And the promotion practices reveal the “latent” promotion criteria adopted up to now, which should be the best estimator for the one to be used in the near future. In contrast, if the private information hold by certain local chiefs about the political incentives is both contrary to the formal rules and at the same time is proved wrong by the previous promotion practices, then such private information should be rejected.

Therefore, two hypotheses about the unbalanced nature of the promotion system are generated below, one based on the formal documents and the other based on promotion practices:

Hypothesis 1: The formal documents have revealed, explicitly or implicitly, that political incentive rewards the performance in promoting local

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<sup>34</sup> However, Landry (2008) have managed to carry out one in Jiangsu province in late 1990s. Some field research also did structured interviews on convenience samples, e.g. Zhou (2005).

economic development while neglecting the performance in other policy issues;

To testify hypothesis 1, I collect major national laws, regulations and official documents (*wenjian*) related with the cadres' management during the reform era. Based on these documents, I list the qualification requirement, the performance criteria and the procedural rules for the evaluation and promotion of the local chiefs. Then I discuss whether these formal rules together have made a promotion system providing unbalanced incentives, i.e. stressing too much on the uni-dimensional economic development. Part of the empirical discussion is based upon my interviews with local chiefs at Zhejiang, Hubei, and Beijing; typical career paths and descriptive statistics of the local chiefs are also cited to see how the formal promotion rules actually worked.

Hypothesis 2: The promotion practices have consistently rewarded the local chiefs who are perceived to have performed better to promote local economic development and the distortion in other policy issues has not been seriously punished.

To testify hypothesis 2, I collect career path data of local chiefs and relate them to the performance data to see whether the performance in promoting economic growth indeed matter for the career advancement of the local chiefs while others not. Specifically, the sample I used is the prefectural (city) chiefs of Hubei and Zhejiang province from 1983 to 2006. To measure their performances, the variable of average prefectural GDP growth rate during one's term is chosen to be the indicator of one's performance in promoting local economy, and the prefectural decrease rate of the cultivated land to be an exemplar indicator for one's performance in other policy issues. While controlling for the



biographical information of these local chiefs, my conjecture is that the local chiefs with good performance record in promoting local economy (GDP growth rate) would have a better chance to be promoted while the performance in other policy issues like the protection of cultivated land does not matter (or even is negative).

## **2) The unbalanced nature of political incentives being locked**

Now let us turn to the second part of the argument, that is, although the center still holds the political clout at hand, it could not easily be used to sanction the local policy distortion because of the center's reliance on the local discretion. To test this argument empirically, the problem of tautology should be avoided: one can not prove the center *cannot* sanction policy distortion by the fact that the center *has not* sanctioned it.

Alternatively, in this study, cases in which the center has indeed sanctioned the policy distortions are discussed to find out the causes triggering the center's sanction and the effectiveness of the sanction in these cases. If this argument about the difficulty of center's sanction is correct, one should therefore observe that the cause triggering sanctions should be beyond the fact of policy distortion, and that the effectiveness of sanctions should be called into question. A hypothesis could therefore be written as:

Hypothesis 3: The central government does not sanction policy distortion for the sake of the distortion fact *per se*; and even if applied, the sanctions are not effective.

Case studies are conducted to test this hypothesis. Five cases concerning the distortion in cultivated land protection and retrenchment policy are used to discuss the willingness, ability and the effectiveness of the center's sanction effort using political clout. And the

conjecture is that the center might not be willing, able and effective in sanctioning policy distortions.

### ***Chapter Summaries***

This dissertation consists of five chapters. The following three chapters (chapter 2, 3, 4) testify the three hypotheses above one by one and the last chapter concludes with discussions of the policy implication of this study.

Chapter 2 starts with a brief comparison of the cadre management system in China and the three major bureaucrat management systems in United States. Then the formal rules governing the local chiefs' evaluation and appointment in China and their actual application are discussed. My finding is that all three major components of these formal rules, i.e. qualification requirement, performance criteria and procedural arrangements together construct a political incentive system stressing on the local chiefs' performance in promoting local economic growth. First, the qualifications requirements for promotion, like age, education, past experience, are relatively low, which makes the candidate pool a very large one consisting of individuals of similar calibers and the competition for promotion a very physical game that involves scrambling for better "political achievements." Second, the performance criteria are outcome-oriented and a few comprehensive indicators like GDP growth rate are the most convenient measures for the overall performance of the local chiefs. This brings in the moral hazard problem of the local chiefs, that is, when their performance in multi-task local governance is measured by a few uni-dimensional measures, they are likely to neglect those tasks less consequential for their evaluation. Third, according to the evaluation and appointment procedures, the horizontal chiefs at the immediate superior level stand out as the most

important authority in deciding the career prospects of the local chiefs. This “one-level-down”<sup>35</sup> management system could work as an “amplifier” of the moral hazard as distortions would be replicated and multiplied at each level.

Chapter 3 tests hypothesis 2 and presents a quantitative analysis on career paths of prefecture chiefs in Zhejiang and Hubei from 1983 to 2006. The statistical results are mixed. First, using an ordered logistic model (OLM), I find out that the performance in the protection of cultivated lands turns out to be an irrelevant factor for local chiefs’ career advancement, which suggests that the policy distortion observed in this policy area has not been seriously punished. Second, the performance in promoting local economic growth has consistently been a positive factor for the local chiefs’ career advancement. Third, both descriptive statistics and the OLM result show significant cross-provincial difference in the career paths of and the promotion criteria used for the local chiefs in Zhejiang and Hubei, among which the most interesting finding is that the performance indicators of significance are different in these two provinces. Specifically, the local GDP growth rate is a significant contributor to the promotion of the prefecture chiefs in Zhejiang, one of the fastest developed provinces in China, while it is the local economic weight (measured by prefectural share of provincial GDP) that matters in Hubei, a relatively lagging province in term of economic development. The implication of this cross-provincial difference in promotion practice is discussed in this chapter.

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<sup>35</sup> “One-level-down system” here refers to the decentralization of personnel authority during the reform era. Before this change, the central government managed cadres at the next two levels along the hierarchy and so did other horizontal governments at lower level. After this change, the horizontal governments (including the center) only control the personnel at the immediate next level, e.g. the provincial government on the prefecture chiefs. Chapter 2 will discuss more.

Chapter 4 tests hypothesis 3 and explains why the center does not change the political incentives by punishing local policy distortion. Case study shows that the political clout the center holds cannot be utilized effectively by the center to tackle the problem of policy distortion. First, the center itself does not have the willingness to tackle all policy distortions because it has to leave some administrative latitude and some “room” for experiment to local officials in order to induce their local “creativity” to fulfill the all-inclusive governance goals. Second, even if the center has the willingness to tackle policy distortion, it might not be able to do so because the center does not have the necessary executive capacity to intervene directly in the local policy behaviors. When the local officials conform to the central mandate passively or circumvent it, the center has to give in. Third, the effectiveness of the center’s deterrence efforts by punishing a few “examples” of policy distortion is questionable due to the problem of “too-many-to-fail” and of the unsustainability of political clout being used in direct interventions.

Chapter 5 concludes with the policy implications of this research. Three policy initiatives in recent years in adjusting the central-local relation and the cadre management system, i.e. the vertical management reform (*chuzhi guanli*), the scientific outlook of development (*kexu fazhanguan*) and the democratic participation of the masses (*minzhu canyu*) are examined through the lens of “distortion proof.” The empirical evidence in this research reveals that the fundamental causes for policy distortion lies in the dilemma between the current “top-down” political incentive system and the essentially “local” governance. As a result, to address the problem by strengthening the central power or changing the contents of political incentive does not touch the core of the problem. The “local accountability” of the local chiefs should be strengthened.

## Chapter 2 Political Achievements Taking Commands: Rules in Cadre's Evaluation and Promotion

“What the superior loves, his inferiors will be found to love exceedingly; the relation between superiors and inferiors is like that between the wind and grass. The grass must bend when the wind blows upon it. ‘The business depends on the prince.’”

---Mencius, Chapter 8

In this chapter and the next chapter, I will look into the political rules that govern the evaluation and promotion of the local chiefs to see whether unbalanced political incentives have indeed existed.

An obvious obstacle in the search for these political rules is a contradictory judgment about the political game the local chiefs played. On the one hand, as stressed in Chapter 1, the local chiefs in China worked in a highly political environment in the sense that political rewards, i.e. promotions, as compared to economic benefits, were the major concerns for local officials. On the other hand, the murky process of cadres' evaluation and promotion did not present a set of promotion criteria for political turnovers that were clearly defined and relatively stable. Formal rules like “Both Redness and Expertness” (*Youhong youzhuan*) and “Both Integrity and Competence” (*Decai jianbei*) were only vague rubrics of virtues not accompanied with well-defined operationalizable standards; and these “virtues” actually worked more often as *ex post* “descriptions” of those officials promoted rather than *ex ante* “standards” for evaluation. At the same time, informal rules were often discussed in their pejorative meanings as synonyms of connections (*Guanxi*)

between superiors and subordinates promoted, based on primordial ties, factional interests or direct briberies. An irony here is then clear: while the local chiefs in China were believed engaging in a political game, it seems that the one they played was a game without observable rules.

This ironical situation thus could stall the efforts to bring politics back to the analysis of local officials' behaviors. A simple challenge would be: how can individual officials rationally adjust their policy behaviors if no clear rules had stipulated what are exactly "correct" behaviors and if promotion practices could have been random events at large? An insightful perspective provided by Tullock sheds some light on this problem. Defining "merit" in an "extremely broad" sense as "desirable characteristics," he maintained that "in most historical cases of bureaucratic systems..., advancement is the result of conscious selection by somebody in terms of some characteristics which are thought *desirable*" (Tullock, 1965, pp16-17). That is, "characteristics desirable to selectors" worked in practice as *de facto* criteria for promotion. These characteristics are not necessarily written down in official decree; they should not even be written down in the first place in case they could not be counted as "merits" conducive for the organizational good. In an extreme case, for a degenerate king who selects his ministers, "the attractiveness as drinking companion" could work as the key criterion for promotion (Tullock, pp17).

Inspired by this creative thinking, this study thus sets out to search the "characteristics" desired by the superiors in China, which I believed would decide the direction pursued by the subordinates in their policy behaviors. From the standpoint of local chiefs, two types of resources are available for them to discern the "desirables" that

their superiors look upon. One type is the official documents that had formally stated the criteria of “desirables,” i.e. the “symbolic rules”<sup>1</sup>. The other type is the previous promotion practice, through which the “latent rules” about the “desirability” were revealed as local chiefs with certain characteristics were consistently rewarded. This chapter discusses the symbolic rules and the next the latent ones.

The organization of this chapter is as follows. First, I introduce the cadre management system in China by comparing it with the bureaucratic system in US. Second, I summarize the formal qualification requirements, performance standards and procedures listed for the evaluation and appointment of local chiefs. Third, I discuss how these three components together provide unbalanced political incentives.

### ***Cadre management system in China***

After winning the Civil War and taking over the government from the KMT, the Communist Party started the transformation from a revolutionary party centering on military activities to a civic organization taking on common governance practices. When the previous uni-dimensional task, i.e. military victory, gave way to the multi-task governance, the new PRC regime recognized the necessity to build a functioning modern officialdom<sup>2</sup>. However, the strong presence of the Party determined that an independent and professional Weberian bureaucratic system would not be an option. Instead,

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<sup>1</sup> Aoki, 2001, pp12

<sup>2</sup> For example, Mao himself mentioned the necessity of this transformation several time before the foundation of the PRC. e.g. Turn the army into working force (Feb.8, 1949), On the People’s Democratic Dictatorship (Jun.30, 1949), etc.

following the Soviet *nomenklatura* system at large<sup>3</sup>, a hierarchical and umbrella cadre<sup>4</sup> management system was created with the principles of “Party manages cadres” (*Dang Guan Ganbu*) and “managing level by level” (*zhuji guanli*).

For the principle of “Party manages cadres,” in this system, not only officials working in the party apparatus, but almost all social elites taking positions sponsored by the regime, e.g. those in the government, “service organizations” (*shiye danwei*)<sup>5</sup>, SOEs, and Governmental-sponsored NGO, etc, were managed by the party committees (*dangwei*) or party core group<sup>6</sup> (*dangzu*) at various levels according to the “cadre management jurisdiction” (*ganbu guanli quanxian*). For example, the mayor of a prefectural city is managed by the provincial party committees, the ministerial bureau chief by the party core group in that ministry, etc.

This demarcation of “cadre management jurisdictions” embodies the principle of “managing level by level,” which is necessary for such an all-inclusive top-down system. Historically, the arrangement of management jurisdictions has fluctuated between the so

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<sup>3</sup> For a chronicle of the evolution of the Chinese *nomenklatura* system, see Burns (1988, 1994), Chan (2004).

<sup>4</sup> The cadres in the Soviet system refer to all “public officials holding a responsible or managerial position, usually full time, in party and government,” <http://countrystudies.us/china/113.htm>, Source: US Library of Congress. It could generally refer to all those in public sectors funded by the fiscal coffers (e.g. teachers). Conceptually, government officials constitute only a subset of cadres.

<sup>5</sup> Pearson (2005), pp311, fn45

<sup>6</sup> Party core group was set in non-party “leading apparatus,” for example, state council, ministry, local government, LPC and LPPCC, and would be the “core” and “leaders” in these apparatus. (Party Constitution, Chapter 9). Burns recorded that the party core group was strengthened in the aftermath of Tiananmen Incident, which is “a reversal of Zhao ziyang’s policy to abolish it.” (Burns, 1994, pp467).



called “two-level-down” (*xiaguan liangji*) and the “one-level-down” system (*xiaguan yiji*), which almost matched the centralization-decentralization cycle in the PRC’s history. A centralization phase seen in the early 1950s, early 1960s and early 1980s often started with the assertion of “two-level-down” management, i.e. Party committee at upper levels held cadre management authorities over leading offices of the next two levels, the Provincial Party Committee, for example, would decide the office turnover at the prefecture and the county level. A decentralization phase, in contrast, often saw the prevalence of “one-level-down”<sup>7</sup>, that is, the personnel authority was decentralized to the party committee at the immediate upper level. The current arrangement of management jurisdiction has been stable since 1984. Accompanying the decentralization initiatives during the reform era, a “one-level-down-management & two-level-down-report” (*yiji guanli, liangji bei’an*) system<sup>8</sup> was adopted: decentralizing the personnel power to the immediate superiors of the local officials while keeping the process accessible for the superiors at two levels higher. For example, the central government now does not make decisions over the appointment of prefecture chiefs, which is under the jurisdiction of the provincial authority; however, the appointment should be “reported” to the central government.

This cadre management system distinguishes itself from those utilized to manage public officials in other regimes. *Table 2- 1* compares this uniform Chinese system with three major systems for managing bureaucrats in United States, i.e. one for elected

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<sup>7</sup> For a good summary about the decentralization-centralization of nomenklatura system, see John Burns (1988). Manion (1985) provided a detailed account for “two-level-down” management while Yasheng Huang for “one-level-down.” (Huang, 1995)

<sup>8</sup> “Notice on the revision of Job Title Lists managed by Party Central,” Central Organization Department Document 1984 No.6, July 14, 1984.

officials, one for civil servants and one or political appointees, respectively<sup>9</sup>. Several interesting findings emerged from this simple comparison.

*Table 2- 1 classical bureaucrats managing system and cadre management system*

	Elected Executives	Civil Service	Political Appointment	China's Cadre management system
Obtaining Position	Voting	Merit-criteria	Hiring by the elected	Hired by the Party Committee
Promotion Methods	Re-elected	Internal Promotion	No prerequisite	Prerequisite of ranking and experience
Tenure	Fixed	Fixed	Flexible	Flexible
Exit	Voted out/withdraw	Career safety	Together with one's patron	Career safety

First, the cadres in China obviously differ in every way from their counterparts in the US as no public and contested elections were held in China for any cadre's position.<sup>10</sup> An interesting fact worth noting here, however, is that chief executives of local governments in China were actually "elected" by the People's Congress at the same level. Also, as for the candidates, delegates to People's Congress *can* nominate their own choice on the ballot as challengers to the candidates nominated by the presidium upon obtaining a certain number of endorsements from other delegates (e.g. the number is 20 for the nomination of mayors)<sup>11</sup>. However, the fact that delegates of People's Congress are insiders and that the presidium actively monitored suspicious "collusions" of

<sup>9</sup> The terms used here for the three US systems correspond to Thomas Patterson's terms of "Executive Leadership," "Merit," "Patronage," respectively. (Patterson, 1998, pp413-418).

<sup>10</sup> Large-scale of village elections were hold in China from 1998. However, the village councilman could not be counted as "cadres" in China.

<sup>11</sup> See Article 21, "Organization Law of Local NPC and local government at various levels"(2004)

delegates<sup>12</sup> makes formal elections simply the rubberstamps for the decisions of presidiums (largely overlapping with the party authority).

Second, the “civil servants” in China also differ significantly from those in the US. The Chinese civil servant system was put into effect in 1993, however, more as a weaker shadow system for the current cadre management system rather than a separate and independent one. The principle of “Party manages cadres” has actually been written in the National Law of Civil Servants. (Article 4) All officials in governments and party organs<sup>13</sup> are the cadres and civil servants at the same time. For their management, it is still the Party Organization Department that takes the lead and the Bureau of Personnel is more like its working department<sup>14</sup>. Specifically the local chiefs as “civil servants on leading position”<sup>15</sup> are managed more as “cadres” than as “civil servants.”<sup>16</sup>.

The Chinese civil servant system also shares some important characteristics with classic systems. As both are structured like hierarchical pyramids, “internal promotion”

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<sup>12</sup> Interview Aug. 2007 with an official of organization department of a local party committee.

<sup>13</sup> Cadres in Party Committees were officially not defined as “civil servant” in the 1993 Regulation of Civil Servant; however, the 2005 Civil Servant Law clarified that this law is applicable to “those in various offices of CCP” (See Article 2 of Central Document 2006, No.6). During the in-between time, the management of Party Cadres often refers to the “civil servant system.” (COD document, 2004, Instructions on Referring to “Regulation on State Civil Servant (Temporary)” in managing Party Cadres)

<sup>14</sup> The chief of Personnel Bureau is often deputy chief of the Party Organization Department

<sup>15</sup> The civil servant system in China makes classification of “civil servants on leading position” and “civil servants on non-leading position,” Article 6 in Appendix 3 “the Management of Positions and Ranks of Civil Servant” in Implementation Program of National Law of Civil Servants, Central Document 2006 [3].

<sup>16</sup> Gradual reform did result in some real changes, e.g. the open cadre selections (*ganbu gongkai xuanba*) out of merit-based exams and interviews. However, this “open cadre selection” until now is still tentative and usually limited to deputy positions in functional departments.

(*neibu jinsheng*)<sup>17</sup> and “sequential promotion” (*zhuji tiba*)<sup>18</sup> were common practice to maintain stability and attractiveness of the system. In China, an administrative rank system, much like the one used in a military system, was adopted and each cadre position managed by the party would be assigned a rank from “state level” (*zheng guojiaji*) to “deputy section level” (*fu keji*). It is often required that an appointee to certain position has had working experiences in a position with the same or immediate lower rank. “Promotion skipping ranks” (*yueji tiba*) is rare in practice<sup>19</sup>. For the career safety issue, the Chinese cadres closely resemble the career civilians in the sense that the punishment of demotion is much less frequently used as compared to the rewards of promotion.

Third, China’s cadre management system, a political appointment structure in essence, still differs from its American counterparts. Both are appointed by superiors, political appointees in the US usually have their allegiance to the specific executive who appointed them.<sup>20</sup> In contrast, cadres in China have a volatile allegiance to specific individuals but a stable one to the institutional “superior.”<sup>21</sup> Two structural characteristics could explain why this “unsound” disloyalty happens. For one, in a

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<sup>17</sup> Peter Evans (1992) summed three major characteristic of Weberian bureaucracy: merit-based civil service exam, civil-service procedure rather than political appointment, and internal promotion.

<sup>18</sup> That is, opening at higher level to be filled by insiders rank by rank.

<sup>19</sup> In recent years, college graduates with advanced degrees are sometimes appointed directly to positions with intermediate ranks as “intern leaders” (*Guazhi*). However, their subsequent promotions still follow the same rules of “sequential promotion.”

<sup>20</sup> Not applicable for the case to the Justice of Supreme Court and Chairman of Federal Reserve.

<sup>21</sup> Pye observed in the factional politics of China that allegiance of subordinates can be adeptly transferred to the new individuals taking the superior’s office once the core leaders of previous factions are purged (Pye, 1981, pp11).

hierarchical system, individual cadres seldom owe allegiance for their career advancement to one superior. Advancing in the current system and being recognized by many different superiors, they earned their success by working the system; and as far as their strategies are “correct” responses to the situations of which their current superior is a part, they would be promoted anyway and the current superior *happens* to be their patron this time. So, the assumed bond between political appointees to their “patrons” in China might be weaker than the one in the US where political appointees were put to the position to realize the goals of their patrons. Second, by the same token, individual officials would not rest all their hopes of career advancements on one patron. As mentioned above, while American political appointees usually stepped down together or even earlier than their patron, China’s cadres are more like career civilians who would usually continue in their office after their patrons leave the superior position or even leave politics forever. With few exiting options comparable to their current job and hence preferring to stay in the cadre system, individual cadres could not afford to bind their own careers with that of a specific patron. In essence, China’s cadres were “career political appointees” hired by the system instead of the individual superiors; and therefore their behaviors should be better understood as responses to the former instead of the latter.

Together, this cadre management system defines the subjects, i.e. local chiefs, in this research. Taking prefectural chiefs as examples, they are cadres directly managed by the provincial party committees; and “civil servants on leading positions” with career safety while following the promotion ethics of “level by level”; they are also “elected,” always as the only candidate on the ballot, at the prefectural representative body (plenum

of party committee or prefectural People's Congress). The rules in this system governing the evaluation and appointment of these subjects are reviewed in the next section.

### ***Symbolic Rules on the Evaluation and Appointment of Local Chiefs***

Based on the assumption that the evaluation and appointment of local chiefs would define the “characteristics” desired by the superiors and therefore work as the yardstick of the policy behaviors of local chiefs, this section summarizes the symbolic rules stipulated in the formal texts about the promotion criteria, both the qualification requirements and the performance standards, and the formal procedures used in cadres' evaluation and appointment during the reform era.

By formal texts here I refer to major laws, regulations (*tiaoli, guiding*), circulated documents (*wenjian, tongzhi, yijian*) and important public speeches (*jianghua*) of leaders concerning the issue of cadre evaluation and appointment. A quick note here is about the law-like authority of those un-law formal texts. Without going through the legislation process (which is also lengthy in China), these formal texts were mostly used in China to convey the expedient and uncompromised decisions made by the leading organs and leaders. In a hierarchical governance system without independent legislative bodies, these policy decisions are usually as authoritative as, if not more than, laws in China. And in many cases, these “policy decisions” could even later be legislated and actually become law, for example, the Regulation of State Civil Servant finally became the Law on State Civil Servant in 2005.

This research thus treats all these formal texts as equivalent to each other in the sense that these documents mean to complete and update rather than exclude each other on the contents of China's cadre management system. Although discords among the

different offices issuing these texts do exist, for example, between the Party Central and the State Council, or among different ministries, public confrontation by promulgating opposite formal texts is rare in China. In another words, these documents, I believe, constitute the whole picture of the current rules of the cadres' evaluation and appointment in China.

### **Criteria for Evaluation and Appointment**

From a historical perspective, the cadre management system was among the foremost issues that the reformists had focused on during the early reform era. The reformist leaders, especially Deng Xiaoping and Chen Yun, had reiterated the importance and urgency of reform on this issue in their early speeches after regaining political powers. And two outline principles for the cadres' evaluation and appointment were posed by them, specifically, the "Four-Transformations of the cadres" (*Ganbu de sihua*) and the standard of "Integrity and Competence" (*Decai jianbei*), which were embodied in this famous paragraph in a public talk of Deng in 1980,

"We should stress on 'Integrity and Competence' in selecting cadres...

Premised on this, cadre team should be 'younger, better educated and more professional' (Four-Transformation<sup>22</sup>). And we should institutionalize the promotion of such cadres"<sup>23</sup>.

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<sup>22</sup> Deng first stressed only "younger, better educated, more professional" at the meeting on Aug 18, 1980; and later he added "more revolutionary" at another meeting in December, which together with the former three constitutes the so-called "Four Transformation" of cadre team..

<sup>23</sup> Selected Works of Deng Xiaoping, Vol.2, page 326

Both principles were later introduced into the Party Constitution<sup>24</sup> and became the guideline for later measures to substantiate the criteria for the evaluation and appointment of cadres. The “Four-Transformation” is mainly about personal attributes or “qualifications” (*zige*) of the officials, e.g. “age,” “education” and “professional background,” etc, or “who you are”; and the “Integrity and Competence” is more about “performance” standard (*biaoxian*), or “what you’ve done.” In this summary of the formal criteria of evaluation and appointment for local chiefs, I therefore categorize them in two groups: those concerning the qualification requirements and those concerning the performance standards.<sup>25</sup>

#### Qualification Requirements

##### 1) Age:

When the old revolutionaries regained power in the early reform era, the “aging of the cadre team” was a serious problem faced by the reformist. As Chen Yun noted in 1981, “Most of leading cadres at province and prefecture levels are over 60 and even 70s...and we’ve received notice for memorial service almost everyday”<sup>26</sup>. Upper limits of the ages were therefore set to build up a younger cadre team.

Specifically for the local chiefs, it is that “Chief cadres at provincial levels should be below 65 and deputy cadres below 60...And those at prefecture level should be below

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<sup>24</sup> Party Constitution, Article 33.

<sup>25</sup> This is also a categorization adopted by some formal texts. For example, the Regulation on the Appointment and evaluation of Party-Government Cadres (No.4 in Table2-2) states the promotion criteria in separate two articles, Article 7 for “qualifications” (资格) and Article 6 for “basic requirements” that are mostly about the performance standard.

<sup>26</sup> Selected Works of Chen Yun, Vol. 3, “It is urgent to promote young cadres” (May 8<sup>th</sup>, 1981), “Promote thousands of young cadres” (Jul.2, 1981)



60”<sup>27</sup>. Another high-profile document one year later specified the age requirement for leading cadres at prefecture level, “Below 60 and half of the leading team should be below 50”<sup>28</sup>. Considering the formal tenure of five years, this requirement suggested that for a local cadre to be promoted to the deputy provincial position or above, it must take the position of prefectural chiefs before the age of 55. And some provinces actually made explicit such requirement<sup>29</sup>.

Nothing has been said about the lower limit for a cadre to be eligible for certain position; however, the efforts to build up “younger” cadre teams gave leverages, *ceteris paribus*, to younger cadres, some of whom were “integrated” into the leading cadre team simply *because of* their age, for example, the promotion of then 39-year-old Qian Yunlu to deputy provincial party secretary of Hubei in 1983 was likely a promotion of this type.<sup>30</sup>

## 2) Education:

The low education level was another problem of the cadre team after the Culture Revolution during which the whole national education system was semi-paralyzed because of the frequent political campaigns and the overall ethos against elites and

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<sup>27</sup> Decision of Party Central on the Retirement of Veteran Cadres (Feb. 20, 1982, No. 10 in Figure 2.1)

<sup>28</sup> Notice on several issues about the reform of Party-government administrative structure at prefecture (city, autonomous prefecture) level, Central Issued No.3, Feb.15, 1983, No.11 in Figure 2.1

<sup>29</sup> For example, in the Implementation instruction of Regulation on the Appointment and evaluation of Party-Government Cadres of Gansu province, it states that “officials promoted ... to the position of prefectural chiefs should be below 55.”

<sup>30</sup> Qian was just a county chief one year before this promotion and he later stayed as deputy provincial secretary for 8 years.

knowledge. In 1980 only 15.52% of party committee members at provincial level and 4% at prefecture level had some kind of college education (including both three-year and four-year college and graduate school), even much lower than those of 1954 (46.24% and 13.13%, respectively). To select cadres better educated therefore became one of the tenets of “Four Transformations.”

The requirement of education level was therefore written in the formal text. In Regulation on the Selection and Appointment of Party-Government Cadres (hereinafter as RSAC) of 1995 (provisional)<sup>31</sup> the standard was set to be “junior college or above” for all cadres above county (sector) level and “four-year college or above” for provincial level cadres. Seven years later, in the RSAC of 2002, this “four-year college or above” requirement was extended to cadres at prefecture level.

### 3) Professionalism

Together with education comes the criterion of professionalism. From 1980s, special advantages were granted to the so-called “technocrats,”<sup>32</sup> i.e., cadres with expertise in science and technology or who have worked as managers or engineers in industries. Such choice could be rationalized for two reasons. One is the strong belief embedded in national leaders’ mindset about the positive relation between the development of science & technology and China’s modernization.<sup>33</sup> Cadres with experience in science and technology were therefore considered as better able to take the

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<sup>31</sup> The provisional RSAC was promulgated in Feb 9, 1995; a revised and final version was promulgated in Jul 23, 2002 and the provisional RSAC was revoked on the same day.

<sup>32</sup> See Hong Yung Lee (1991), Li and Bachman (1989), Li and White (1990), etc

<sup>33</sup> As Deng put it, “The utmost modernization is the modernization of science & technology.” “Speech at the Opening Ceremony of the National Conference on Science,” Mar. 18, 1978, Selected Works of Deng Xiaoping, Vol. 2

leading roles in this modernization process. Technocrats also were deemed more politically reliable by veteran leaders. When “expertise” was often impugned during that era for championing “bourgeois elitism,” these technocrats could thus at best be an untouched bystander and would not be *permitted* to get involved to the hard core of politics, which ironically kept their resumes clean throughout the Cultural Revolution.<sup>34</sup>

One caveat is that “being professional,” although highly credited in the current evaluation and appointment system, has not ended up as a specific formal requirement for the local chiefs. Therefore, being professional is more of a “desirable” characteristics rather than a binding requirement.

#### 4) Previous Experience

The political ethics of “internal promotion” and “sequential promotion” mentioned above renders “previous experiences” in the cadre system necessary for one’s promotion. As Chen Yun put it, “cadres should be promoted step by step.”<sup>35</sup> Specifically, this “step” was defined by three aspects. First is the administrative rank (*jibie*) one held before the promotion; second is the number of positions held; and third is the duration (*nianxian*), i.e. the length of time spent in the previous position. For the first two, it is required that officials to be promoted to positions above county (sector) level should have the working experience at two or more offices with immediate lower rank. And the duration requirement for those to be promoted from deputy position to chief position is two years or more at the deputy position, while for those promoted from chief position at lower

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<sup>34</sup> For example, Wang Zhaoguo, then vice president of No. 2 Auto Factory at 1980 and one of the two examples of technocrats (the other is Li Peng) mentioned by Deng Xiaoping in a public talk at 1981, was recommended to Deng for his “good performance” during the campaign of “Countering the rehabilitation of the cases of rightist” in which Deng was the main target.

<sup>35</sup> Chen Yun, “To promote tens of thousands younger cadres,” Jul 2, 1981.

level to deputy position at immediate higher level is three years or more<sup>36</sup>. For example, to be a prefecture chief, an official must have worked at two or more positions with the rank of deputy prefecture (bureau, *fu siju ji*), and two or more years at deputy position<sup>37</sup>; and for prefecture chief to be promoted to the position of “associate party secretary” or deputy governor, he/she must have worked in the chief position with prefecture rank (not necessarily in one position though) for at least three years.

5) Avoidance of localism:

To avoid the localism based on primordial ties, China’s bureaucratic system had a long tradition “not to assign officials to their native places” (Kau, 1969; hereafter called simply “rule of avoidance”). For example, in the Qing Dynasty (1644 to 1912) an official rule was set as “civilian officials not assigned in native province and military officials not in native county” (*wenguan gesheng, wuguan gedao*).

The same practice continued in communist China except during the Cultural Revolution when the local elites grabbed local power through “mass movement.” From 1978, the rule of avoidance resurrected itself in official documents. The 1995 RSAC required specifically that “the county party secretary and the county government chief should not take offices at their ‘native places.’” (Article 39) Both the intensity and scope of avoidance increased later. For the increasing intensity, the first change is the concept of “local” from “native places” to “place where one grew up”<sup>38</sup>. Compared to the

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<sup>36</sup> Article 7 of the Regulation on Cadre’s appointment and evaluation (1995, 2002)

<sup>37</sup> The “Deputy rank” and the “deputy position” are different concept. For example one could have a deputy prefecture rank working as the party secretary of a county and standing member of the prefecture party committee.

<sup>38</sup> “Secretaries of county party committees, chief of county government, chiefs in party organization department, party discipline department, public safety department, prosecutors’

native place (*jiguan*) that is defined in China as the localities one's father was born, the "place where one grew up" is a better proxy to the extended social network one has developed in the society of more mobility. Another change is that "to reside on position at one locality" is now also a type of "localism" to be avoided. And it is required that "the leading officials in party committees and government above county level should 'rotate' (*jiaoliu*) if having resided on one position at one locality for 10 years."<sup>39</sup>

For the increasing extensity, more positions are now affected by this avoidance principle. Prefecture chiefs and those in some high profile departments like organization, disciplining, law enforcement, auditing and funding management are now required to avoid taking office locally.<sup>40</sup>

#### 6) Party Membership:

The Party Constitution stipulated an eligibility criterion for membership in the local party committee, i.e. "five years or more of party membership" is required for the members of the party committee at prefecture level and "three years or more" for those at county level. For the local chiefs, as they are always the no.1 and no.2 ranking member in the local party committees, this requirement certainly applies to them.<sup>41</sup>

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office, and court should not take offices at 'places where they grew up'" (2002 RSAC, Article 53).

<sup>39</sup> Article 7 Regulation on Transferring of Party-government Cadres (1999, 2006)

<sup>40</sup> Article 5, Regulation on the Avoidance (Conflict of Interests) of Party-Government Cadres, Aug.6, 2006

<sup>41</sup> Non-Party members were not formally excluded from taking chief government positions. A few members of so-called "Democratic Parties" and "Non-Partisan" take some chief positions in low-key functional department (e.g. Family Planning Commission, Education bureau, etc.). However, for the horizontal local chiefs, party membership is a must.

To sum up, these qualification criteria established and defined the basic requirement for officials' appointment. Officials pursuing promotions therefore should first have themselves qualified by meeting these requirements.

### Performance standards

During the reform era, the performance standard of "Both Integrity and Ability"<sup>42</sup> (*decai jianbei*) has been subdivided into four items, i.e. "Integrity (*De*), Competence (*Neng*), Diligence (*Qin*) and Achievement (*Ji*)" (ICDA thereafter), each of them is described as:

"Evaluation on *De*, is to evaluate cadres' political standpoint and moral character...Evaluation on *Neng*, is to evaluate profession, technique, management ability, working efficiency and education....Evaluation on *Qin*, is to evaluate working attitude and entrepreneurship...Evaluation on *Ji*, is to evaluate the working achievement...."<sup>43</sup>

These four items largely constituted the framework of the performance standard used in the reform era<sup>44</sup>. Formal documents have tried to conceptualize and operationalize them

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<sup>42</sup> Chen Yun first posed this term in 1940, "Several issues in cadre's management," Nov.29, 1940. Deng in 1980 quoted Chen's word as the principal criteria to select cadres, "On the reform of state and party leadership," Aug. 18, 1980. This term replace the "redness and expertise" used previously most likely to downplay the ideological connotation of "redness."

<sup>43</sup> Central Organization Department on building up the cadre evaluation system, Nov.21, 1979

<sup>44</sup> A fifth dimension of "incorruptibility" (*Lian*) was single out in 2002 RSAC as a countermeasure to the pervasive corruptions in cadre team. Since it is largely a component of "Integrity," this research does not treat it as a separate performance standard.

with measurable indicators. In this section I summarize these operationalization efforts in the formal document.

### 1) Integrity:

First of all, the “integrity” criteria of the reform era did not distance itself that much from the influence of communist ideology. And “ideological loyalty to Communism and the so-called Socialism with Chinese Characteristics” is still the primary symbolic criterion used to evaluate the performance of the local cadres. Other contents of “Integrity” includes the conformity with the Party-line and faithful implementation of the central government’s mandates; the commitment to “mass line”; open-minded to different opinions; modest to colleagues; non-corruptibility incorruptness; abstinence in private life<sup>45</sup>; and abide by laws, etc.

### 2) Competence:

For the content of “competence,” most formal documents gave only a general description as “knowledge and skills compatible with the post” and “overall practical ability.” The only place I found that had clearly stated the contents of “competence” is a 1988 COD document<sup>46</sup>. In this document, “integrity” and “competence” were combined together and substantialized into ten skills, six of which could be singled out as concrete contents for competence, i.e. “position-specific skills,” “coordination skills,” “fieldwork and research skills,” “leaders’ skill,” “Oral Communication Skills,” “Writing Skills.”<sup>47</sup>

### 3) Diligence

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<sup>45</sup> This was added in 2002 RSAC probably aiming to counter the pervasive corruption problem.

<sup>46</sup> Central Organization Department on the Experiments of Annual Evaluation of Local Party-government Cadres, Jun. 6, 1988

<sup>47</sup> A caveat here is that this 1988 conceptualization of “competence” listed above was specially designed for leading cadres in “functional department” instead of for the local generalists.

Even fewer details could be found about how the “diligence” of cadres should be measured. No operationalizable measurement emerges other than the general description of diligence as “taking up hard work” or “bring initiative and creativity into one’s work.” One specific indicator mentioned in the 1988 COD document is the “attendance rate.” Obviously, such formalistic indicators could hardly measure the “actual” diligence level of local chiefs.

#### 4) Achievement

Although being juxtaposed with other three items of performance standards, the item of “achievement” was given special weight in formal documents from the very beginning. The 1988 COD document stated clearly that the “achievement” should be the emphasis in evaluating local chiefs<sup>48</sup>. In 1993, the “achievement evaluation” was set as one of the cardinal principles<sup>49</sup> of the incipient civil servant system. Later in the 1995 RSAC and 2002 RSAC, the performance standards were summarized as “comprehensive evaluation on ICDA with emphasis on actual achievements”<sup>50</sup>. The rationale of the emphasis given to the “achievement” were well embodied in this paragraph of Hu Jintao’s speech in 2002,

“As practice is the sole criterion for testing truth, it is also the touchstone to identify the outstanding cadres. Political achievement is the concentrated embodiment and comprehensive reflection of cadres’ ‘integrity’ and ‘ability’, and should be the basic criterion to select cadres.

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<sup>48</sup> Central Organization Department on the Experiments of Annual Evaluation of Local Party-government Cadres, Jun. 6, 1988

<sup>49</sup> Others are “fair competition,” “Party manage Cadre” and “Manage by law.” See Xu Songtao (1993), page 14-16.

<sup>50</sup> Article 17 in 1995 RSAC and Article 21 in 2002 RSAC



The quality of cadres, higher or lower, would eventually be revealed by the actual political achievements”<sup>51</sup>.

The importance of the “achievement” also manifested in the continuous efforts of the central government to build up a comprehensive “achievement evaluation program” composed of measurable variables. In the 1988 COD document, the “indicators of socio-economic and cultural development” prepared by “professional department”<sup>52</sup> were required to be used as the basis for the achievement evaluation. While no uniform set of “indicators” was stipulated, governments at various levels were given the latitude to create their own evaluation structure. *Table 2- 2* shows a structural grading system designed by Hubei provincial authority to evaluate cadres’ performance at prefecture level.

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<sup>51</sup> Hu, Jintao, Speech at National Conference on learning and implementation of Regulation on selection and appointment of party-government cadres, July, 22, 2002.

<sup>52</sup> Quote as it was in the original document, which should be the Statistical Bureau.

Table 2- 2 Evaluation system of economic efficiency of prefectures in Hubei Province (1988)<sup>53</sup>

<b>Industry (30%, sum=100)</b>	
Production Selling Rate	15
Profit & tax /capital ratio	20
Profit/Cost Ratio	10
Net Production Ratio	10
Working efficiency	10
Turnovers of working capital	10
Make up deficit & increase surplus	15
Reduce “three costs”	10
<b>Agriculture (25%, sum=100)</b>	
Peasant's income per capita	60
Agriculture Production	40
<b>Fiscal and Tax (25%, sum=100)</b>	
Fiscal revenue	35
Fiscal expenditure	30
tax base development	20
budget balance	15
<b>Commerce (20%, sum=100)</b>	
cost rate	20
Profit&tax/capital ratio	25
Make up Deficit & Increase surplus	20
Turnovers of working capital	10
Sales per capita	15
Export	10

This table is typical of an achievement evaluation program format. First, it often starts by applying the general policy goals (e.g. economic efficiency in this table) to different sectors (e.g. industry, agriculture, etc.), each of which are then quantified with specific and measurable statistical indicators (e.g. profit and tax/capital ratio). Second, to aggregate the evaluation results, a weighed grading method similar to the one used in students' GPA calculation, was adopted. As shown in Table 2-2, each indicator was assigned specific weight to aggregate them into a 100-scale grade for each of these four

<sup>53</sup> Preliminary Program of Target Responsibility System on Economic Efficiency of Hubei Province, Hubei Government Issued [1992] No. 47, Apr 27, 1992.

sectors, which in turn were aggregated into a 100-scale cardinal grade for the overall achievement of the local chiefs. Third, and less obvious, is that the indicators used are very much “outcome-oriented” (e.g. fiscal revenues) and the actual means to achieve these outcomes are not quantified and measured, which are probably not quantifiable in the first place.

The efforts to search for a nationwide uniform and “scientific” achievement evaluation program did not cease. Most recently, a 2006 COD document promulgated a comprehensive evaluation system for the achievement of local party-government chiefs, which “adapts to the requirement of the ‘Outlook of Scientific Development.’”<sup>54</sup> Twelve sets of specific socio-economic indicators were included, i.e. 1) GDP per capita and growth rate, 2) fiscal revenue per capita and growth rate, 3) residents’ income and growth rate, 4) resources consumption and workplace safety, 5) basic education, 6) urban employment, 7) social welfare, 8) cultural life, 9) population and family planning, 10) protection of cultivated land and other resources, 11) environment protection, 12) investment in R&D and invention. In spite of its “all-inclusiveness,” this new program does not differ that much structure-wise from previous less-inclusive ones as it is still an aggregative grading system based on a collection of outcome-oriented indicators.

As for grading these outcome-oriented indicators, a “target responsibility system”<sup>55</sup> (TRS) is often utilized in which specific target values are set for each indicator and the exact grade is determined by the degree of “fulfillment of the targeted goal.” For example,

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<sup>54</sup> Instruction on implementation of comprehensive evaluation of local party-government chiefs adapting to the requirement of “scientific development outlook,” COD, July, 2006

<sup>55</sup> For the Target Responsibility System, see Xie (1994), Tsui & Wang (2004).

for the evaluation system illustrated in Table 2-2, a specific formula was given to calculate the grade for each indicator as:

$$\text{Grade on indicator A} = (\text{Actual outcome}) \times (\text{weight}) / (\text{targeted outcome}).$$

It is noteworthy that not all targets are measured by the fulfillment ratio and are cumulative to one's achievement grade. Some high-profile tasks are measured on a "yes/no" basis and failure in their fulfillment would cancel out the achievement obtained in other tasks, which are therefore the tasks with "veto power." Two longtime examples of these high-profile tasks are the "population & family planning" and the "Social Stability."<sup>56</sup> For their veto power, one interviewee put it as, "the social stability is the '1' and everything else is '0'; without this '1', everything else would be '0'."<sup>57</sup> Recent years saw a growing list of such "veto-power" tasks at both the national and local level, e.g. energy conservation and carbon emission reduction<sup>58</sup>, food safety<sup>59</sup>, workplace safety, reduction of peasant's excessive burden<sup>60</sup>, and cultivated land protection<sup>61</sup>.

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<sup>56</sup> "Population & Family planning" was given veto power in mid 1980s, see National Compilation of Target Responsibility System on Population & Family Planning; For social stability is in 1991, see "Central Committee for Comprehensive Management of Public Security on application of 'veto power' for comprehensive management of public security," Dec 5, 1991.

<sup>57</sup> Interview with journalist of Xinhua New Agency, Feb. 2007

<sup>58</sup> State Council on *Implementation Program of Evaluation System on Energy Consumption per GDP unit*, ov. 23, 2007

<sup>59</sup> For example, Gansu province is reported to apply "veto system" to food safety issues from 2008, see news "Application of 'veto system' on food safety incidents,"

[http://www.gs.xinhuanet.com/news/2008-12/10/content\\_15147967.htm](http://www.gs.xinhuanet.com/news/2008-12/10/content_15147967.htm)

<sup>60</sup> For example, Hubei Province ruled that local chiefs should hold responsibility for the tasks of reduction of peasant's excessive burden. See Urgent Notice on Truthful Reduction of Peasant's Excessive Burden,

Briefly, for the achievement standard, a detailed evaluation system has been put into practice using the aggregation of “task fulfillments” based on a specific group of measurable and outcome-oriented socio-economic statistic indicators. Although the contents of this system have changed over time, the basic structure has not changed that much.

This brief review shows that efforts have been made to operationalize the requirement of “Both Integrity and Ability” in evaluating the performance of the local chiefs. Among the four items of performance standards, “achievement” is the most important and operationalizable one. The cause and implication of this characteristic will be discussed later.

### **Procedure for evaluation and appointment**

After reviewing the criteria, the following summarizes the formal procedure for cadre evaluation and appointment. For this evaluation and appointment system viewed as a “selection mechanism,” the criteria discussed above are about the characteristics of the “selectees.” By going through the procedures, I focus more on the “selector” side and those persons who can exert influences for the evaluation and appointment of the local chiefs.

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Hubei Provincial Party Committee and Provincial Government, Hubei Province Document [2001] No. 16

<sup>61</sup> State Council issued the Program of Evaluation on Target Responsibility of Provincial Government in Cultivated Land Protection in Oct. 2005, State Council General Office Issued [2005] No. 52, which ruled that governors would hold direct responsibility on land protection.

Among the many formal documents, the 1995 RSAC for the first time<sup>62</sup> detailed the entire evaluation and appointment process from the search of candidates to the final appointment as well as the units and officials that take charge in each step. Later, in 2002, the final version of the RSAC was promulgated with some revisions on the previous version. Besides a few major changes,<sup>63</sup> most other revisions purported to clarify some operational details based on the inconsistency found and the practical measures already taken in practice.<sup>64</sup> As the review here aims to provide a complete picture of the procedural matters in cadre evaluation and appointment during the reform era, I choose to focus on the procedure laid out in the earlier version; operational details clarified in later versions will also be added if necessary.

A four-step procedure is laid out in the 1995 RSAC: Democratic Recommendation, Evaluation, Discussion and Decision, and Nomination and Approval. Taking the

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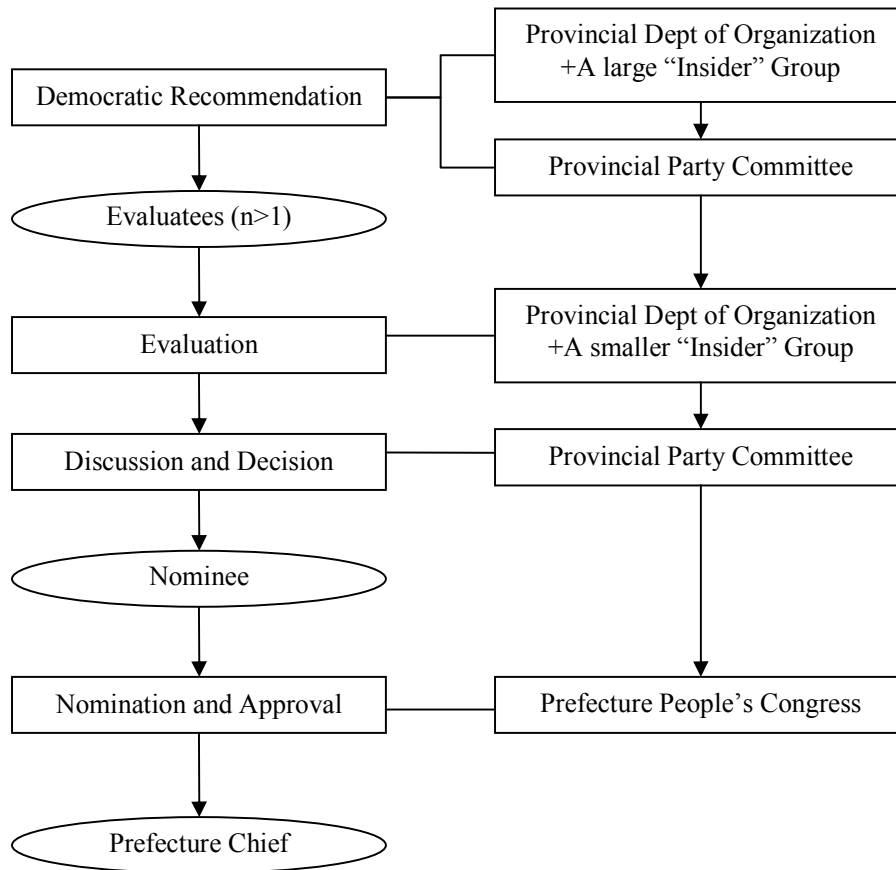
<sup>62</sup> It does not suggest that no procedure has been stipulated and used before, for example, Manion (1985) has presented the formal procedures based on previous documents. However, these documents often stipulate the procedure matter in a very general way without specific instructions and clear designation of authority. It is in the 1995 RSAC that a clear flow of procedures is presented.

<sup>63</sup> Major content changes include strengthening the authority of the plenum of local party committee in important personnel decisions and setting a “publicity period” and a “trail period” for the appointment

<sup>64</sup> For example, the 1995 RSAC ruled that either “local party committee” or “organization department at immediate higher level party committee” could charge this step, which is confusing because the one-level-down system ruled that local chiefs should be managed by the organization department one level above. However, this should be due to the generalization of this rule to cover both local chiefs and other local officials managed by local organization department. The 2002 RSAC straighten things up by designating the latter to take charge in the democratic recommendation for the “local leading officials.” (Article 13)

appointment of a prefecture chief as an example, *Figure 2- 1* illustrates the flowing procedures as well as the units and individuals involved in each step.

*Figure 2- 1 Evaluation and Appointment Procedure of Prefecture Chiefs (1995 RSAC)*



1) Democratic Recommendations (*Minzhu Tuijian*)

The goal of democratic recommendation is to produce a list of candidates to be evaluated (hereinafter as “evaluatees”, *kaocha duixiang*) fit for the openings. Based upon the “one-level-down” system, it is the provincial organization department that takes

charge in this step<sup>65</sup>, which would “design the working plan, hold recommendation meetings and interviews, prepare the paper work, and summarize the recommendations.”

In this step, a group of insiders are allowed to input their preferences on the candidates for specific position in a pluralistic way. This group includes leading members of several important units, specifically<sup>66</sup>:

- a) Members of the local party committee;
- b) Leading members of LPC, Local Government, LPPCC;
- c) Leading members of Discipline Committee;
- d) Major leading officials of local Court, Procuratorate, Functional departments in local Party Committee and local governments, as well as those government-sponsored NGOs;
- e) Major leading officials of immediate subordinate unit;
- f) Other individuals if necessary;
- g) Major leading officials of democratic parties and non-partisan representatives<sup>67</sup>

Based on this definition of the scope of “recommenders,” I can give a rough estimate of the actual size of this insider group. For a typical prefecture level city, the number of party committee members is a little above 40, the so-called “leading cadres”<sup>68</sup> at local government, LPC, LPPCC, LDC is around 7-10 each and less than 40 in total, the so-called “major leading cadres”<sup>69</sup> of other units involved adds up to be less than 50.

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<sup>65</sup> see fn. 64

<sup>66</sup> Article 10 of 1995 RSAC; Article 12 of 2002 RSAC

<sup>67</sup> These individuals are only included into the recommendation process for leading officials of LPC, local government and LPPCC.

<sup>68</sup> members of Party Organ (Dangzu) or Standing committee in the unit

<sup>69</sup> If only the unit chief is counted



Since a large portion of these “recommenders” take multiple leading positions at the same time -- for example, many unit leading members are also members of the local party committee -- the size of this insider group would likely be less than or around 100, which is obviously a tiny number compared with the prefecture population which is often in millions.

After obtaining the pluralist recommendations, the provincial organization department would report to the provincial party committee. And finally it is the prefectural party committee, with the “consultation” of the provincial organization department, that makes decisions on the list of evaluatees.

A “contingency plan” was included as “the ‘organization’ could recommend evaluatees for some leading positions of party committees, governments and their working units with special requirement.” (Article 19 in 2002 RSAC, a similar idea was seen in Article 15 in 1995 RSAC) As the “organization” (*zuzhi*) in the CCP’s vocabulary generally refers to the top-down authorities, this “contingency plan” obviously provides leeway for the superiors to pose their own evaluatee lists and hence circumvent the “democratic” recommendation.

## 2) Evaluation (*Kaocha*)

In this step, a vetting group dispatched by the provincial organization department conducts field evaluation on the listed evaluatees. Formally, this evaluation involves “extensive” information collection about the evaluatees’ “performance, shortcoming and popularities” (Article 26) through private interviews, questionnaire, and “democratic survey” (Article 22).

Again, an insider group is the basis for evaluation. And the composition of this insider group changed to include:

- a) major leading members of the local Party Committee, Local government, LPC, LPPCC, Discipline Committee, Court and Procuratorate;
- b) leading members of the unit where the evaluatee works
- c) major leading members of the units supervised by the evaluatee

The scope of this insider group is obviously smaller than the one in democratic recommendation since only major leading members in major units and the leading members of one's current unit are included.

After finishing, the evaluation result would again be reported to the provincial party committee as the "reference" to make the decision on the final nominees.

### 3) Discussion and Decision

It is then the provincial party committee that "discusses and decides" the nomination of prefectural chiefs. A simple majority vote in the provincial party committee (with 2/3 attendance rate) is required for a nomination to be passed. For the format of "discussion and decision," it is more like a caucus than a secret ballot. Each of the attendees were required to voice his/her own opinion, being "yes," "no" or "abstention," backed with explanations.

One practical problem is the actual working method of the plenum of the local party committee that usually convenes only one or two days twice a year. The 2002 RSAC ruled that "the standing committee could make decisions in nomination on behalf of the party committee when the latter is adjourned," (Article 33) which then provided

leeway for a smaller group of core leaders, sized 10-15 at the provincial levels, to assume the authority designated to a relatively larger group (50-60 at the provincial level)<sup>70</sup>.

#### 4) Nomination and approval

Finally, the nominee for local chief position would be submitted to the respective party/state representative body at the corresponding level for approval. For the party secretaries, the Party Constitution rules that they should be “elected” in the plenary session of the local party committee; however, it also states that “Party committee at higher level could appoint the leaders of party committees at lower level when party committee at that level is adjourned”<sup>71</sup>.

For the government chiefs, the Organizational Law of LPC and Local Government at Various Levels rules that they should be elected by the plenum of the LPC. The same law again provides leeway as the standing committee of the LPC could appoint an individual deputy government chief and choose an “acting government chief” from the several deputies. This acting government chief usually becomes the only candidate for the governmental chief in the ensuing LPC plenum. To constrain even more the risk of “incidences,” i.e. the official nominee failing to pass the simple majority in LPC plenum, the RSAC even ruled that the candidate nominated by the party committee could be voted for the second time if he/she failed the first one! For example, in a very rare case, the

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<sup>70</sup> For example, Hubei provincial party committee (Jun 2002-Jun 2007) consisted of 55 members and 13 of them are standing members; Zhejiang provincial party committee (Jun 2002-Jun 2007), consisted of 55 members and 14 of them are standing members. Change was observed from 2007 that party committee increased in size while standing committee was kept the same, which resulted in the smaller portion of the latter. For example, Hubei party committee members increased to 85 in 2007 while Zhejiang increased to 68.

<sup>71</sup> Article 27 and Article 13, respectively, 2002 Party Constitution

nominated mayor of Yueyang City did not get majority vote in a plenum of the LPC in Jan. 1, 2003. However, he was elected in a special second round two days later<sup>72</sup>.

To sum up, the formal procedure described above has answered the question of who decides the evaluation and appointment of the local chiefs. Symbolically, the principle of “democratic centralism” (Article 5 of the 1995 RSAC)<sup>73</sup> has been well applied. On the one hand, a group of local insiders have opportunities to have their preference channeled to the decision maker at the higher level; on the other hand, those at the higher level take the leading role throughout the entire process and always had leeway to circumvent the “democracy” that might “lose control.”

### **Summary**

In this section, I have focused on three aspects, i.e. the qualification requirement, the performance standards and the procedures, and the formal rules governing the evaluation and appointment of the local chiefs. Functionally, each of these three aspects tells one thing about the system as a “selection mechanism.” Specifically, the qualification requirement identified the pool of possible “selectees” by defining the eligibility for qualified candidates; the performance standards defined the merit of the “selectees;” and finally the procedure revealed who are the “selectors” and the weights they each have in deciding the career advancement of the local chiefs. With this complete picture of a “selection mechanism” in mind, the next question is how could it affect the

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<sup>72</sup> See news report, Bai, 2003.

<sup>73</sup> Yu Keping (2002) defined it as “centralization based on democracy and democracy under centralized guidance,” pp182.

policy behaviors of the local chiefs? This question is to be discussed in the following section.

### ***Discussion: the “selection mechanism” and the policy distortions***

As these rules reviewed above defined what merits are to be rewarded and who decides the rewards, the local chiefs incentivized by political interests should look into them to find the best way to “work the system.” In this sense, these rules per se constitute the content of the political incentives. From the perspective of institutionalism, if these political incentives per se are unbalanced and exploitable, policy distortions will be the natural outcomes when these incentives are used to induce desirable policy behaviors. In this section, taking the standpoint of local chiefs, I hope to restore the incentives embedded in the formal evaluation and appointment rules that have induced the policy distortions. Materials used in this section are mainly from my own fieldwork, official statistics and Chinese newspapers.

### **Qualification Requirements: the low bar and a physical game**

Let us start first with the qualification requirements. Basic requirements about the personal attributes, such as age, education and previous experiences, set bars for the local chiefs to meet to be eligible for certain positions. For the prefectural chiefs as examples, based on the rules listed above, they must satisfy all the four binding requirements as below to be eligible for the “leading positions” at the deputy provincial level:

- a) Younger than 59;
- b) Four-year college education;

c) Experience at least of three years in chief position(s) at the prefecture level (or Bureau level in functional department);

d) Experiences at least at two chief positions of the prefecture level (or Bureau level in functional department).

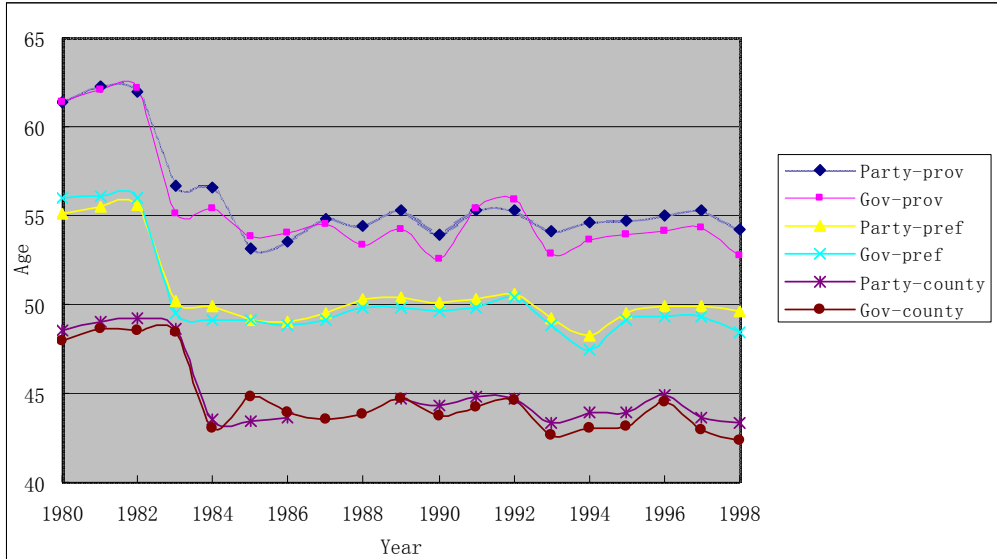
Once these binding conditions are met, the local chiefs are then qualified for advancement. However, qualification is one thing and the actual promotion is another. Empirical data shows that the bar set by the qualification requirement is rather low and a very large candidate pool exists for the upper-level openings in the hierarchical system.

For the age requirement, Figure 2-2 shows the national average ages of the “leading cadres”<sup>74</sup> in party committees and government at the levels of province, prefecture and county, respectively from 1980 to 1998. A general pattern observed is the relatively stable age structure of the leading cadres after 1983. For those at the prefectural levels, the average age is somewhere around 50, which is much lower than the age required. Narrowing the sample to local chiefs, *Figure 2- 3* shows the average age of the incumbent prefectural chiefs in Hubei province from 1983 to 2006. Although the party secretaries are unsurprisingly older than mayors, on average they’re younger than 55 and it is likely that most of them meet the age requirement.

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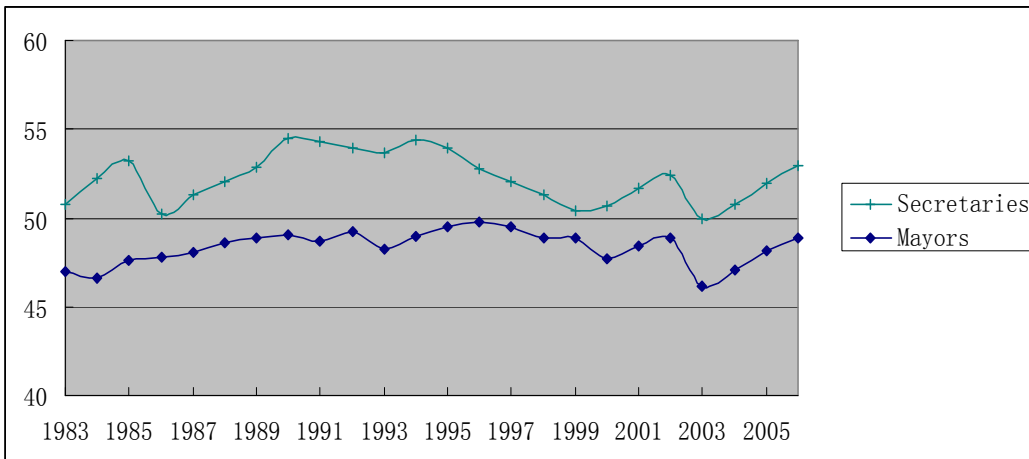
<sup>74</sup> Refers to the standing members of the local party committee and the members of party organs in local government

Figure 2- 2 National average ages of the leading cadres in party committees and governments at the levels of province, prefecture and county (1980-1998)



Source: Compilation of statistics of the party and governmental leading cadres (1954-1998)

Figure 2- 3 Average age of prefectural chiefs (1983-2006)

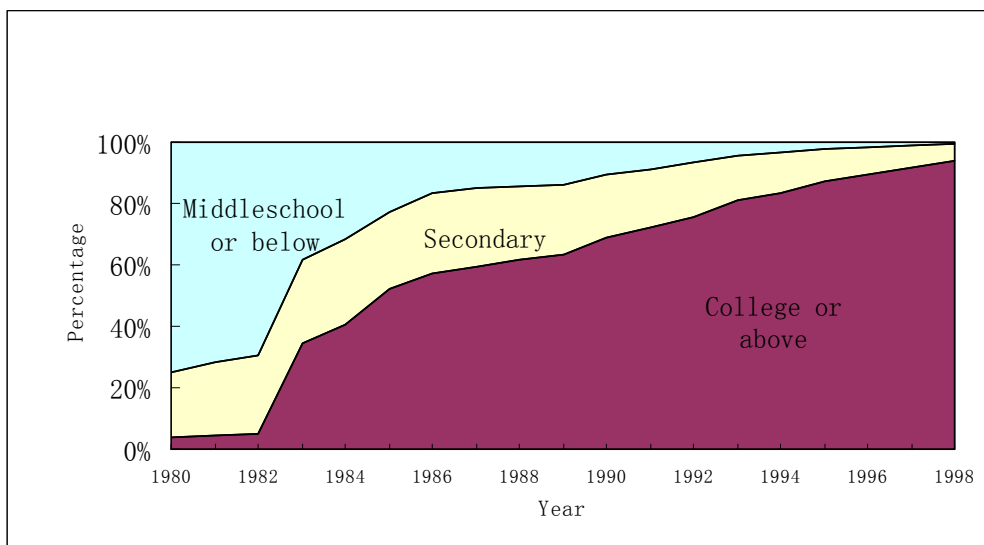


Source: Authors' dataset

For the education requirement, Figure 2- 4 shows the changes of the education levels of the leading members of prefectural party committee from 1954 to 1998. And again the year 1983 is a clear watershed after which more individuals with higher

education levels are appointed. By 1998, the percentage of the prefectural party committee members with education of “junior college or above” is 94.2% and those with four-year college is 41.14%. The rise of the education level of the Chinese local cadres is very rapid. A 2006 report of Guizhou province for example, showed that 90.9% of party committee members at the county level had education of “four-year college or above.”<sup>75</sup> The percentage of cadres holding graduate degrees also increased very quickly. In Jiangsu province, more than 45% of prefecture party committee members<sup>76</sup> and more than 60% of provincial party committee members have some kind of graduate degrees.<sup>77</sup> Generally speaking, the bar of education level is again easy to be met.

*Figure 2- 4 Education levels of the leading members of prefectural party committee (1954-1998)*



*Source: Compilation of statistics of the party and governmental leading cadres (1954-1998)*

<sup>75</sup> Lei Yang, “Summary of Office Turnover at County Level of Guizhou Province,” Dec. 5, 2006, Guizhou Daily

<sup>76</sup> Weixin Jin and Fen Yu, “Three lightspots of Office Turnover at Prefecture Level of Jiangsu.” Sep.30. 2006, Xinhua Daily.

<sup>77</sup> Tong, Guanlai, “Turnover of Party Committees at Provincial Level is Over,” Fazhi Evening, Jul.2, 2007.



One thing noticeable here is the fraudulency problem in the age and the education of local officials. With the administrative power at hand, the local chiefs in China can actually become “younger” in document<sup>78</sup>, and obtain school degrees without going back to school. The chance of being caught with the fraudulency is small; and even if caught, the consequence is not that severe. For example, Miao Helin, then a standing member of Hubei Province Party Committee in 2002 was found to have changed his education level from Junior College to Four-year College to obtain a master degree already conferred upon him. After being investigated for about one year, Miao was later appointed as Deputy Secretary of Nanjing City! In its effect, the low-cost fraudulency could lowers even further the age and education requirements for the local chiefs.

The experience requirements, i.e. three years and two positions at the immediate lower level, are also easy to meet. As the official term of positions at and above county level is usually five years; these requirements basically say that local chiefs do not even need to fulfill one full term to be eligible for promotions. For other requirements, professionalism, as mentioned above, is not binding in essence; and the avoidance principle does not apply for promotion above the prefectural level. Finally, all local chiefs above country levels have already meet the requirements for party membership.

In sum, given the low bar set by all of these qualification requirements, the number of qualified candidates is expected to be very large. As the hierarchical bureaucratic

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<sup>78</sup> For example, by changing the date of birth in the household registration. One interviewee (a correspondent of Xinhua news agency, Feb., 2007) informed that such fraud was so pervasive that COD led a secret top-down campaign in 2005 to address it by checking all the DOB difference in the cadre’s profile and correcting them by “adopting the oldest record.”

pyramid tends to provide fewer positions at each higher level, the competition for promotion would be a very physical game among the many qualified individual officials.

This competition is intensified even more by the compulsory retirement age and the age structure of the cadre teams. Although most incumbent local chiefs satisfied the age bar for promotion, this “satisfaction” expires at the age of 60 (65 for provincial level) and the upward mobility would be truncated. And, given the age structure shown in *Figure 2-2*, i.e. younger at each level by five years or so, the local chiefs, if not prevailed in their own cohorts, would face even more competition from the new “generation.” That is, the intensity of this competition is also aggravated by the limited time period for each individual to compete.

For this competition after qualification, anecdotal evidence often claimed that the personal attributes, such as age and education defined as qualification requirement here, would continue to be a factor affecting one’s chance of career advancement. For example, some specific promotions of cadres with doctoral degrees<sup>79</sup> might give the impression that the higher education level could be the reason that one gets promoted. However, based on the discussion above, it seems that most local chiefs are comparable competitors as far as these qualification attributes are concerned: they are on average highly overqualified. Take the education level as an example. While the claim is that a higher level of education (e.g. graduate degree) is an advantage, the data above actually show that it should have been an “advantage” shared by many individuals. In other words, qualification requirements might not be good factors to discriminate the caliber of local chiefs and the other category of criteria, i.e. the performance standards, should be the

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<sup>79</sup> For example, a very recent promotion of Wang Rong from party secretary of Suzhou city to mayor of Shenzhen City (deputy provincial level)

ones to be looked at by the superiors for the purpose of “selection” and by the subordinates for the purpose of “excelling their competitors.”

**Performance Standards: “achievement taking commands” and moral hazard**

Now let us turn to the performance standards. The summary above has characterized these standards as “a comprehensive evaluation system on the performance of ICDA with special emphasis on achievement.” However, in practice, the “special emphasis” on achievement could turn into “achievement taking commands,” and together with some specific contents of “achievement” were assigned more weight than others, these unbalanced performance standards could bring about the moral hazard problem of the local chiefs, i.e. taking risk to engage in policy distortions as far as they can perform well in those achievement goals stressed by the superiors.

*Achievement taking commands in performance standards*

As mentioned above, even the formal document has already emphasized the “achievement” as “the concentrated embodiment and comprehensive reflection”<sup>80</sup> of the overall performance of the local chiefs. In practice, the “political achievement” is elevated to become the single most important item among all the performance standards. As one interviewee in a local organization department put it: “This (achievement) is good, everything is good (*yihao baihao*).”<sup>81</sup> That is, the evaluation of overall performance is determined by the “achievement” one has obtained. Good evaluation on other performance standards would be attached *ad hoc* to those who have produced desirable “achievements.”

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<sup>80</sup> See fn.51

<sup>81</sup> Interview in Zhejiang, Feb. 2007.

The operational difficulty to evaluate other performance standards also contributes to the preeminence of “achievement.” Differing from the achievement evaluation which could be supported by objective statistic data, the evaluation on these standards usually relies on the subjective and qualitative judgments of evaluators. One internal research report of COD found that the evaluation outcomes of “integrity, competence and diligence” were often vacuous and “resembled everybody but not anybody.” For example, in one sample of 235 evaluation results of local cadres, for the category of “integrity,” 189 (80.4%) were concluded as “sticking to the Four Cardinal Principles<sup>82</sup>,” while 203 (86.4%) as “implementing wholeheartedly the Party’s leading route, direction and policies and keep close step with the center in thoughts, ideology and activities.” And typical conclusion on “competence” is “this comrade has certain ability in organizing, leading, coordinating, expression, researching and decision-making.” For the evaluation on “diligence,” in another sample, 91% of official evaluating results conclude cadres evaluated as “can approach the grassroots and work in democratic manner.”<sup>83</sup> (Jia, 2004) In general, although the merits championed by these performance standards are lofty, the evaluations of them are soft.

From the standpoint of local chiefs, since the evaluation of the performance focuses primarily on their “achievements,” they would then put more efforts to demonstrate better “political achievements” rather than divert them to those “soft” performances.

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<sup>82</sup> “the Four Cardinal Principles of adherence to the socialist road, the people's democratic dictatorship, the leadership of the Communist Party of China, and Marxism-Leninism and Mao Zedong Thought,” which was posed by Deng Xiaoping as the leading principals in reform era.

<sup>83</sup> This paper is believed to be written as an internal report prepared by a research group inside COD. An obvious pseudonym “Jia Ke” was used.

*Economic growth as the core of the “political achievements”*

As discussed above, the “achievement” standard *per se* also consists of a comprehensive set of indicators. Attempting to present good “political achievements,” the local chiefs, who are constrained by resources and time frames, still face a multi-task problem and need to make decisions on the specific policy areas where they plan to excel in “achievements.” One interviewee used a metaphor to describe this multi-task<sup>84</sup> situation as “Many threads from above and only one needle at bottom”<sup>85</sup>. It is almost certain that this busy “needle” has to rank the importance of these targets and decide which threads to connect and how much effort to input into those connected. Interviews in the field show that “promoting local economic developments” undoubtedly are ranked first by local chiefs. A survey in nine sample cities provided confirmation to my field finding: 78.1% of local officials surveyed take economic development as the top priority. In contrast, 10.7% choose development of science and technology, 5.8% for environment protection, 4.4% for population control and only 1% for social justice.<sup>86</sup>

So, why the economic growth is considered as the core achievement? Above all, it is not because only the economic growth is measurable while other achievements are not.<sup>87</sup> Measurable targets have also been set for many other achievements, for example, the achievement in maintaining social stability could be measured by the number of

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<sup>84</sup> For the economists’ account for multi-task principal-agent model, see (Holmstrom, 1991)

<sup>85</sup> Interview with a Deputy mayor of Henan province, Sept. 2006.

<sup>86</sup> See Yang, 2002, pp134.

<sup>87</sup> O’Brien and Li argued that “measurability” is one of the key factor contributing to the “selective implementation” problems at street level.

“public petitions”<sup>88</sup>, and the achievement in energy saving by the reduction of energy consumptions<sup>89</sup>. However, the fact that an achievement is measurable does not guarantee it to be the core achievement. To find out the rationale for economic growth to be the core achievement, I therefore turn to the characteristics of the task of promotion local economic growth *per se*.

First, local economic growth is the most consistent and significant measure of political achievement. During the reform era, the economic development was deemed as the “absolute principle”<sup>90</sup> and the “foremost achievement”<sup>91</sup> of officials at various levels. In almost all of the “annual governmental working reports” (zhengfu gongzuo baogao) at various levels in China, the economic growth rate<sup>92</sup> was the first achievement in last year to be introduced and the first target to be set for the coming year,<sup>93</sup> which shows the significance granted to the economic development by the regime as a whole. In contrast, for many other tasks accompanied by *ad hoc* target responsibility systems, their fulfillments might even not be counted as “political” achievements in the sense that no serious political incentives were attached to them. As the rewards they provided, e.g.

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<sup>88</sup> Interviews with officials in National Bureau of Appealing, Jun, 2007, Beijing

<sup>89</sup> For example, The Eleventh “Five-year” program set the target of 20% reduction in energy consumption by 2010.

<sup>90</sup> Deng Xiaoping, Excerpts from talks given in Wuchang, Shenzhen, Zhuhai and Shanghai, January 18 - February 21, 1992

<sup>91</sup> Jiang Zemin, Reports to the 16<sup>th</sup> Party Congress, Nov. 8, 2002.

<sup>92</sup> It is not until 1993 that the GDP index was adopted in Chinese statistic system as the indicator for economic growth. Before that the economic growth was measured by GNP, General Output, Industrial and Agricultural Output in different years.

<sup>93</sup> Taking the annual government working reports of State Council after 1985 as examples, the only exception is the 1990 reports in which the first part is devoted to the Tiananmen Incident.

money<sup>94</sup>, honor, or an unspecified statement that “will be referenced in cadre’ evaluation and promotion,” are not that much attractive to the political-interests-centered local chiefs, the significance level of those targets could not be that much high.

Second, local economic growth is the basis for many other political achievements. The choice of promoting local economic growth is not made for its own rights. Besides its many external effects, such as creating more local jobs, local economic growth is also the most important source for local revenues. When asked about the local chiefs’ choice between the environment protection and economic developments, the chair of the urban construction and environmental protection committee in a LPC answered:

“Local chiefs certainly know the importance of environmental protection. However, money is needed everywhere, the urban construction, the settlement of the unemployed, and even the improvement of environment itself needs money too. If the economic growth is compromised, how could they do all those important things?”<sup>95</sup>

The message of these words is clear. In the context of fiscal decentralization, the local chiefs are required to “create” political achievements out of the extraction authority, rather than direct state funds conferred on them. To produce those achievements desired, the accumulation of local revenues and hence rapid local economic growth is a must.

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<sup>94</sup> The monetary rewards for task fulfilling is often amazing small. Take a 2003 TRC designed by a Hubei prefectural city government as an example. According to its reward schedule, a subordinate county chief who had successfully fulfill all the comprehensive tasks could get a “reward” about 550 yuan (~\$67), which is about 5% of the average yearly salary of all workers in that city! See Programs of Responsibility System of Quantitative and Qualitative Targets of Huangshi City, Huangshi Government No. 1 Document, 2003.

<sup>95</sup> Interview, Dec.2006, Hubei

Third, local economic growth is an achievable goal in a short period. Compared to other policy goals whose achievements require long-time commitments and are more volatile (e.g. workplace safety and social stability), to promote the local economic growth is relatively easier and a more controllable task to fulfill for the local chiefs. By attracting more fixed-asset investment to one's jurisdictions, sometime with "race-to-the-bottom" preferential policy (Cai and Treisman, 2004) or at the cost of long-term local interests, the local chiefs can at least maintain a higher GDP growth rate on paper during their short tenures.<sup>96</sup> Certainly policy goals such as workplace safety and social stability are also very important, and as mentioned above, their failure might "veto" all other achievements one had or could even directly result in the dismissal of the responsible local chiefs.<sup>97</sup> However, since these incidents are often probabilistic and caused by many factors out of their own control, the local chiefs tend to put these issues aside as far as nothing bad happened during their own tenures. As one interviewee said:

"Social discontents were always there accumulating. Nobody knows when it will explode. Sometimes you've tried everything you could, things just happened. However, 'Heroes are distinguished by the outcome', local

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<sup>96</sup> Economists had long recorded the fast increase in fixed-asset investment is one of the major contributors to the miraculous economic growth in China For example, Yu (1998). See Zhang (2003), Qin, Cagas, Quising and He (2006).

<sup>97</sup> After the SARS crises in 2003, more local chiefs were seen resigned to take responsibility of sudden incidences. A very unfortunate example is Meng Xuenong, who resigned the take responsibility for the inadequate responses to SARS in 2003 three months after being appointed to the Mayor of Beijing and again resigned for a dam break incidence in 2009 one year after being the Governor of Shanxi.



officials has to cross their fingers to hope bad things would not happen during their own term.”<sup>98</sup>

In essence, given the frequent turnovers of the local chiefs, the person who actually takes responsibility if some incident indeed happens is not necessarily the one who should be responsible for it<sup>99</sup>. With this calculation in mind, the local chiefs would still engage in active pursuit of local economic growth even when it might increase the risk of societal crisis.

To sum up, while the “achievement” has been the most important content in the evaluation of the local chiefs’ performance, “to promote local economic growth” is the core “achievement” that local chiefs should pursue. Although this “core” status was not written in the formal documents, the fact that “economic construction” is the “central task,” the contextual factor of decentralized fiscal arrangement, and the effectiveness of the policy behaviors all explain the special weight that local economic growth has placed on the local chiefs’ mindset.

### *The Problem of Moral Hazard*

As moral hazard in insurance refers to the problem that individuals once insured might engage in high-risk behaviors based on cost-benefit analysis, it could be borrowed here to analyze the distorted behaviors of local chiefs in China. For these local chiefs

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<sup>98</sup> Interviews with COD officials at Beijing, Jan., 2007

<sup>99</sup> For example, in the 2004 “Tieben Incident” in Jiangsu province, the incumbent Party secretary of Changzhou city is disciplined with a “severe within-party warning,” and its predecessor who has been widely believed as the major supporter for the egregious expansion project of Tieben, was actually promoted in 2003 to be deputy governor of Jiangsu before the incidence broke out later.

managed indirectly by the evaluation and appointment system that is supposed to be comprehensive, undesirable performances for any policy goal posed from above should have been highly risky. However, the unbalanced nature in the performance evaluation system as discussed above, i.e. stressing on political achievements, especially on the achievement of promoting local economic growth, has encouraged local chiefs to engage in high-risk policy behaviors such as focusing on promoting local economic growth and neglecting other policy goals. The rationale is clear. For the local chiefs, having a high economic growth in their jurisdictions is equivalent to having themselves “insured” as it is the most important indicator to be evaluated. When undesirable performance in other commendable policies is presented, to the extent that it did not produce direct and serious consequences<sup>100</sup>, the local chiefs would likely be “covered” because of the “premium” they had paid through promoting local economic growth. And those “smaller” undesired consequences could then be deemed as “mistakes while moving forward,” or in the “jargons” used by the local officials, “paying tuitions to learn” (*jiaoxuefei*), which therefore are excusable.

One paragraph in a formal document to mobilize the local chiefs to pursue local economic development promulgated jointly by Hubei provincial party committee and provincial government expressed this “coverage” for local chiefs explicitly:

“We should protect the competent cadres. For those cadres with outstanding ‘achievement’ but stained with some ‘errors’, we should use

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<sup>100</sup> For example, large scale of social turmoil that got publicized

special caution to treat them and should refrain from “removing a warrior for smears”<sup>101</sup>

Although this paragraph did not specify what constitutes the “outstanding achievement” and the “some errors,” respectively, the objective of this document, i.e. “speeding up in ‘reform and openness,’” suggested that it is the cadres with achievement in promoting economic growth who were considered “competent” and should be protected.

With this moral hazard problem in mind, local chiefs would underestimate the political risk associated with policy distortions. For example, one county party secretary in Jiangsu once twisted openly the central government’s retrenchment initiatives:

“All past experiences told that each macro retrenchment was a ‘watershed’ widening the development gaps among different localities. When others slow down in their development, it is the best opportunities for us to catch up. Especially for an under-developed county like ours, (the overall) macro retrenchment means new and greater opportunity for economic development. If we can grasp this opportunity...we can then stride forward in our development”<sup>102</sup>

This comment was made specifically to rationalize a local motion to attract more outside investments during the retrenchment period from late 2003. The violation of the retrenchment initiative is viewed by this county chief as a means to “stride forward in

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<sup>101</sup> Decision of Hubei Provincial Party Committee and Provincial Government on “Speeding up in Open and Reform, Promote the Economic Development of Hubei to a new stage.” Hubei Province Document [1992] No.10, Jun. 20, 1992.

<sup>102</sup> Newspaper article, “How had the opportunity been grasped,” Suqian Daily, Aug. 5, 2004.

economic development” rather than a perpetration to be punished. In other words, policy distortions were considered risk-free if “economic development” is achieved. <sup>103</sup>

This existence of moral hazard problems would also provide negative incentives for those local chiefs not taking those high-risk policy behaviors. Given the unbalanced nature of the achievement evaluation, those rewarded are obviously not those who had “morally” restrained their pursuits of local economic growth to achieve other commendable goals. As a scholar close with Jiangsu government said about the success of Zhejiang:

“Our Jiangsu Government is too docile and was always ready to align with Center. When we please the Center wholeheartedly (by conformity), Zhejiang was working hard in defiance at night while put an obedient guise in daylight. Then what? Look at Zhejiang now. We had to send delegate to Zhejiang to learn from them like pupil.”<sup>104</sup>

Whether the Jiangsu government has been as “docile” as he said is questionable, but one thing is clear: the Jiangsu government certainly believed that it should have gone further in taking high-risk behaviors, i.e. policy distortion. Motivation thus exists for the good-boy local government to learn from those “bad boys” like Zhejiang, however, mostly likely to learn their cunningness in working the system. By viewing through the

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<sup>103</sup> A similar argument, though in a weaker form, was made by the so-called “yellow-light effect model” (Shen, 2004). That is, the local government would defer their conformity to the retrenchment policy, which would on the one hand helps the local government to be prepared for the next round of economic boom and on the other hand to avoid punishment by running directly into the red light.

<sup>104</sup> Shen, Kunrong, July, 2007, Hongkong.

lens of evolution, eventually only those who have learned and exploited the loophole embedded in this moral hazard problem could survive, and therefore, policy distortions would be pervasive.

### **Procedures: one-level-down control and multi-level distortion**

For procedural matters, as reviewed above, the horizontal authority has tight control on the evaluation and appointment of local chiefs at the immediate lower level, and the participation of even the average insiders, let alone the average people, is very limited and could be circumvented in many ways. In the context of decentralization this one-level-down control of the local chiefs' career advancement becomes the most convenient instrument for the horizontal superiors at various levels to incentivize their subordinates to fulfill the tasks assigned to them. Although this indirect and hierarchical management could be effective in some cases, it could also bring about serious policy distortion problems together with the increase of the number of managing levels. The problems as to how this one-level-down control has been used in actual governance and how multi-level policy distortion happened are discussed in this next section.

#### *The one-level-down control and the break-down of target*

For the horizontal superiors holding personnel control on local chiefs searching for an effective governing method, the target responsibility management is a natural fit, i.e. setting specific targets for each of their subordinates and holding them responsible. If each target is well designed and well fulfilled, the superiors could then achieve the overall goals.

Therefore, once the goal is set for the horizontal superiors, the first and core step is to “break down” the goal into a working target for the subordinates. This break-down takes place along both the horizontal and the vertical lines. For the former, the bread-down is usually to divide the overall numbers of all targets and assign them by shares (e.g. 20% of the revenue target) to each horizontal unit; while for the latter is to assign specific targets with the overall numbers to the relevant functional departments (e.g. revenue target to the bureau of finance). For example, in a target responsibility system of the Langfang city in 1992, 46 policy-specific targets have been broken down and designated to the different functional departments and 37 overall targets to the counties (city) and districts (Xie, 1998, p270-271).

Once this target is broken down and designated, the subordinates and the superiors would sign a “responsibility contract” which is supposed to be the “promise” of the former to the latter and would therefore be the basis for the future evaluation on the subordinates. However, my fieldwork shows that these “promises” were not taken very seriously by the subordinates. When asked for an actual text of target responsibility contract, the typical response from my interviewees was, “It should take a while for me to find *them*. I did not remember where I’ve put them after signing them,”<sup>105</sup> which seems not to be an appropriate attitude to a very “important” document. And one interviewee commented:

“Do not take the responsibility management that seriously. Every year we sign many contracts with those above: they called us to sign, we had to sign

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<sup>105</sup> Interviews with local officials at Beijing, Feb., 2007. Similar observations was described in Zhou Qingzhi’s book based on field work in Inner Mongolia (Zhou, 2004, pp132)

it. However, for the important task, it is still important even nothing is signed; for the unimportant ones, signing a contract did not change anything.”<sup>106</sup>

That is, the one-level-down responsibility system again came across the problem of “moral hazard.” Policy distortions, with the presence of target responsibility contracts, are still likely to be the result.

*Multi-level distortion as the result*

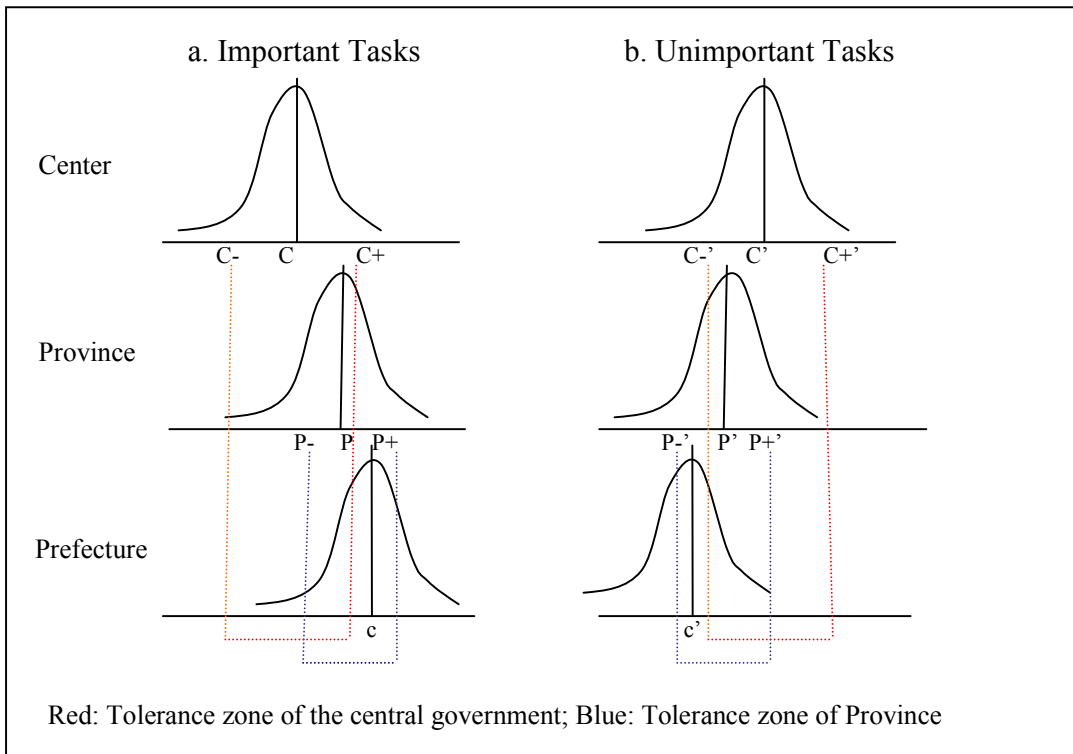
In this hierarchical one-level-down governance system, the break-down of targets takes place at each level. Specifically for the break-down along the horizontal line, the central government would break down the national goals into specific targets for the many provinces, each of which would be broken down again for the many prefectures, and then for counties, and finally for the townships. At each level, it is the immediate superior that controls the break-down of targets and evaluates the fulfillment of targets later. As subordinates only respond to the targets “pressurized”<sup>107</sup> by their immediate superiors, the moral hazard problem would be amplified by this system of “breaking targets down level by level,” which is illustrated in *Figure 2- 5*.

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<sup>106</sup> Ibid.

<sup>107</sup> A group of China-based scholars named this multi-level “target disintegration and responsibility management system” as “Pressurized Responsibility System” (Rong, 1998)

Figure 2- 5 Tolerance zone and Multi-level Distortion Amplification



The start point here is the concept of “tolerance zone,” which I borrowed from the “acceptance zone” first introduced by Herbert Simon (1976)<sup>108</sup>. By “tolerance zone,” I mean the range of target fulfillment by the subordinates that would be tolerated by the superiors. When the immediate superiors break down the policy goals and designate them to their subordinates, they would expect and be ready to tolerate some deviations in the final outcomes of fulfillments because of the existence of uncertainty. As shown in *Figure 2- 5*, for example, when the central government set a policy goal of C (C’), it is likely to tolerate the fulfillment outcome from C- (C-’) to C+(C+’). When this tolerance zone meets with the moral hazard problem, it could be exploited by the subordinates.

<sup>108</sup> According to Simon, Acceptance Zone is “the range of assigned tasks from above that subordinates could accept.”



Specifically, for those targets viewed as “important” by the local chiefs, e.g. GDP growth rate, the local chiefs would try to fulfill them toward the upper limit of the tolerance zone, i.e. C+; while for those deemed as “less important,” e.g. the protection of cultivated land, they would target the lower limit, i.e. C-’ . At this stage, policy distortion has already happened, however, it is “tolerable” because the distortions did not end up somewhere outside of the tolerance zone.

However, when the break-down of targets continue to the next level, e.g. from the provincial authority to prefecture city, more severe distortions could emerge. Specifically, for those important targets that the provincial government pursued aggressively, the tolerance zone set by the provincial authority for their subordinates would then possibly include a range of outcomes outside of upper limit set by the central government, e.g., c in *Figure 2- 5*. On the flip side, for those “unimportant targets,” the provincial authority might then tolerate some fulfillment outcomes outside of the lower limit of the center, e.g., c’ in *Figure 2- 5*. That is, while the prefectural chiefs aim to excel their competitors by fulfilling aggressively those important tasks and avoiding unimportant tasks, they could be tolerated by the authority that they’re directly responsible for; however, the policy distortions that they produced have already crossed the line set by the central governments. In the effects, the oversupply in some policy issues and the undersupply in some others would be observed.

*Table 2- 3* lists the major socio-economic targets set by the State Council in the Eleventh “Five-Year” program, the Hubei Province and its 15 Prefecture-level cities<sup>109</sup>, respectively, which can give a rough idea about this multi-level distortion. Take GDP

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<sup>109</sup> Xiantao, Qianjiang, Tianmen are not prefecture-level but their jurisdictions in economic and fiscal management were comparable to those of prefecture-level city.

growth rate as an example, as the State Council set an annual rate at 7.5%; the Hubei Province, an average province in economic development, set a 10% rate; for the 15 prefecture-level units, eight of them set a rate beyond 10% and only one, Enshi, a mountainous and ethnic autonomous region, set a rate lower than that. And for the growth of fixed-assets investment, the central government actually did not set any target this time; but the province set a goal of 15%; and 11 out of 15 prefecture-units set targets higher than 15%. In contrast, for those targets deemed “unimportant” by local officials, although some of them were formally named as “binding targets” in the Eleventh “Five-Year” program, a passive compliance is observed in the targets set by the local governments. For example, for the target of “energy conserving,” governments from provincial level to prefecture level all simply copied that “decrease by 20% in 2010” as their own targets. The same thing happened with the target to increase local residents’ income: No one seemed to be interested in outperforming others in these tasks<sup>110</sup>.

(Table 2-3 should be here, please go to the last page of Chapter 2)

In sum, the lengthy multi-level governance hierarchy and the strong one-level-down control together aggravates the problem of policy distortion. As the superiors at the immediate higher level would pursue policy goals distorted from the original ones, the subordinates, responding to their direct superiors, could push the distorted policy goals even further.

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<sup>110</sup> For the energy saving per GDP unit, half way to the targeted year of 2010, it only decreased by 7.15% from 2006 to the mid of 2008.

While these local policy distortions could result in outcomes intolerable to the central government, the direct superiors would well accept, or even protect and encourage distortions that are within their own “tolerance zones.” The paragraph quoted above from an official Hubei provincial document about “protecting local cadres with outstanding achievements”<sup>111</sup> is such an example. Anecdotal evidence also supports this argument. For example, in 2004, the Jiangning District government of the Nanjing City was criticized by the State Council directly for the excessive land acquisition in a development project of a “university city.” Then Party Secretary of Jiangning Wang Jianhua was disciplined with a “with-in party warning” to take the responsibility. Li Yuanchao, then Party Secretary of Jiangsu Province, allegedly championed him in a provincial working conference and assured that “the organization would not treat unfairly those comrades being wronged.”<sup>112</sup> And later, in June 2005, Wang Jianhua was promoted to Party Secretary of Lianyungang city<sup>113</sup>: Eventually, the distortions that were intolerable to the central government were “righted” as achievements outstanding enough for the provincial leaders to reward a promotion!

## **Conclusion**

In this chapter, I have reviewed and discussed the symbolic rules governing the evaluation and appointment on local chiefs and the possible relations between these rules and policy distortions. Major findings are summarized as follows.

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<sup>111</sup> See fn. 101

<sup>112</sup> Interview with COD officials in Jan. 2007, Beijing

<sup>113</sup> Wang might already have a prefecture level rank as being standing member of Nanjing Party Committee. However, to be the no.1 local chief of a large prefecture-level city from his previous position should still be counted as a promotion.

First, the low bar set for the qualification of promotion has made the latter a very physical competition among many comparable candidates in a perceivable career period capped by the retirement age. Forced by competitive pressures, the local chiefs would try their best to outcompete their fellow colleagues by their performance.

Second, the performance standards *per se* are unbalanced. The “achievement,” especially the one of promoting local economic growth, has been more important and more achievable than other “performances.” The moral hazard problem thus emerges in the way that the policy behaviors leading to probable policy distortions would be emboldened as they could be “covered” by the positive achievement in promoting local economic growth.

Third, the evaluation and appointment procedures empower the superiors at the immediate upper level in controlling their subordinates. While the one-level-down responsibility management based on the break-down of target is a good governing tool to be used in combination with the control capacity of immediate superiors, its level-by-level replication would amplify the moral hazard problem and aggravate the policy distortions.

To conclude, from the point of view of local chiefs, the unbalanced nature of the political incentives embedded in the symbolic rules of cadre evaluation and appointment is clear, and the uni-dimensional pursuit of economic growth is *the* means, both necessary and hardly risky, for the political-interests-centered local chiefs to excel in a “political championship of promotion” judged by their immediate superiors. Policy distortion, if taking place, could find its roots in the political incentives from above; or, to paraphrase the Mencius quote at the beginning of this chapter: the political incentives are like the

wind and the policy outcomes at the local level are like the grass, “The grass must bend when the wind blows upon it.”

Table 2- 3 Multi-level distortions: National Target, provincial Target and Prefecture Target

	GDP Growth	Fiscal Revenue Growth	Fixed-Asset Investment Growth	Energy Consumption per GDP (compared to 2005)	Unemployment Rate	Income per capita growth (urban)	Income per capita growth (rural)	Urbanization	FDI growth rate	Forest coverage	population increase
National	7.50% /	/	/	-20%	5%	5%	5% /	/	/	20%	0.80%
Hubei	10%	12%	15%	-20%	4.50%	8%	0.06				
Cities											
Wuhan	12%	12.25% <sup>a</sup>	18.5% <sup>b</sup>	-20%	5%	10%	8-10%	65%			
Huangshi	11%	15%	17%	-20%	4.50%	8.50%	0.06				
Shiyan	10%	10%	16%	-20%	5%	7%	0.05		10%	56%	0.60%
Xiangfan	11%	10-12%	16%	-20%	5%	8%	0.06	51%		45%	
Yichang	11%	12%	18% <sup>ab</sup>	-20%	4.50%	8%	0.06	48%			
Jingzhou	10%	9%	18%	-20%	4.50%	8%	0.06				
Ezhou	12%	15%	18% <sup>ab</sup>	-20%	4.50%	8%	0.065				
Jingmen	10%	11.50%	11%	-20%	4.50%	8%	6%	45.50%	12% <sup>+a</sup>	38%	
Xiaogan	10%	11%	12%	-20%	4.50%	8%	0.06		10% <sup>+</sup>		0.60%
Huanggang	10%	12%	15%	-20%	4.50%	8%	0.06	40%	12%	45%	0.60%
Xianning	10%	12%	16%	-20%	4.50%	8%	0.06	51%			
Enshi	8%	5-7%	10%	-20%	4.50%	5%	3% <sup>+6-8%</sup>		10% <sup>+1-2</sup>		0.60%
Suizhou	11%	12%	15%	-20%	4.50%	8%	0.06	44%	10%		0.60%
Xiantao	10%	12%	20%	-20%	4%	8%	6%	50%	15%		0.40%
Qianjiang	12%	10%	25%	-20%	4%	8%	6.50%	50.50%	20%	42%	
Tianmen	10%	21%	25%	-20%	4.30%	8%	0.06		50%	20%	0.60%

a:2010 would double 2005; b:2006 estimated

Sources:

1. Eleventh "Five-Year" Plan of Economic and Social Development of China;
2. 2006 Hubei Government Work Report;
3. 2006 Government Work Report of all 15 prefecture-level cities

## **Chapter 3 GDP rules: Cross-provincial evidence of Promotion practices**

“As you sow, so shall you reap.”

---Folk wisdom

In the previous chapter, I discussed how the symbolic rules governing cadre evaluation and appointment have provided unbalanced political incentives to local chiefs, who in turn produced policy distortions in some otherwise commendable policy goals. From the standpoint of local chiefs, the symbolic rules set for their evaluation and appointment are not the only source for them to figure out the content of political incentives. This chapter discusses the unbalanced political incentives by looking at the “latent” rules of promotion revealed in previous promotion practices.

In China studies, this idea that previous practices would define the incentives later, and hence the individual behaviors, could be traced back to Oksenberg’s (1968, 1970) “search” for the “ladder of success” in China of 1960s. Even during a period which was later widely deemed as being rife with tumultuous political campaigns and thus institutional instability, he believed that the “normal practice” had presented “stable, predictable and structured” (1968, pp416) expectations of career patterns for young people, who would adjust their behaviors accordingly to climb up the “ladder of success.” The same logic is used here to analyze the policy behaviors of local chiefs in a much

more stable political environment decades later. My argument is as follows. Previous promotion practices would reveal the characteristics that have been “desired” by the superiors if individuals with certain characteristics are consistently rewarded by promotions. Once observing others’ success, local chiefs are then likely to pursue these “desirable characteristics” while neglecting others and policy distortion is therefore the “unintended consequence” of individual officials’ efforts to maximize their political interests.

To verify this relationship between political incentives embedded in previous promotion practices and policy distortions, empirical evidence must be found that demonstrates the “desirable characteristics” that have been rewarded consistently are not those required for the fulfillment of the policy goals that have been distorted. Specifically, based upon the policy distortion observed, i.e. rapid local economic growth at the cost of other commendable policy goals, the conjecture to be tested in this chapter is that, on the one hand, that local chiefs’ achievements in promoting economic development were a positive contributor for one’s own promotion, and on the other hand, the underperformance for other commendable goals did not compromise one’s career prospect.



Despite the obvious difficulty in collecting the career data of Chinese officials<sup>1</sup>, several recent studies had already explored this relation between promotion and performance of local officials at various levels (Bo, 1996, 2002; Li and Zhou, 2005; Landry, 2003, 2008). While these studies in general showed the positive relation between local economic development and promotion probability of local chiefs,<sup>2</sup> the effect of performance for those “other commendable goals” on promotion was largely ignored. Several other issues with current studies have something to do with the sampling. Most of the studies are on provincial leaders (Bo, 1996, 2002; Li and Zhou, 2005). And although Landry for the first time analyzed those at cities (both prefectural and county level, 2003, 2008), his sample only included mayors and party secretaries, the no.1 chiefs at local levels, were left out. Even more important, the regional variation in promotion practice, especially the one among different provinces, was not accounted for because of the lack of complete dataset of sub-provincial units.

In this chapter, a career data set of local chiefs in all prefectural units of Hubei and Zhejiang, two provinces with quite different development routes, from 1983 to 2006, is

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<sup>1</sup> For sure COD would have all these information based on the “one-level-down management and two-level-down report” system; however, the official compilation of such information is classified in China and could not be provided for research purpose. (It is quite ridiculous that the compilation became “national secrets” as the local people have already known who these leaders are.)

<sup>2</sup> With the exception of Landry (2008), who finds the positive relation between local GDP growth and the promotion but argued this positive effect was non-linear and relatively small.

compiled to verify the hypothesis above. The variables include local chiefs' political turnovers, personal attributes, previous working experience and performance. The findings are as follows. First, performance in those "other commendable goals," taking cultivated land protection as example, is not a significant contributor to local chiefs' promotion; Second, the performance in local economic development have been an important factor affecting one's promotion; Finally, cross-provincial differences exist and different aspects of economic development are stressed in these two provinces, i.e. the prefecture share of provincial GDP has been a much more important factor in Hubei while the prefecture GDP growth rate has been more important in Zhejiang for one's promotion.

This chapter proceeds as follows. The structure of the dataset and descriptive statistics of major variables are presented first, followed by the model setting and the result of ordinal logistic analysis. Implications of the statistic results about promotion practice for policy distortion are then discussed. The chapter concludes with the discussion about cross-provincial differences.

### ***Data: Structure and Descriptive Statistics***

#### **Sample and Structure**

The dataset used in this chapter consists of 309 prefecture chiefs, both party secretaries and mayors of all 23 prefectural units of Hubei and Zhejiang provinces from 1983 to 2006. Current local chiefs that have taken their posts before 2006 are also

included<sup>3</sup>. Local chiefs convicted in corruption cases at current posts are excluded as the conviction automatically leads to one's resignation. Those convicted later at other posts or after retirements are still included with the assumption that information about their corruptions has not yet revealed when turnover decisions were made. Take Ma Ronghua as an example. He was promoted from mayor of Shiyan to secretary of Ezhou in Jan. 2001 and convicted five years later in the latter post. Obviously, his promotion in Jan, 2001 should not have been affected by the later convictions. As a result, his career in Shiyan is included as one observation while his career in Ezhou is excluded. According to this standard, only five cases are excluded for corruption conviction.<sup>4</sup> Another extreme example is Qian Dai, then-mayor of Shashi of Hubei from Jan. 1988, who died in office in 1991 and this observation is therefore excluded for obvious reasons.

### **Variables and Descriptive Statistics**

Variables in this dataset are categorized into four different sets, 1) local chiefs' political career, i.e. previous working experiences, current tenures, the next position; 2) individual characteristics of local chiefs, e.g., age, education, place of birth, gender,

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<sup>3</sup> Current local chiefs included are: Wang Zhenyou (party secretary of Huangshi from Jan 2003), Wang Guoping, (party secretary of Huangzhou from Apr 2000), Mao Guanglie (mayor of Nionbo from April 2004), Bayin Chaolu (party secretary of Ningbo from Nov 2003), Sun Wenyong (party secretary of Huzhou from Nov. 2005) and Xu Ziping, (party secretary of Jinhua from Jan 2005)

<sup>4</sup> The individual cases excluded are: Sun Chuyin of Xiangfan, Ma Ronghua of Ezhou, Xu Yunhong of Ningbo, Xu Funing of Huzhou and Sun Yanbiao of Taizhou

ethnicity, party membership, etc; 3) performance indicators of local chiefs, i.e. average growth rate of GDP in one's jurisdiction, average prefectural GDP share of provincial GDP, average growth rate of cultivated land, etc. 4) period dummies. These variables are introduced in this section. Table 3- 1 presents descriptive statistics of all the variables. Since Zhejiang sample and Hubei sample are analyzed separately later in this chapter, I present the descriptive statistics separately.

Table 3- 1 Descriptive Statistics of Variables

Variable	Hubei			Zhejiang			Min*	Max*
	N	Mean	s.d.	N	Mean	s.d.		
<b>Political Careers of Local Chiefs</b>								
Political Turnover (5-way)	160	0.57	1.16	147	0.43	1.06	-2	2
Political Turnover (3-way)	161	0.46	0.75	147	0.33	0.73	-1	1
Previous Turnover	154	1.40	0.65	141	1.49	0.63	0	2
Previous Location	154	0.62	0.49	147	0.52	0.50	0	1
Secretary: (party secretary=1, mayor=0)	161	0.46	0.50	141	0.50	0.50	0	1
Tenure	161	3.87	2.05	147	3.57	1.73	.33	10.17
Horizontal Experience	146	0.86	0.35	134	0.92	0.28	0	1
Vertical Experience	135	0.56	0.50	123	0.50	0.50	0	1
Grass-root Experience	126	0.32	0.47	118	0.22	0.42	0	1
Industry Experience	126	0.35	0.48	112	0.39	0.49	0	1
School Experience	129	0.15	0.36	118	0.25	0.44	0	1
Party organ Experience	128	0.20	0.40	122	0.41	0.49	0	1
Protégé Experience	129	0.27	0.45	120	0.32	0.47	0	1
Military Experience	127	0.03	0.18	117	0.01	0.09	0	1
CYL Experience	130	0.21	0.41	118	0.20	0.40	0	1
<b>Biographical Information of Local Chiefs</b>								
Age	157	52.15	4.88	146	51.78	4.96	38.83	62.92
Gender	160	0.99	0.08	147	0.97	0.16	0	1
Ethnic	160	0.96	0.19	147	0.99	0.12	0	1
Education (first degree)	150	1.31	0.85	128	1.18	0.82	0	3
Education (reported degree)	150	1.90	1.07	126	2.01	0.97	0	3
Local (Place one grown up)	154	0.22	0.42	143	0.25	0.44	0	1
<b>Performance Indicators of Local Chiefs</b>								
GDP Growth Rate: (%)	161	11.87	6.19	147	13.42	5.00	-3.30	34.55
Prefecture Share of Provincial GDP: (%)	161	7.41	6.60	147	8.76	5.41	1.49	34.24
Cultivated Land Growth: (%)	161	-0.79	2.64	147	-0.51	0.64	-13.74	18.16
<b>Period Dummy</b>								
Period 1: 1983-1988	27			16				
Period 2: 1989-1993	32			35				
Period 3: 1994-1998	39			26				
Period 4: 1999-2002	20			27				
Period 5: 2003-2006	43			43				

\* The values are the minimum (maximum) of the two provincial samples combined  
Source: Author's dataset, The 50 Years of Zhejiang, The 40 years of Hubei, Statistic Yearbook of Zhejiang (1999-2006) and Statistic Yearbook of Hubei (1990-2006)

## 1) Political Careers of Local Chiefs

**Turnover** First of all, I code turnover only when an actual position change happened for an individual local chief. “Reelection to the same post” is neglected. As mentioned in Chapter 2, the formal turnover procedure, i.e., “election” every five years in the Local People’s Congress or the Local Party Committee, has often been circumvented by direct appointment made by the superiors. Literally, each individual local chief has his/her own tenure, which could be as short as four months (Zhou Ji, mayor of Wuhan, Dec. 2001-Apr. 2002) or as long as ten years and two months (Zhou Hongchang, mayor of Jiaxing, Feb. 1981 to Apr. 1991). It is thus very hard to define the “reelection” as no general term of tenure is followed. Also, as most local chiefs (240 out of 309) moved to another post in less than five years, which suggests reelection was infrequent.

For the turnovers, I measure them from two aspects, a) the change in the administrative ranks<sup>5</sup> and b) the change in positions, which result in five types of turnovers for local chiefs:

- i) Type II promotion (coded as 2): Increase in both rank and position. For example, Ruan Chengfa, the secretary of Xiangfan (Dec. 2002-Sep. 2004) promoted to be deputy governor of Hubei; Ge Huijun, mayor of Jinhua (Mar. 2005-Jul. 2007) promoted to be deputy governor of Zhejiang.
- ii) Type I promotion (1): Increase either in rank or position but not both. The

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<sup>5</sup> Refer to the nomenklatura system discussed in chapter 2;

promotion to a nominal position with higher rank has often been used as a favorable retirement arrangement for aged prefectural chiefs by promoting them to vice chairmen of provincial LPC or LPPCC, e.g. Wu Huapin, party secretary of Huangshi (Aug. 1996- Feb. 1998) promoted to be vice chairman of Hubei LPC; the promotion to an obviously more important position at the same rank level has often been used for active cadres, e.g. the frequent practices promoting mayors to be secretaries after former secretaries being transferred to another place, and the promotion of party secretaries to chief staffs of provincial governments.

- iii) Lateral changes (0): transfer from one locality to the other with same positions, e.g. Wang Yuliang, mayor of Shaoxing (Jul 1987-Apr 1991) transferred to be mayor of Quzhou; Zhao Baojiang, mayor of Wuhan (Mar 1987-Jan 1997, Wuhan is a deputy-provincial level city<sup>6</sup>) to deputy minister of Construction.
- iv) Type I demotion (-1): Decrease either in rank or position but not both. In practice, most demotion of this type was used as a less favorable retirement arrangement for previous local chiefs, usually by transferring them to be chairmen of prefectural LPC/LPPCC or chairmen of committees of provincial LPC/LPPCC, a nominal second-line (*erxian*) position at the same rank. For example, Chen Jiajie,

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<sup>6</sup> 15 large cities in China were given special ranks of deputy-province, which allowed them to have the similar decision power with provinces in economic issues. The Wuhan city of Hubei, the Hangzhou city and the Ningbo city of Zhejiang all belong to this category.

party secretary of Huangshi (Mar. 1993 – Aug. 1996) to the chairman of Huangshi LPC.

- v) Type II demotion (-2): Decrease in both rank and position. This type of demotion has been observed mostly in the least favorable retirement arrangements, i.e. direct retirement without the transition at nominal position, which literally terminates their political careers at or before the official retirement age of prefecture chiefs, i.e. 60. For example, Zhong Boxi, mayor of Hangzhou (Apr. 1983-Aug. 1988) retired at the age of 59. Type II demotion is generally rare for active prefectural chiefs. One exception is Feng Youren, who was demoted from mayor of Shiyuan to associate secretary of Shiyuan party committee in Jun 1988 at age of 47.

*Table 3- 2* summarizes the frequency of each type of turnover in Hubei and Zhejiang. One possible bias introduced by this 5-way definition of turnover is that the promotion of local party secretaries might be exaggerated relatively to that of mayors. Both with the administrative rank (*jibie*) of “prefecture,” party secretaries are senior and more important than mayors. Since promotion ethics in China’s cadre system usually requires a “level-by-level” turnover, party secretaries are more likely, compared with mayors, to be promoted to positions at vice-provincial level with the latter staying in the same rank even a de facto promotion is made. As a result, type II promotion, i.e. promotion in both positions and ranks, happened more often to party secretaries, which is evident in the last four columns in *Table 3-2*: Type II promotion cases constitute 1/3 of



all turnovers of party secretaries while only 8/307 of mayors are promoted by this type, for example, Su Xiaoyun, Mayor of Enshi promoted to deputy governor of Hubei in May 1993. To avoid this bias, I also construct a 3-way turnover variable by combining type I and type II promotion (demotion), the descriptive statistics of which is summarized in

*Table 3- 3.*

*Table 3-2* and *Table 3-3* both show that most local chiefs in China eventually get promoted after their tenures: Demotion is a relatively rare practice.

*Table 3- 2 Frequency Table of different type of turnovers (five-way)*

	<u>Hubei</u>		<u>Zhejiang</u>		<u>Secretary</u>		<u>Mayor</u>	
	N	%	N	%	N	%	N	%
Type II Promotion	33	20.63	33	20.63	48	32.88	8	4.97
Type I Promotion	65	40.63	65	40.63	32	21.92	82	50.93
Lateral Turnover	37	23.13	37	23.13	47	32.19	42	26.09
Type I Demotion	10	6.25	10	6.25	10	6.85	14	8.70
Type II Demotion	15	9.38	15	9.38	9	6.16	15	9.32
Total	160	100	147	100	146	100	161	100

*Source: Author's dataset*

*Table 3- 3 Frequency Table of different type of turnovers (3-way)*

	<u>Hubei</u>		<u>Zhejiang</u>	
	N	%	N	%
Promotion	98	61.26	72	48.98
Lateral Turnover	37	23.13	52	35.37
Demotion	25	15.63	23	15.64
Total	160	100	147	100

*Source: Author's dataset*

**Previous turnover and previous location** Variables are also constructed to capture the information about the turnovers that have put local chiefs on their current positions. For the variable of previous turnover, I coded it using the same rules listed above. It turns out that no local chiefs were “demoted” to their current position, as shown in Table 3-1 that the minimum of this variable is 0 (i.e. lateral transfer).

Previous locations of local chiefs before taking current positions are also of interest here as a long tenure in one location is believed to increase the chance that cadres are “entrenched” in local interests (Landry, 2008, pp89).<sup>7</sup> I code it as a dummy variable, 1 if the local chiefs worked locally immediately before taking the current position, 0 otherwise. It turns out that more than half of the local chiefs are promoted locally. (62% for Hubei and 52% for Zhejiang, see Table 3- 1).

**Secretary** A dummy variable is created with party secretaries as 1 and mayors as 0.

**Tenure** As mentioned above, the tenures of local chiefs in China have little to do with formal terms and elections. I therefore measure tenure as the length of period from the month they were appointed<sup>8</sup> to the month they left. On average, the tenure for Hubei prefectural chiefs is 3.86 years and for Zhejiang is 3.58, both of which are less than the formal term of 5 years.

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<sup>7</sup> Also see Li & Bachman (1989)

<sup>8</sup> For mayors, the tenure of “acting mayors” would also be included.

**Past Experiences** A group of dummy variables are created to account for the past working experiences of the local chiefs. These past experiences could be factors that affect the career prospects of local chiefs in the future.

- i. **Horizontal Experience:** This variable measures the local chiefs' past experiences as "generalists." If one had worked as a leading member at horizontal units above county level (e.g. deputy county chief or associate county party secretary), I code this variable "1," otherwise "0." Descriptive statistics shows that most of the prefectural chiefs (86% in Hubei and 92% in Zhejiang), being horizontal generalists by themselves, had past experiences of leading members in horizontal units, which is also the most common experience shared by all local chiefs.
- ii. **Vertical Experience:** Compared to horizontal experience, vertical experiences is the measurement of the "specialty" of local chiefs. If one has headed functionary departments in government above county level e.g. chief of county urban construction bureau, I code this variable "1," otherwise "0." About half of the local chiefs (56% in Hubei and 50% in Zhejiang) have this experience.
- iii. **Grass-root Experience:** Some local chiefs build up their career all the way from grass-root level, for example, township chiefs or (party secretary of communes before 1983). I code those who had worked as leading members of township as "1," otherwise, "0." A small portion of local chiefs (32% in Hubei and 22% in Zhejiang) have this experience.

- iv. Party Experience: I also single out those with experiences in the five functionary organs inside local party committees (discipline committee, political and legal committee, organizational department, propaganda department and united front department). Working in these party organs suggested more direct contact with the highest decision-making bodies at the local levels. From this experience, those later prefectural chiefs might learn more about the structural rules and norms of party committees and hence understand better those rules and norms at the provincial level which would determine their career prospects. 20% local chiefs in Hubei and 41% in Zhejiang had experiences in party organs.
- v. Protégé: The experience of being “assistants” to important figures might also have some impact on one’s career prospect. Most directly, the “important figures” could be the patrons in one’s future career; and having been assistants might also help cultivate one’s ability to deal with individual superiors. In this sample, less than 1/3 of local chiefs have some protégé experiences (27% for Hubei and 32% for Zhejiang)
- vi. Industry Experience: For specific working experiences, the most noticeable one is the “industry experience,” which is often suggested as an advantage for promotion by the “technocrats” argument<sup>9</sup>. In this sample, I code “1” for those who had worked as manager, engineer, architect in enterprises or research

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<sup>9</sup> See fn.31, Chapter 2

institutes, and 0, otherwise. Fewer than forty percent (35% for Hubei and 39% for Zhejiang) of the local chiefs had some industry experiences, which are the most common non-governmental experiences shared by all.

vii. School Experiences: School teachers at all levels have been stable sources for becoming local officials, probably because they were relatively “better educated” and equipped with better “oral and writing skills” that are needed for local officials. In this sample, 15% local chiefs in Hubei and 25% in Zhejiang had been school teachers.

viii. Military Experiences: Because joining the army had been a popular choice for young men in China, many local chiefs in my sample had military experiences. However, for the military experience to matter politically, it must be, I think, more than being enlisted as an average soldier for three years. I therefore only count those who had been officers (platoon leaders or above) as the ones “having military experience.” This stricter definition results in that only five local chiefs in my sample fall into this category. Four of these five joined army before the creation of the PRC<sup>10</sup> and 3 of them had left prefectural level positions before 1990. In other words, very few local chiefs in Hubei and Zhejiang had significant military experiences.

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<sup>10</sup> The only exception is He Minxu, the party secretary of Lishui (Feb 1998 – Dec 1998) and later convicted at the post of deputy governor of Anhui.

ix. Youth League: The so-called “Youth League Group”<sup>11</sup> gained quite some visibility after Hu Jintao’s sudden rise from 1992. About 20% in both Hubei and Zhejiang sample have been leading cadres of Youth League Committee above county level.

## 2) Biographical Information of Local Chiefs

**Age** This variable refers to the ages of local chiefs at the time when turnovers happened. On average, local chiefs left their current position at the age of 52 or so (52.11 for Hubei and 51.78 for Zhejiang). In total, 75% of them are younger than 55.67 when moving to another position, almost five years before the compulsory retirement age. In another word, career-wise, most prefectural chiefs were still in their peak career time and the aspiration for career advancement should be high.

**Education** As mentioned in last chapter, education fraudulency could be pervasive among China’s local chiefs. In this sample, I code separately the “first degrees” and the “reported degrees” of local chiefs based on their resumes. By “reported degree,” I mean the education level seen in the one’s official biography; And for the “first degree,” it is the education one received before becoming an influential local official, which should always be lower than (or equal to) the “reported degree..” For example, Li Xiansheng, party secretary of Shiyan (Aug 1999 - Apr 2002), is reported to have a PhD in history;

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<sup>11</sup> Bo, 2004

however, his resume shows that he graduated from a three-year program in Wuhan Teachers' College from Jan 1977 to Jan 1980 after which he started on a political track and never left to be a full-time student. I therefore code his first degree as "junior college" and his reported degree as "graduate."

On a discrete scale of "0-3," i.e. from "high school and below" to "graduate," the average first degree of local chiefs in these Hubei and Zhejiang are 1.32 and 1.18, respectively, that is, a little bit over "junior college." In contrast, the average reported degree are 1.91 and 2.01, respectively, that is, almost "four-year college."

Mean-comparison test shows significant difference between the "first degree" and the "reported degree" ( $t=12.31$ ). Although part of this difference could be accounted for by avocational education, it is more likely that they obtained those later degrees *because* their officials' positions.

**Local** Prefectural chiefs in this sample are considered as "local" if they take office in the prefecture in which they grew up. Less than a quarter of all the prefectural chiefs in my sample worked locally according to this standard (22% in Hubei and 25% in Zhejiang). Therefore, localism, if existed, should not have stemmed from the primordial relations based on "native places."

**Gender, Ethnicity, Party Membership** Other biographical information includes the local chiefs' gender, ethnicity and party membership. It turns out that local chiefs in my sample are highly homogenous in these aspects. All local chiefs, party

secretary and mayors alike, are CCP members with no exception; only in five out of 309 cases are there female local chiefs<sup>12</sup>; only eight cases have local chiefs that are non-Han minorities, 6 of which are at Enshi, an “ethnic autonomous prefecture”<sup>13</sup> of Hubei. It seems that the anecdotal saying about the expressway of promotion for “non-partisan, intellectuals, minority and female”<sup>14</sup> does not apply for this sample of local chiefs. And because of the small variations of these variables, I do not include them in the statistic analysis later.

### 3) Performance indicators of local chiefs

In this study, I use three prefectural socio-economic statistics in average form during local chiefs’ tenures as their performance indicators, i.e. the average GDP growth

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<sup>12</sup> Five female local chiefs in my sample: Yuan shiming, mayor of Huzhou (Mar 1991-Apr 1995), Jiang Daguo, mayor of Ezhou (Nov 1998 – Feb 2000), Shen Yueyue, party secretary of Shaoxing (Mar 1997 to Dec 1998), Ge Hujun, mayor of Jinhua (Mar 2005- July 2007), and Qu Sufen, mayor of Taizhou, (Mar 2002 to Nov 2004).

<sup>13</sup> China set up “ethnic autonomous government” in minority populated area. There are totally 30 such autonomous governments at prefecture level. My sample contains only one of them, Enshi Tujia and Miao Ethnical Autonomous Prefecture. Common practice is that at least one of the chiefs in this autonomous region is from the ethnic group. The two other cases of ethnic minorities being local chiefs are Zhong Xiaomao, mayor of Lishui (Nov 1997- Dec 1999) and Bayin Chaolu, party secretary of Ningbo (Nov 2003 to now).

<sup>14</sup> The abbreviated version of these four words in Chinese is “Wu, Zhi, Shao, Nu,” which constitute one word with the meaning of “innocent girls” and is used as a funny homonym to summarize recent trends in cadres’ selection.



rate, the average prefectural share of Provincial GDP, and the growth rate of Cultivated Land. Table 3- 4 summarizes the annual statistics of these three indicators and the descriptive statistics of them in Table 3- 1 are those averaged for each local chief.<sup>15</sup>

**Average GDP growth rate** This is the most important indicator of the local economic development, and hence the direct measurement of local chiefs' achievement in promoting local economic growth. As mentioned in Chapter 2, this is also usually the foremost and "hard" target set for governments at various levels. Table 3- 4 shows that Zhejiang province has a significantly higher annual GDP growth rate than that of Hubei province ( $t=2.21$ ) and Table 3-1 shows that this significant difference carries on after the statistics are averaged for each local chief. (11.87% for Hubei and 13.42% for Zhejiang,  $t=2.40$ ).

**Average Prefectural share of Provincial GDP** This variable means to measure the "economic weight" each prefecture has in the provincial economy, which indicates the complexity and the difficulties that local chiefs faced in promoting local economic growth. Therefore, for local chiefs governing prefectures of larger economic weight, although taking positions of same ranks with others governing prefectures of smaller

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<sup>15</sup> As the annual data are all year-end statistics while cadres can come and go at any time during certain year, I count the year as one's "performance year" if he has worked as local chiefs at that location for more than four months (1/3) of that year. For example, Miao Helin, mayor of Jingmen from Sep 1990 to Jan 1996, the years counted as his performance years are then from 1991 to 1995.

economic weights, their achievement would be appraised higher if a similar GDP growth rate is obtained.

Compared to the average GDP growth rate that could fluctuate from year to year, the prefectural share of provincial GDP is relatively stable across years. Take Wenzhou city as an example, its GDP growth rate from 1983 to 2006 ranged from .63% to 42.65% (mean=16.09%, st.dv=8.50%), in contrast, its GDP share has been relatively stable between 8.89% and 12.54% across years (mean=10.74%, st. dv. =1.30%).

Both provinces in this sample have “deputy-provincial level” city status, i.e. Wuhan in Hubei, Hangzhou and Ningbo in Zhejiang, which are much larger than other prefectural-level cities. The existence of these “super” prefectures might attenuate the inter-prefectural variances among other smaller prefectures, which would be addressed later in the statistical analysis. For Wuhan, it could account for as much as 34.32% of Hubei provincial GDP and the average is 26.88%, leaving the prefectural city second to it with an average GDP share of 11.31%. In contrast, the distribution of prefectural GDP shares in Zhejiang is relatively evener than that of Hubei. On average, Hangzhou and Ningbo account for 21.31% and 17.34% of provincial GDP, respectively, with the third largest prefecture for 10.74% (Wenzhou).

**Average Growth Rate of Cultivated Land** This variable is chosen as an example of local chiefs’ performances in policy issues other than local economic growth. As the principle of land policy was stipulated as “to value land highly, use land rationally

and protect cultivated land effectively” and specific targets were often set for the protection of cultivated land, the desirable policy behaviors therefore should have led to relatively slow decrease, if not increase, of the cultivated lands. However, both provinces have seen significant decrease rates: -.85% for Hubei and -.58% for Zhejiang without significant cross-provincial difference. A significantly negative correlation between this growth rate and the one of GDP is found ( $r=-.398$ ,  $-.200$  for Zhejiang and Hubei, respectively, and both significant at 0.001 level<sup>16</sup>), which implies the innate conflict between these two commendable goals.

*Table 3- 4 Annual Performance (by each year and prefecture)*

	GDP Growth Rate		Prefecture share of Provincial GDP		Growth Rate of Cultivated Land	
	Hubei	Zhejiang	Hubei	Zhejiang	Hubei	Zhejiang
Province						
Mean	11.59	13.61	7.4	9.2	-.85	-.58
St. Err.	.54	.44	/	/	.21	.06
Min	-16.32	-5.80	1.11	1.67	-27.22	-5.21
Max	81.21	42.64	34.32	23.35	39.77	3.98
Median	10.1	12.98	5.07	8.61	-.80	-.58
N	313	262	315	262	319	262
Mean-Comparison	t-value=-2.21		/		t-value=-1.15	

#### 4) Period Dummy

A time dummy is created to capture the changes in promotion practices across time. Because the political turnover of local chiefs could happen at anytime, it is hard to have a clear-cut demarcation of different periods of promotion practice. An alternative way is to

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<sup>16</sup> the added value of land in a more developed area should be higher

demarcate based on the turnover of the provincial party committee, with the assumption that each provincial committee has held consistent promotion principles in its five-year term between two Party Congresses. This assumption could be partly supported by the facts that the turnovers of provincial chiefs are much less frequent than those at prefectural levels, for example, in the 24 years covered by the research, Hubei has only four different provincial party secretaries and Zhejiang has five<sup>17</sup>, and it is likely that same leaders would maintain their personal preferences in selecting prefectural chiefs.

Therefore, the opening of each provincial Party Congress in which a new provincial party committee came into being and provincial chiefs were elected is used as the dividing point of periods in this research. Fortunately, the two provinces, Zhejiang and Hubei, had their provincial Party Congresses convened around the same time during reform era<sup>18</sup>, i.e. Dec 1983, Dec 1988, Dec 1993, Dec 1998 and Jun 2002<sup>19</sup>, which thus resulted in five time periods demarcated, from 1983 to 1988, 1989 to 1993, 1994 to 1998,

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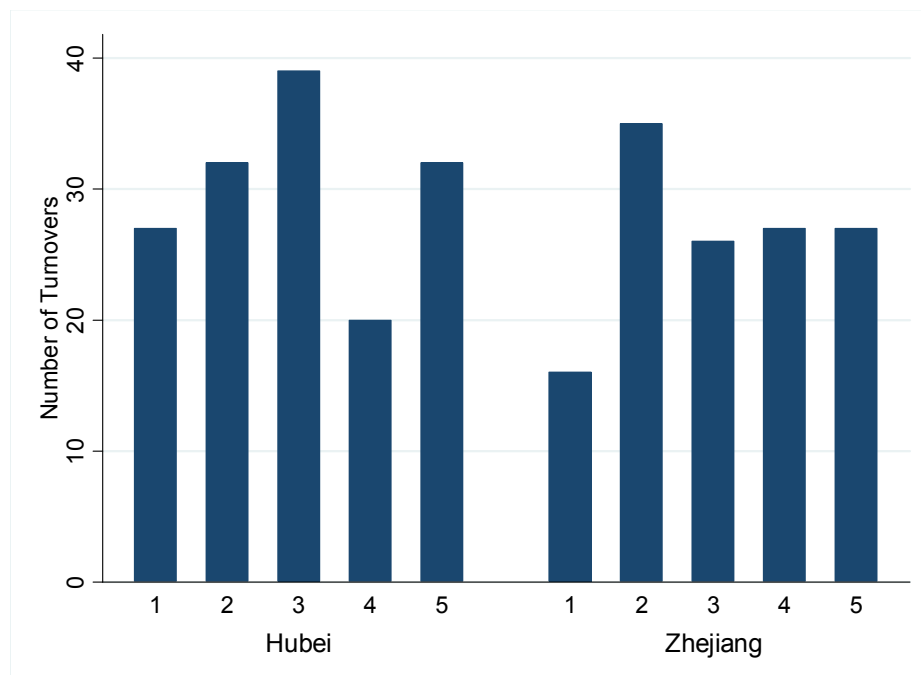
<sup>17</sup> Hubei: Guan Guangfu, (1983-1994), Jia Zhijie (1994-2000), Jiang Zhuping (2000-2001), Yu Zhengsheng 2001-2007); Zhejiang: Wang Fang (1983-1987), Xue Ju (1987-1988), Li Zemin (1989-1998), Zhang Dejiang (1998-2002), Xi Jinping (2002-2007)

<sup>18</sup> Not always the case. For example, Hunan had their provincial Congress in 1977, 1985, 1990, 1995, 2001

<sup>19</sup> Local provincial Party Congress was convened earlier in 2002, before the 16<sup>th</sup> National Party Congress was convened in Nov 2002, which is against the tradition. I guess it was the transition from Jiang, Zemin to Hu, Jintao in 16<sup>th</sup> Congress that necessitated the earlier provincial Congress in which personnel at local levels were decided before Hu officially took his position.

1999 to 2002 and after 2002. Figure 3-1 shows the frequency of turnovers of prefectural chiefs at each period in Hubei and Zhejiang.

*Figure 3- 1 Frequency of Political Turnovers at Each Period in Hubei and Zhejiang*



*Source: Author's Dataset*

### 5) Summary of Descriptive Statistics

To sum up, the descriptive statistics above show some characteristics of the careers and performance of local chiefs.

First, downward mobility is generally weak for the local chiefs in China. Apparent demotion for active cadres is rare and the primary reason for demotion is retirement: some gets a preferable and honorable retirement (e.g. retired to the “second-line” but with a nominal promotion in ranks) while others do not.

Second, prefectural chiefs usually had tenures in one prefecture for much less than the formal term. And when they left the prefectural chief position, most of them are still young and eligible for further promotion. Inflation of education on paper has been pervasive and most prefectural chiefs are “overqualified” in education.

Third, for the past experiences, most prefectural chiefs had experiences of generalists and technocrats have taken a big share, but certainly not majority, of this sample of prefectural chiefs.

Fourth, no evidence was found to support the claimed “localism” based on “native place”; however, more than half of prefectural chiefs were promoted from those who had already worked in the same prefecture.

Five, although cross-provincial difference in prefectural chiefs’ personal characteristics was generally small, they did differ from each other in the performance of promoting local economic growth: Those in Zhejiang had a better performance, measured by average GDP growth rate, than their counterparts in Hubei.

Finally, undesirable performance in protecting cultivated land is observed in both provinces. The negative relation between the GDP growth and land protection suggests the innate conflicts between these commendable policy goals.

## **Model and Results**

### **Ordinal Logistic model**

An ordinal logistic model is employed in this research to study the promotion practice in these two provinces. The dependent variable is the political turnover of prefectural chiefs and the independent variables are their personal characteristics, their performance indicators and period dummies as listed above. And the model is,

$$\Pr(\textit{turnover} = m | x) = \Lambda(\hat{\tau}_m - x_i\beta) - \Lambda(\hat{\tau}_{m-1} - x_i\beta), \quad m \in [-2,2] \quad (4.1)$$

in which,

$$XB = X_1B_1 + X_2B_2 + X_3B_3 + X_4B_4 \quad (4.2)$$

$X_1$ , Biographic variables: Age, Education, Local;

$X_2$ , Career variables: Previous turnovers, Previous locations, and Past experience;

$X_3$ , Performance variables: GDP growth rate, Prefecture share of provincial GDP,

Cultivated land growth rate;

$X_4$ , Time Dummy;

$\Lambda$ , Cumulative density function for logistic distribution

$\hat{\tau}_m$ , Estimated “cutpoint” between turnover categories  $m-1$  and  $m$ .<sup>20</sup>

Based on the conjecture that promotion practice rewarded performances in promoting local economic growth while neglecting others, three working hypotheses are specified as:

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<sup>20</sup> Danielle L. Fettes, Categorical Data Analysis course package, ICPSR, Summer 2005; pp89.

Hypothesis 2-1:  $\beta_{GDP\_growth} > 0$

That is, average GDP growth rate during prefectural chiefs' tenure should be positively related with their promotion probabilities;

Hypothesis 2-2:  $\beta_{GDP\_Share} > 0$

That is, average prefectural share of provincial GDP should be positively related with the prefectural chiefs' promotion probabilities;

Hypothesis 2-3:  $\beta_{Cultivatedland\_growth} = 0$

That is, average growth rate of cultivated land during prefectural chiefs' tenure should be irrelevant (if not negatively related) with their promotion probabilities;

## **Results**

Table 3- 5 presents the result of ordinal logistic analysis on separate provincial sample.



Table 3- 5 Promotion Practice: Cross-Provincial Evidence

Model 1:	Hubei	Zhejiang
Secretary: (party secretary=1, mayor=0)	1.67*** [0.45]	1.64*** [0.46]
Age: (Age when turnover happened)	-0.11** [0.05]	-0.32*** [0.06]
Tenure: (Years in office)	-0.13 [0.09]	-0.07 [0.12]
Education: (Reported Degree)	0.40* [0.24]	-0.39 [0.27]
Local: (Local=1, non-local=0)	0.28 [0.42]	-0.66 [0.49]
Previous Turnover:	0.18 [0.33]	-0.4 [0.38]
Previous Location:	-0.06 [0.47]	-1.04** [0.47]
GDP Growth Rate: (%)	-0.01 [0.03]	0.11** [0.05]
Prefecture Share of Provincial GDP: (%)	0.08*** [0.03]	0.05 [0.04]
Cultivated Land Growth: (%)	-0.07 [0.07]	-0.07 [0.35]
Period 2: 1989-1993	-0.2 [0.63]	0.65 [0.78]
Period 3: 1994-1998	-0.97 [0.64]	-0.03 [0.79]
Period 4: 1999-2002	-0.23 [0.69]	2.00** [0.86]
Period 5: 2003-2006	-1.1 [0.76]	0.79 [0.87]
Observations	135	106

1. Standard errors in brackets 2. \* significant .1; \*\* significant at .05; \*\*\* significant at .001

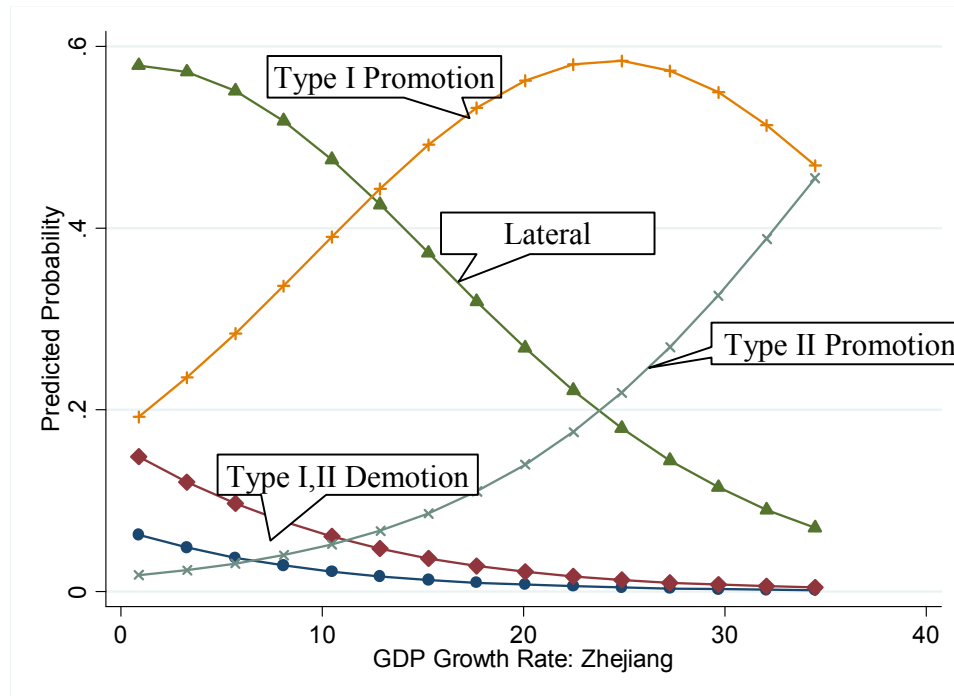
### 1) Promotion and GDP Growth Rate

For the relation between GDP growth rate and promotion, cross-provincial difference is found.

For Zhejiang, the achievement in promoting local economic growth, measured by the average GDP growth rate, has been a positive contributor (significant at 0.05 level) for local chiefs' promotion. Figure 3-2 shows how the probability of each turnover type

changes with the increase of GDP growth rate. Generally, positive relations are observed, i.e. higher prefectural GDP growth rate predicts a higher chance of prefectural chiefs to be promoted and smaller chance to be demoted. Specifically, the probability of Type I and Type II promotion both increase together with the increase of GDP growth rate in the lower range. The curve of Type I promotion flattens and reverses when the probability of Type II promotion increases faster together with the increase of GDP growth rate in the higher range. That is, in Zhejiang, moderate GDP growth rate has generally helped increase the probability of prefectural chiefs being promoted, and superb performance, i.e. exceptional GDP growth rate has increased the probability of some significant promotion. For example, for a Zhejiang local chief, with every other variable at average, if he can lift the GDP growth rate at his jurisdiction from 10.5% (about 43 percentile) to 20% (about 85 percentile), his chance to get a Type I promotion will increase from 39% to 56% and the chance for a Type II promotion from 5% to 14%. And for a local chief who already had a 20% GDP growth rate in his prefecture, his chances to get a Type II promotion will increase sharply from 14% to 33% if he manages to obtain a 30% GDP growth rate. As the chance of demotion for local chiefs are generally low, the effect of higher GDP growth rate in preventing demotion are much less visible in Figure 3-2. Predicted values show that the chance of Type II demotion will decrease from 2% to 0.7% and the one of Type I demotion from 6% to 2% if local GDP growth rate increases from 10.5% to 20%.

Figure 3- 2 Predicted Probabilities of Turnovers vs. GDP Growth Rate: Zhejiang



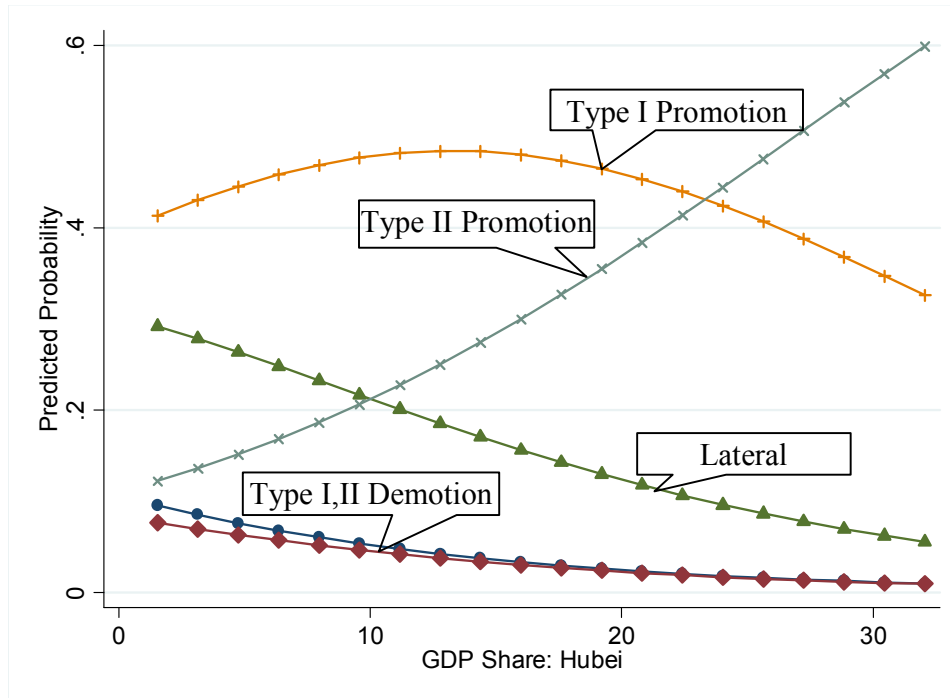
This positive relation between local GDP growth rate and prefectural chiefs' promotion is not found in Hubei as hypothesized above. Even if performance in economic development is also the most important political achievement in the eyes of Hubei provincial leaders, it should not have been measured by the GDP growth rate.

## 2) Promotion and Prefectural GDP share

Results in Table 3- 5 show that another variable related with local economic development, i.e. prefectural share of provincial GDP, has been a positive factor for the prefectural chiefs' promotion in Hubei. Again, cross-provincial difference exists as no such relation is found in Zhejiang.

Figure 3- 3 illustrates the positive relation between prefectural GDP share and promotion probability in Hubei. The curves of “Type I promotion” and “Type II promotion” show that the increase of GDP share at the lower end, i.e. from smaller share to middle share, would increase the probability of both Type II and Type I promotion; while the increase at higher end would increase sharply the chance of Type II promotion. For example, let us compare the predicted probability of each turnover type of a local chief in a prefecture with GDP share of 2.20 (Average of Ezhou) and the other in prefecture of 11.31 (Average of Xiangfan) with all other variables hold constant. Although they have the same rank of “prefecture level,” the chance for the former to have a Type II promotion is 12.78% while for the latter is 22.95%; and to have a Type I promotion are 42.09% and 48.25%; a Type II demotion are 9.12% and 4.70%, and a Type I demotion are 7.36% and 4.15%, respectively. Succinctly put, those at prefectures with larger “economic weight” are more (less) likely to be promoted (demoted) than those with smaller ones.

Figure 3- 3 Predicted Probabilities of Turnovers vs. Prefecture GDP Share: Hubei



### 3) Promotion and Cultivated-land Protection

In contrast with the variables related with economic development, the growth rate of cultivated lands, as a fulfillment indicator of the commendable policy goal of land protection, is found irrelevant with the prefectural chiefs' promotion. And the minus sign of the coefficient even suggests that the increase of cultivated lands had a negative, though insignificant, impact on the promotion prospect of local chiefs.

### 4) Promotion and other factors

Several other findings of this model are worth noting here. Age is a negative factor for promotion (significant at 5% level). Longer tenure might be a minus, but not a

significant one<sup>21</sup>. Education degree is important in Hubei while Zhejiang seems to look down upon it. Cadres growing up locally have not enjoyed local advantage over others. And for Zhejiang local chiefs, having been working two posts consecutively at one prefecture is a significant disadvantage for promotions. No clear pattern is observed on time factors except in Zhejiang province from 1999 to 2002 which saw a generally higher promotion probability for prefectural chiefs.

### **Sensitivity Test**

Three sensitivity tests are carried out to test the robustness of the results above. First, I change the coding of the dependent variable from five-way (2, 1, 0, -1, -2) to three-way (1, 0, -1) as the five-way coding tends to exaggerate systematically the normal promotion of party secretaries. Second, I exclude the Wuhan cases as this “super” prefecture accounts for more than one quarter of Hubei and could have contributed disproportionately to the positive relation between prefecture GDP shares and promotion in Hubei. Third, I added the dummy variables of past experiences of prefectural chiefs to see whether the results still hold. And as the sample size shrinks because of the missing data problem in these dummies, the results above, had they been not robust, would have been much less significant.

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<sup>21</sup> Zhang and Gao (2008) found there is a parabolic relation between the tenure of local officials and their promotion, i.e. positive relation when the tenure is short but negative when the tenure is too long.

*Table 3-6* presents the results of these sensitivity tests. After the dependent variable is replaced by three-way turnover, one obvious change in the result is that the “secretary” dummy is not significant anymore, which proves that at least part of the promotion advantage of secretary shown in Model 1 is due to coding method. Local GDP growth rate is still a significantly positive factor to one’s promotion prospect in Zhejiang. Interestingly, GDP share also comes out as a significant positive factor now in Zhejiang. That is, with similar growth rate, local chiefs at larger, GDP-wise, prefectures also have better chance to get promoted. For the Hubei sample, the significance of GDP share decreases after the 5-way turnover is replaced. However, after all Wuhan cases are dropped, this variable is significant again. In other words, the rule of “larger prefectures better promotion prospects” has been more significant in those Hubei prefectures other than Wuhan, which runs contrary to the suspicions stated above. Looking into the ten cases of Wuhan prefecture chiefs, I find that although these local chiefs indeed have better promotion prospect (five with Type II promotion and no demotion at all), their difference in promotions prospect from the local chiefs in other prefectures are not as dramaticas the GDP shares are. As a result, if there is any confounding effect of Wuhan cases on the relation between prefectural GDP shares and local chiefs’ promotion prospect, it has probably diminished its significance level.

Finally, after previous experiences dummies are included, the relation between economic development indicators and the local chiefs’ promotion prospects shown in Model 1 are still robust and the growth rate of cultivated land actually becomes a negative

factor for prefectural chiefs' promotion in Hubei. For the experience dummies themselves, the statistical analysis returns with some interesting results, some of which conforms to the conventional wisdom while others are against it.

First, previous experiences in party apparatus are a significant plus for promotion, which could be attributed to either the better calibers of the officials working in these more important functionary organs or better "connection" network they had nurtured while working in the local decision making body.

Second, experience in school is a highly significant contributor to promotion. While the variable of "Education" has not returned with unequivocal positive effect, the better promotion prospects of cadres with school experiences provide some evidence about the positive relation between "being educated" and promotion. Also, as mentioned above, the skill compatibility between school teachers and local officials might account for the success of those former teachers.

Third, the experience in Youth League has been a significant plus in Hubei but not in Zhejiang, which is somehow contrary to the argument about the so-called "Youth League Group." One possible explanation is that most of my observations are before 2000 while the group only rose to power in 2002: It is possible that the Young League experience matters significantly after that but certainly had less significance prior to 2002.

Fourth, interestingly, the "industry" dummies are not significant at all. With the fact in mind that industry experience is the most common apolitical experience among local



chiefs, this result could suggest that although some technocrats were co-opted into the system, their chances for getting promoted to higher positions were not necessarily higher than others as far as prefectural chiefs are concerned.

Table 3- 6 Results of Sensitivity Tests

	Turnover Five-way		Hubei without Wuhan		Previous Career	
	Hubei	Zhejiang	5-way	3-way	Hubei	Zhejiang
Secretary:	0.48	0.51	1.67***	0.28	2.09***	1.44**
	[0.48]	[0.55]	[0.48]	[0.53]	[0.57]	[0.60]
Age:	-0.07	-0.47***	-0.11*	-0.05	-0.06	-0.37***
	[0.06]	[0.09]	[0.06]	[0.06]	[0.07]	[0.09]
Tenure:	-0.13	-0.11	-0.13	-0.13	-0.2	0.11
	[0.10]	[0.14]	[0.10]	[0.12]	[0.13]	[0.14]
Education:	0.37	-1.22***	0.50**	0.47*	0.71**	-0.57
	[0.25]	[0.42]	[0.25]	[0.27]	[0.32]	[0.35]
Local:	0.42	-1.01*	0.18	0.12	-0.58	-1.28*
	[0.46]	[0.56]	[0.46]	[0.52]	[0.55]	[0.67]
Previous Turnover:	0.03	-0.91*	0.05	-0.2	0.65	-0.75
	[0.38]	[0.52]	[0.34]	[0.41]	[0.43]	[0.48]
Previous Location:	-0.1	-0.8	0.01	-0.01	0.13	-1.41**
	[0.52]	[0.59]	[0.51]	[0.60]	[0.57]	[0.58]
Vertical					-0.51	0.87
					[0.49]	[0.57]
Horizontal					1.32**	1.23
					[0.57]	[0.96]
Grass-Root					-0.2	0.49
					[0.54]	[0.74]
Party					0.93*	1.26**
					[0.55]	[0.57]
Protégé					0.27	0.64
					[0.59]	[0.63]
Industry					-0.35	0.28
					[0.50]	[0.64]
School					2.00***	1.33**
					[0.63]	[0.62]
Youth League					1.43**	0.42
					[0.66]	[0.70]
Cultivated Land Growth	-0.1	-0.22	-0.07	-0.09	-0.13*	-0.22
	[0.08]	[0.44]	[0.07]	[0.08]	[0.07]	[0.42]
GDP Share	0.04	0.11**	0.13**	0.13**	0.07*	0.01
	[0.03]	[0.05]	[0.05]	[0.06]	[0.03]	[0.05]
GDP Growth Rate	0.02	0.11**	0	0.02	-0.06	0.20***
	[0.04]	[0.06]	[0.04]	[0.04]	[0.04]	[0.06]
Period 2: 1989-1993	0.21	0.96	0.15	0.51	-0.1	0.3
	[0.67]	[0.87]	[0.66]	[0.69]	[0.77]	[0.97]
Period 3: 1994-1998	-0.54	0.21	-1.03	-0.68	-0.52	-1.09
	[0.68]	[0.91]	[0.69]	[0.74]	[0.89]	[1.14]
Period 4: 1999-2002	0.61	3.13***	-0.17	0.8	0.03	1.39
	[0.81]	[1.17]	[0.74]	[0.89]	[0.92]	[1.15]
Period 5: 2003-2006	-0.6	1.91	-0.78	-0.51	-1.01	0.11
	[0.81]	[1.17]	[0.82]	[0.89]	[0.95]	[1.16]
Observations	135	106	125	125	109	89

1. Standard errors in brackets 2. \* significant .1; \*\* significant at .05; \*\*\* significant at .001

### ***Promotion Practice and Political Incentives***

Statistical results above have largely confirmed the hypotheses posed above about the promotion practices. That is, performance in economic developments measured either by GDP growth rates or by prefectural shares of provincial GDP has been a positive contributor for the promotion of prefectural chiefs; in contrast, performance in the protection of cultivated land has been an irrelevant factor.

From the standpoint of prefectural chiefs, this rewarding pattern in previous promotion practices would constitute the basis for them to learn about the political incentives sent from above. As the performance in economic development has been rewarded consistently, it is then rational for them to endeavor to present excellent performance in this matter. By the same token, as the performance (underperformance) in policy issues like the protection of cultivated land has not been systematically rewarded (punished), prefectural chiefs are therefore expected to neglect them. And even more, since the fulfillment of the policy goals in cultivated land protection might affect negatively the performance in economic growth, the neglect of the former is also necessary for local chiefs to pursue the political rewards based on good performance on the latter.

One thing worth further discussion here is the difference between the promotion practices stressing GDP growth rate, i.e. the Zhejiang cases and those stressing prefectural shares of provincial GDP, i.e. the Hubei cases. Although both are indicators

of local economic development, the former is an incremental measure which could vary greatly across different times for one prefecture, while the latter is a cumulative measure in the sense that it could not vary significantly in a short time. Empirical data also made this difference clear. Table 3- 7 listed all provincial “champions” of GDP growth rate from 1983 to 2006, which shows that many prefectures (11 out of 18 in Hubei and 8 out of 12 in Zhejiang), despite their different development levels, have taken the lead at least once. In contrast, the ranking of prefectural GDP share in both provinces are pretty much stable as Wuhan and Hangzhou have been the number one in Hubei and Zhejiang, respectively, for more than two decades. Persistent difference in growth rates could indeed accumulate into some significant changes in the long run, and the largest variation is observed in the case of Jiaxing city of Zhejiang, which had been as high as number 3 in 1980s but now lingered around 6 or 7 from 1990s. Except this one, however, most other changes in prefectural share have been small.

*Table 3- 7 Economic Growth Champions by GDP growth rate: 1983-2006*

	1983	1984	1985	1986	1987	1988	1989	1990
<u>Hubei</u>	Yichang*	Xiaogan	Shiyan*	Ezhou	Shiyan*	Yichang*	Yunyang	Ezhou
<u>Zhejiang</u>	Ningbo	Wenzhou	Shaoxing	Jiaxing	Taizhou	Taizhou	Taizhou	Jinhua
	1991	1992	1993	1994	1995	1996	1997	1998
<u>Hubei</u>	Shiyan*	Shiyan*	Ezhou	Xiangfan	Jingmen	Ezhou	Jingmen	Xiaogan
<u>Zhejiang</u>	Ningbo	Wenzhou	Wenzhou	Taizhou	Jinhua	Wenzhou	Wenzhou	Wenzhou
	1999	2000	2001	2002	2003	2004	2005	2006
<u>Hubei</u>	Wuhan	Wuhan	Shiyan	Shiyan	Wuhan	Yichang	Wuhan	Wuhan
<u>Zhejiang</u>	Wenzhou	Wenzhou	Lishui	Taizhou	Jiaxing	Zhoushan	Zhoushan	Zhoushan

\* Prefectural-level city before being combined with the prefectures of the same name

*Source: Author's dataset*

This difference has significant implication on the political incentives faced by the prefectural chiefs in Zhejiang and Hubei, respectively. As the GDP growth rate is less determined by previous conditions, local chiefs can expect to accomplish an excelling “achievement” through their policy behaviors and may even be able to become a “growth champion” in a less-developed prefecture such as Xiaogan of Hubei did in 1998 and Lishui of Zhejiang did in 2001. In contrast, local chiefs have a much slimmer chance to increase the prefecture’s share in a notable way, especially considering their often short term in office. For a rational local chief,” it would be much easier to have himself transferred to another prefecture with much higher GDP shares instead of trying to accomplish this mission which was impossible at his current jurisdiction.

Put differently, the competition rewarding the GDP growth rate is indeed a “championship tournament” about speed: governing a prefecture, big or small, all prefectural chiefs are put on same start line and it is the one faster who wins the rewards, i.e. promotion. For the competition rewarding those local chiefs in “larger” prefectures, it is more like a discriminate arrangement of inheritance rights in which the order has been predetermined at birth (GDP share) and it is the “older brother” who takes over the family treasure first. The moral of these two metaphors is clear. While players in the championship of GDP growth should focus on techniques and strategies (of course, some small tricks dealing with the umpires, the provincial authority in this case) to outrun their competitors, the royal brothers fighting for the throne should work hard to gain the favors of the outgoing father king. Incentive wise, the promotion mechanism rewarding faster

GDP growth rate should therefore induce more enthusiasm in pursuing economic development than the one rewarding prefectural GDP shares.

Pursuing this difference even further, one might find it questionable to take this variable of prefectural GDP share as an appropriate indicator for local chiefs' performance in promoting local economic growth. It is quite possible that the provincial leaders in Hubei handpicked their clients to prefectures with larger GDP shares and therefore *gave* them a desirable merit, i.e. governing larger prefectures, for future promotion. Should it be the case, the yardstick effects of rewarding this desirable merit would have been unfounded: If the merit was "given to" rather than "earned by" local chiefs through their performance in promoting local economic development, there is no motive for them to pursue the "mindless development" and sacrifice those other commendable policy goals. To counter this challenge, I provide several supplementary explanations as follows.

First, it is possible that local chiefs governing larger prefectures were given this chance because of their previous excelling performance in other smaller prefectures. Chief positions in those larger prefectures are literally a "waiting area" for further promotion. Rigidity in promotion is observed: one can only be promoted after having experience governing larger prefectures. However, the lateral transfer from smaller to larger prefectures, which I coded as "lateral," could be used as a *de facto* promotion for those over-achievers in promoting local economic growth. Although the rigidity lengthened the rewarding process, it is still the achievement in promoting local economic

growth to be rewarded. Systematic proof of this explanation will be pursued in further research and some individual examples could lend additional credibility to it at this stage. Take Wu Huapin as example. In his seven years being party secretary of Ezhou, one of the smallest prefectures of Hubei, the prefectural GDP growth rate had been provincial champions for three times (See Table 3-7). However, his promotion did not come until he served for another 18 months as secretary of a larger prefecture of Huangshi.

Second, although GDP growth rate has not been found as a significant positive factor for promotions in Hubei, it is possible that good GDP growth rate might help reduce the probability that one get demoted. A multi-nominal logistical analysis on Hubei sample has confirmed this conjecture<sup>22</sup>. Taking “lateral transfer” as base group, I find that the chance of prefectural chiefs being demoted is significantly smaller for local chiefs with better performance in GDP growth, *ceteris paribus*. That is, as those working in prefectures with higher GDP shares get a better chance in promotion, a better outlook of GDP growth rate helped local chiefs avoid demotions, which again makes the active pursuit of GDP growth a rational strategy for local chiefs.

Finally, rewarding those working in larger prefecture is, admittedly, a less merit-based incentives system as compared to the one rewarding those performing well with higher GDP growth rate. At the provincial level, it seems that the better practice in incentivizing prefectural chiefs to pursue GDP growth has been adopted in Zhejiang but

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<sup>22</sup> The multi-nominal analysis on Zhejiang sample did not converge.

not in Hubei. While how this cross-provincial difference in promotion practice has happened is beyond the scope of this research, different policy outcomes of these two provinces, both in provincial economic growth and in other commendable policy goals, provides an opportunity to further test the conjectured relation between political incentives and policy distortions. Specifically, if the distortion effect of political incentive indeed exists, the “better practice” adopted in Zhejiang should result in faster provincial economic growth as well as more severe policy distortions. Is it true? Basic knowledge about the development paths of these two provinces during the reform era will suffice for an affirmative answer to this question, and the next section will discuss more about it.

### ***One Miracle, Different Stories: Hubei and Zhejiang***

While the reform era has witnessed the impressive economic miracle in China, it is as impressive to observe the huge local variations in achieving this miracle. The comparison between Hubei and Zhejiang in their development path is especially revealing because of their similar starting point in the early PRC period and their alternation of leadership before and during the reform era.

*Figure 3-4* shows the GDP of Zhejiang and Hubei across the years from 1952 to 2008.<sup>23</sup> At 1952, the GDP of Hubei and Zhejiang were very similar to each other, 2.451

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<sup>23</sup> The y-axis is in logarithm form. The benefits using logarithm form here is to suppress the time-series variations and to show clearer the cross-provincial variation across time. Otherwise,



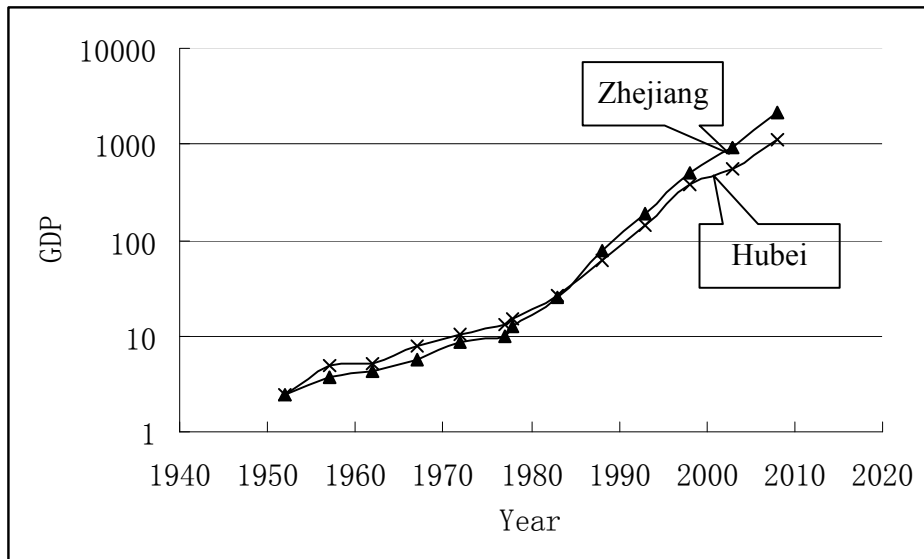
and 2.453 billion *yuan*, respectively. In the following socialist industrialization period Hubei was clearly the winner thanks both to the large number of native revolutionaries who survived the civil war before the PRC and to the “Third-Front” constructions in which large state-owned factories were moved into or created in inner-land and rural provinces in the fear of an imminent war. Zhejiang, on the contrary, the frontline province to Taiwan controlled by the KMT, was reasonably left behind in resource allocation and development priorities for the same reason that Hubei advanced during this period. As shown in the figure, the GDP line of Hubei surpassed Zhejiang consistently from 1952 to 1977.<sup>24</sup> In 1978, the GDP of these two provinces were 12.37 and 15.1 billion *yuan* with Hubei still at the top. However, the lead of Hubei disappeared very soon coming into reform era. Zhejiang caught up with and passed Hubei in the early 1980s and soon exceeded Hubei. In 2008, the GDP of Zhejiang was 2148.67 billion *yuan*, almost double of the 1130.04 of Hubei!

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the difference between two provinces in early years would be negligible as compared to the variations later.

<sup>24</sup> Other indicators also showed the advantages of Hubei in this period. The national ranking of Hubei’s GDP per capita rose from 19 in 1952 to as high as 11 in 1966 before slipping back to 14 in 1978, while Zhejiang’s ranking lingered around the median and was 15 in 1978, immediately after Hubei, See Dong, Xian’an (2008), [http://www.usc.cuhk.edu.hk/wk\\_wzdetails.asp?id=4226](http://www.usc.cuhk.edu.hk/wk_wzdetails.asp?id=4226)

Figure 3- 4 GDP: Hubei and Zhejiang (1952-2008)



Source: Hubei Statistic Yearbook, Zhejiang Statistic Yearbook.

The contrast of development outcomes of Zhejiang and Hubei is even clearer since Hubei province, from every aspect, is not really an inner-land and remote province without the proper endowment for economic development. Geographically it is located in the middle of the populated eastern part of China, with Yangtze River and Han River across the whole province. The convenient transportation had nurtured the development of markets, and Wuhan had been one of the most important business centers in China long before the foundation of the PRC. The quality of education in Hubei province is well known and the number of key universities and research labs puts it among the top five provinces in China. In a word, it seems that economic factors were not what went wrong in Hubei. If not, what should account for its eventual falling behind?

Several plausible explanations exist to answer this question, most of which still focused on the economic side of the story. First, as a coastal province, Zhejiang was privileged to develop an export-oriented economy which rendered possible the replication of success of those newly industrialized economies in China's Asian neighbors. Second, according to the path dependency theory, the factors that had hold back Zhejiang province during the planning economy era could turn out to be advantages in the new context of market economy. In contrast to Hubei, Zhejiang is free of historical burdens, both psychologically and material-wise. It could adopt market mechanisms much faster as it did not have much to lose; also, it did not have to worry about the large amount of inefficient SOEs, and need not allocate precious resources to keep them alive. Several interviewees in Zhejiang echoed this explanation. Third, as Solinger (1996) argued, the interference from the center had resulted in the laggard development of Wuhan, several interviewees mentioned that Zhejiang had benefited from the latitude granted to it: although no monetary support was granted to it, neither was the central interference.

Not aiming to totally discrediting these economic explanations, I introduce an additional political perspective to understand this remarkable cross-provincial difference. That is, promotion as the most effective instrument to incentivize prefectural chiefs, has been used in Zhejiang to reward those with achievements in promoting faster economic growth while the rigid promotion ethics based on *order* are still in effect in Hubei. Political incentives would then have prefectural chiefs pursue economic growth more enthusiastically in Zhejiang than those in Hubei, which then resulted in the enlarged

development gap between these two provinces that had previously been similar to each other.

Based on the main arguments of this chapter, that is, unbalanced political incentives resulting in distorted policy outcomes, a natural inference is that policy distortion would be more significant in Zhejiang than it was in Hubei, because the political incentives used in the former placed more emphasis on the GDP-growth rate. The changes of national ranking of competitiveness in different aspects of social-economic development for these two provinces from 1987 to 2004, as shown in *Table 3-8*, provide some evidence for this inference. As Zhejiang's ranking of economic development<sup>25</sup> rose from no.7 all the way to no.1, its ranking of environment fell from no.7 to no.12, and even once to no. 17 in 1992. In contrast, although Hubei's economic development fell quickly from no. 5 to no. 15, its ranking in environments was largely the same. More sophisticated empirical evidence to be found in the future, a pattern has already manifested itself here. That is, in province where more effective GDP-growth-centered political incentive was used, economic growth was faster as intended; however, the policy distortion in other commendable goals like environmental protection was also severer.

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<sup>25</sup> Including variables about GDP, Investment, Consumption and Market Development, see Xiao (2005), pp35.

*Table 3- 8: Change of Ranking in Regional Competitiveness*

Year	Hubei		Zhejiang	
	1987	2004	1987	2004
Overall	12	→ 11	8	→ 6
Economic development	5	→ 15	7	→ 1
Economic Openness	20	→ 11	12	→ 4
Industry Sectors	22	→ 15	7	→ 5
Governance	11	→ 22	9	→ 6
Infrastructure	28	→ 18	27	→ 5
Environment	15	→ 14	7	→ 12
Management	11	→ 13	18	→ 4
Science & Technology	7	→ 10	18	→ 9
Human Resource & Life Quality	10	→ 24	5	→ 3

*Source: Report of the development of China's Regional Economic Competitiveness (1984-2004)*

Although policy distortions were presented, this unbalanced “merit-based” political incentive system did not lose its attractiveness given the glaring economic achievements it has helped produce. In fact, Zhejiang has been a role model for local economic development in China in recent years<sup>26</sup>. While the enthusiastic pursuit of local economic growth being praised by the center and learned by other localities, the bold distortion to other commendable policy goals has also been encouraged.

### **Conclusion**

In this chapter, statistical analysis on the promotion practice of prefectural chiefs at Zhejiang and Hubei has yielded results confirming the argument that political incentives embedded in the promotion system are unbalanced. Most significantly, the performance in governing local economy has been an important factor for the local chiefs' promotion

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<sup>26</sup> See chapter 2 fn. 103

prospect. In contrast, the performance in other commendable goals, taking land protection as an example, did not matter that much. The moral hazard problem discussed in chapter 2 is therefore confirmed by this result. For the local chiefs, once their performance in governing the local economy was deemed to be good, their career prospect would not be affected by their “small errors” in other issues. In Zhejiang province, prefectural chiefs worked their way out based on this philosophy; at the national level, the Zhejiang province gained national cognition for the glaring economic growth induced by this philosophy. In conclusion, if those “small errors” later develop into serious policy distortion, the seeds have been sown by the top-down unbalanced political incentives.

Besides this affirmative finding, significant cross-provincial difference is also found between Hubei and Zhejiang. Admittedly, the best practice adapting to the context of “economic construction as the central task,” i.e. rewarding politically the pursuit of fast GDP growth, has not been adopted in both provinces. However, as shown by some rudimentary evidence, the “better adapter,” i.e. Zhejiang, has produced more policy distortions together with its unprecedented achievement in economic growth, which actually corroborates the relation between the unbalanced political incentives and distorted policy outcomes.

### **Appendix 3-1 Construction of the Dataset of local chiefs' career**

To track the political careers and biographical information of China's local chiefs is not an easy task as collections of their resumes are not available for general public.<sup>27</sup> One exceptional source often used by other researchers is the "China Urban Yearbook"<sup>28</sup> which provides a short bio for city mayors every year. Two limitations exist for this source. First, it only includes the data for mayors but not party secretary; second, information provided is often incomplete, especially for those after 1993<sup>29</sup>, and only includes name, gender, year of birth, education, and year taking current office, without any introduction to previous experiences. To compile my own dataset, I look through several other sources. The working procedure is as follows: I first find out all the names of local chiefs of all 23 prefecture units and order them based on the sequences they took

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<sup>27</sup> Recent years see regular and systematic disclosure of cadres' information together with other "publicity of political affairs" (*Zhengwu Gongkai*), especially through government website; however, detailed biographical information of previous local chiefs were seldom disclosed systematically.

<sup>28</sup> For example, Pierre Landry (2003, 2008), Li and Bachman (1989); the series was named "Yearbook of Chinese Urban Economy and Society" from 1985 to 1992 and changed to current name from 1993.

<sup>29</sup> An interesting observation is that information provided in 1980s was more complete than those of 1990s. Together with the name of the yearbook was shortened in 1993 (see fn.3), the bios of mayors were also compressed.

offices; I then search out widely for the resumes available to fill out the information for each of them.

For the name listing, major sources are “China Urban Yearbook (1985- )” which provides names for mayors, “Hubei Yearbook (1989- ),” “Zhejiang Yearbook (1992- )” which usually provides names for both secretaries and mayors in their introductions to each prefecture. Names for those cadres before the publications of these yearbooks are completed by “Organizational History of CCP at Hubei,” Vol.1 (1922-1987.11), Vol.2 (1987.11-1993.12), “Organizational History of CCP at Zhejiang,” (1922.4-1987, 12). In case that all these sources didnot list names of local chiefs in some year, local gazetteers are consulted<sup>30</sup>.

After all names are listed, I then search for their resumes. Resumes are usually easy to obtain online for those prefecture chiefs who were promoted to higher levels. For example, Wu Guanzheng, Wuhan mayor from Mar. 1983 to Oct. 1986 who was later promoted to be a standing member of Central Politburo, and Huang Xingguo, Taizhou party secretary from Dec. 1989 to July 1996, was later promoted to be Mayor of Tianjin Municipality (Province level). A similar convenience exists for cadres who are still active in their political careers as disclosure of personal information is more of a norm now. For others, especially those before 2000, the situations are much messier. One terrific internet forum is [www.chinajunzheng.com](http://www.chinajunzheng.com), in which resumes of China’s elites have been added

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<sup>30</sup> Special thanks to the complete and convenient collection of Universities Service Centre for China Studies at Chinese University of Hong Kong.



by anonymous contributors. Cross checking shows that the data there is quite credible.

Also, local gazetteers, history compilations of LPC and LPPCC sometimes has a special section to introduce then-local chiefs or those LPC or LPPCC leaders transferred from local chiefs positions. For example, the history of Zhejiang LPPCC provides resumes of Wu Renyuan, party secretary of Hangzhou from May 1987 to Jan 1993 and Sun Jiaxian, party secretary of Ningbo from Jun 1988 to Dec. 1989, both of whom are otherwise hard to find.

For others, I find that the search combination of cadres name and “alumni” is quite effective in getting information of these elites who are often deemed as honors of their alma maters. For example, Yang Yusa, mayor of Taizhou from Aug 1983 to Jan 1990, has his resume posted on the web site of Tiantai High School. Information of still others requires in-depth readings of multiple online search results, like yearly reports of public listed company with retired cadres as board member, obituaries, interviews, commercial who’s who, memoirs, etc. Direct consultation with local informants is also very helpful<sup>31</sup>. A very interesting example is Liao Yongxin, mayor of Huangshi from Jul. 1993 to Feb 1995, who disappeared totally after 1995. A quick communication with one local cadre in that city uncovers the mystery: he was drunk and had a stroke in a banquet, after which he retired without any public notice.

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<sup>31</sup> Thanks to Pierre Landry

With all these efforts, I could fill most of the 309 blanks with different levels of details. One rare exception is Wu Tao, party secretary of Yunyang prefecture from Oct 1983 to Mar 1987. No official documents are found recording his personal information, and his name is too common in China, which made futile the online search.

The compilation of performance data is much easier. Major sources used include, Forty Years of Hubei (1949-1989), Hubei Statistical Yearbook (1989-2007), Fifty Years of Zhejiang (1949-1998), Zhejiang Statistical Yearbook (1999-2007).

## Chapter 4 Despite Political Clout: The Shackled Center and the Failure of Deterrence

*“Toushu Jiqi: Hesitate to pelt a rat for fear of smashing the dishes”*

---A Chinese idiom

The discussion so far has been a one-sided story about how unbalanced political incentives have influenced policy behaviors of the local officials. Distancing from the dispute over local chiefs being “benevolent” or “perverse,” I attribute the pervasive policy distortion to the unbalanced political incentives that had “induced” policy behaviors of local chiefs. An immediate question to this argument is then: why has the central government and superiors at various levels not utilized the political clout they have to induce desirable outcomes in those “other” important policy issues, if the political incentives have been so effective in inducing miraculous economic growth rate? For those refusing to work on some policy goals set from above, why do the superiors not “change the person if he does not change his mind?” (*buhuan sixiang jiu huanren*).

This chapter sets out to answer this question by focusing on the other side of the story about political incentives and policy outcomes. I argue that the seemingly powerful center as well as various superiors has been shackled by the internal conflict between the indirect management method and the all-inclusive governance goals. This conflict has

limited the willingness, ability and effectiveness of the center to sanction the local policy distortions, which led to the failure of the all-inclusive governance goals.

Before going into specific details, one fact that needs to be clarified is that the central government and the various superiors are not unaware of the reality of policy distortions as well as the policy behaviors that have led to these distortions. In many cases, the center actually *saw* the distortions but chose to *look* the other way and did not sanction them with the political clout it has.<sup>1</sup> Take land protection as example. Given the deteriorating situation in this issue, recent years have witnessed more investigation and punishment for the perpetrator of laws and regulations of land protection. For instance, in 2004, 114,526 violation cases concerning cultivated lands of 45,215.46 hectares have been investigated by the land management authority at various levels. However, only a very small portion of these cases, 1,003 (.88%) cases of 1,870.8 hectares (4.14%) ended up with charges against the governments at or above county levels.<sup>2</sup> Is this because the local government is largely innocent in this issue or the land management authority did not discover their perpetration? The answer provided by the chief of the Discipline & Enforcement Bureau of Ministry of Land & Resources seems to be negative. In several

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<sup>1</sup> “Information concealing” of local government to the center could well be an afterward and convenient accusation of local officials who had failed to conceal information from local people. In an interview with a correspondent of Xinhua news agency (Dec. 2006), he said, “In the eyes of leaders above, If you can conceal the information of that (i.e. social incidents), that’s the evidence of your ‘competence.’”

<sup>2</sup> Data from 2005 Chinese Land & Resource Yearbook

interviews he had with the public media, he admitted openly that that local government at various levels had “taken the leading role” in violating land protection regulations<sup>3</sup>. At the same time, the same bureau chief said that,

“In practice, the punishments were usually softer and lighter than they should have been...As far as the responsible individuals were concerned, we used to only come down to cadres at township and village levels; actually quite a few village cadres were punished...”<sup>4</sup>

What has been shown in these two parallel comments is clear: Culpability of local government was well observed but punishment was rarely applied to local officials. This is the puzzle this chapter aims to unravel.

In the following sections, I discuss one by one the willingness, ability and effectiveness of the central government in changing the current unbalanced political incentives. Five cases are used to show the dilemma the central government faces when it intends to wield its political clout to deal with the problem of policy distortion.

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<sup>3</sup> Zhang, Xinbao, in Press Conference on July 8, 2008; interviews with *21st Century Business Herald* on June 24, 2006; [http://news.xinhuanet.com/house/2008-07/09/content\\_8514124.htm](http://news.xinhuanet.com/house/2008-07/09/content_8514124.htm) and <http://www.southcn.com/news/CHINA/oldcn/200606250382.htm>

<sup>4</sup> Zhang, Xinbao in Press Conference on Sept. 17, 2007  
[http://www.gov.cn/wszb/zhibo150/content\\_751676.htm](http://www.gov.cn/wszb/zhibo150/content_751676.htm)

***The Lack of Willingness to Sanction: All-inclusive governance and the “Groping theory”***

As discussed in Chapter 2, governance is by nature multi-tasked, and the Chinese governance system is especially so partly due to decades of a planned economy in the pre-reform era and also partly due to the Oriental traditions of the all-inclusive state. During the reform era, the central government on the one hand decentralized the all-inclusive functions to the local levels and on the other hand regulated indirectly the local government’s performance in these functions through the control of local officials. Such indirect management therefore freed the central government from becoming involved in both the complicated local conditions and the risk of policy experiment, which are now both subjected to the discretionary decisions of local officials. For many policy decisions, the task of the central government is simplified to “make the incentives right” with the expectation that the effective “political incentives” would eventually induce desirable policy outcomes.

This pragmatism had been championed by the central leaders, embodied in Deng’s famous “cat theory”<sup>5</sup> and “groping theory”<sup>6</sup>, and the rapid economic growth in the past

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<sup>5</sup> “White or yellow as it is, the cat that has caught a mouse is a good cat,” Deng Xiaoping, July 7, 1962.

<sup>6</sup> “Cross river while groping stones.” This saying was actually first used by Chen Yun, which could be found for the first time in his talk at 1951. Originally, this means that one should prefer “slower but steadier” to “rush with dangers.” See, Collected works of Chen Yun, Vol. 2.

several decades has proved its vitality and effectiveness in China. However, this economically successful governance philosophy could at the same time affect the willingness of the central government to sanction the local political distortions.

First, pragmatism requires the political incentives to focus on the policy outcome as “ends” rather than the policy behaviors as “means.” For many important policy goals to be realized, e.g. local economic growth, provision of public goods, urban construction, etc, the central government is often ready to “give polices” (*gei zhengce*), i.e. administrative latitude, to local officials in exchange for direct resources input by the center. And, when the local latitude results in policy distortions, the central government might not be willing to sanction them because latitudes are necessary. Case I below about the problem of “Initial-transfer revenues of land” (*tudi churangjin*) shows this type of hesitance of the central government: Although the local government’s enthusiastic collection of land transfer revenues might result in the problem of policy distortion, especially for policy goals in land protection and social stability, the central government often looks the other way because of the irreplaceability of this revenue as the source of local development.

Second, pragmatism adopted during the reform era also required the central government to be lenient with open policy distortions. Since indirect management focuses primarily on the policy outcomes, the pioneering of local chiefs in “temporarily

creating disequilibrium and upset existing...arrangement”<sup>7</sup> (Schneider and Teske, 1992, pp.739) should be encouraged or at least tolerated. The rationale is simple: unprecedented behaviors might turn out to be the “best practice” to fulfill the policy goals, and nobody can foretell the destiny of those “bold moves” because of the time distance between “behaviors” and “outcomes”: an attitude of “wait and see”<sup>8</sup> must be taken. The “groping theory” championed the same idea and Deng Xiaoping called for “bold moves” and even “go forward prematurely”<sup>9</sup> in his famous “Southern Tour Talk.” (1992)

Putting it slightly differently, from the standpoint of the central government, the “best practice” to achieve policy goals at the local levels is actually unknown and it relies on local policy experimentation to find these best practices. Therefore, although policy experiments are risky because of their deviation or near deviation from current acceptable practices, the central government might not be willing to sanction all of them whenever distortion is observed. Case II below compares two examples of policy distortion, one of which is sanctioned because of some unexpected incidents, the other is not and turns out to be a good practice later.

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<sup>7</sup> Schneider and Teske, 1992, pp.739

<sup>8</sup> Commenting on a controversial case of private employment in early reform era, Deng said that “many leaders are very worried (about the private employment), and my opinion is ‘wait for two says to see’.” Selected Works of Deng Xiaoping, Vol.3, pp 28, Oct. 22, 1984.

<sup>9</sup> Selected Works of Deng Xiaoping, Vol.3, pp 119, Jan 18-Feb 11, 1992.



### **Case I: Pocket money of local government: Initial-transfer revenues of land**

Constitutionally, all lands in China are state-owned or collective-owned and the property rights are not allowed to transfer<sup>10</sup>. As all lands are managed according to the purpose of usage, i.e. land for agriculture, land for construction, and unused lands (LAL, Article 4), the state monopolizes the land requisition and conversion of purpose of usages. In the pre-reform era, lands for construction purposes were rationed to the units that had requested them, and the requisition from previous users usually involved little money for compensation.<sup>11</sup> This low-cost land requisition has largely continued into the reform era, even when the demand for construction land increased rapidly and the paid transfer of usage rights of state-owned lands was eventually allowed.<sup>12</sup> A huge rent therefore accumulated to governments when they transfer lands that they requisitioned at lower costs to end-users in the market. For example, when a former farm-land is converted to a construction land, the compensation is calculated based upon a multiple of the value of

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<sup>10</sup> All urban lands and state-farms are state-owned (*guoyou*) while rural lands are owned by the rural “collectives.” (*jiti suoyou*). Constitution of PRC, Article 10; LLM, Article 6.

<sup>11</sup> Methods of Land Requisition for National Construction, Article 7, Jan 6, 1958.

<sup>12</sup> The 1988 version of LLM for the first times posed the idea of “paid usage” of state-owned lands (Article 3); The 1990 Regulation (temporary) on the Initial Transferring (*churang*) and Transferring (*zhuanrang*) of Usage Rights of Urban State-owned Lands allowed the transferring of the usage rights. (Decree of State Council, [1990] no.55)

yearly *agricultural output*<sup>13</sup> from the land to be requisitioned; in contrast, when the government transfers the converted land to end-uses, the price is based on the market value of the land used for industrial or commercial purpose. According to Zhou's fieldwork (2007, pp75), the compensation paid by government in some locality constituted as little as 6.9% of the initial-transfer price of former farm-land!

This large amount of revenue has been left at the local level and has become the “pocket money” of local government, often in the form of “extra-budgetary revenue” (*yusuanwai shouru*). Take 2006 as example. Official statistics show that this revenue collected is about 767 billion *yuan*<sup>14</sup> (\$115 US billion) and some scholars even estimate the amount to be more than 1 trillion *yuan*<sup>15</sup> (\$150 US billion). Others' fieldwork shows that it could constitute 60% to 80% of the extra-budgetary revenues of some localities (Zhou, 2007, pp66).<sup>16</sup> Because of the importance of these revenues, as well as other

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<sup>13</sup> The 1982 Regulation of Land Requisition for National Construction ruled that land compensation should be 3 to 6 times of and the relocation reimbursement be 2 to 3 times of average annual agriculture productions. 1998 LLM increased the standard of compensation but set a cap of 30 times of average annual productions.

<sup>14</sup> From the website of MLR.

[http://www.mlr.gov.cn/mlrenglish/magazine/2006/200711/t20071108\\_90721.html](http://www.mlr.gov.cn/mlrenglish/magazine/2006/200711/t20071108_90721.html)

<sup>15</sup> Ping, Xinqiao, a Beijing University professor gave a “conservative estimate” of this revenue as “at least 1 trillion yuan,” in the Fourth Forum of China's Economic Prospect hold at CCER of Beijing University, Jan 4<sup>th</sup>, 2007.

<sup>16</sup> Also see Jiang and Liu (2006)

land-related taxes and fees in local fiscal revenue, some Chinese scholars argue that there is a separate “land finance” independent from the local finance system.

This pocket money was very important for local chiefs to produce good political achievements, to cater to their subordinates, to increase their own “grey income,” etc. However, its side effects are also obvious. First and most directly, it incentivizes the large-scale land requisition which has been a major contributor to the rapid decline in cultivated lands as discussed in Chapter 1. Second, the unfairness in land requisition could contribute to social discontent. It is estimated that about 34 million peasants lost their lands from 1987 to 2001, and this number is predicted to be 78 million by 2030 (Liu, 2003). Recent years have already seen a surge in the number of protests and complaints triggered by land requisition. It is estimated that 60% of peasants’ petitions (*shangfang*) now are related to land dispute issues, half of which are specifically concerned with land conversion (Chen, 2004). Third, as the only “seller” of land as well as the regulator of the “price” of land, the local government has incentives to “commercialize the city” (*jingying chengshi*) to maintain the price of land at high levels, which could result in the problem of an economic bubble.

These problems being said, the “reform” measures adopted by the central government in this issue are quite perplexing: instead of attempting to restrain the impetus of “selling land” by the local governments to pressure the goal of protecting cultivated lands, it actually strengthened gradually the monopoly power of local government over land requisition and the usage of land-related revenues.

For land requisition, the central government at first ruled that future land users should participate in negotiations about compensation with the previous users with the local government's presence in the 1982 Regulation of Land Requisition for National Construction (Article 7), which is also required in the 1988 LLM<sup>17</sup>. Because of this "negotiation" arrangement, the interests of previous users would be better protected and the cost of land acquisition would be higher. However, the 1998 LLM discharged the obligation of future users to join the negotiations and the local land management authority would "announce" the compensation plan for previous users. In 2001, the central government called on the establishment of a "land reserve system"<sup>18</sup>, which approved the practice "requisition without usage plan" that had been previously forbidden. State-owned land reserve companies were set up in many cities to requisition lands for future construction needs. As a result, the local governments were actually encouraged and enabled to profit openly from the requisition and the initial transferring of lands.

The central government also failed to show a willingness to regulate the usage of the large amount of initial-transfer revenues of land. Although the very early version of regulation on land transferring had already stated clearly that the initial-transfer revenues

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<sup>17</sup> Regulation on the Implementation of 1988 LLM, Jan. 04, 1991, Article 18.

<sup>18</sup> State Council Circular on Strengthening the Management of State-owned Land Asset, May 30, 2001

should be included and managed by local government budgets,<sup>19</sup> such revenues continue to be managed as extra-budgetary funds by local governments.

The paradox here is clear: as the central government actively pursues the goals of cultivated land protection as well as social stability, it actually takes measures encouraging the policy behaviors (i.e. requisitioning and “selling” more land) that would distort these goals. Why could such obvious contradiction happen?

To answer this question, one should start with the current tax sharing system from the 1994 fiscal reform. In an effort to enhance the “state capacity,” the new sharing system has the central government take a substantial share of those stable and ample taxes, for example, it takes 75% of the value-added taxes which is more than a third of the total tax revenues. For local governments, the budgetary revenues could only maintain basic governmental operations. And the local governments are also prevented from direct borrowing in the financial market<sup>20</sup>. When the central government aimed to pressure the “creativity” out from local governments to execute the all-inclusive functions, it must allow the local governments to “creatively” utilize the resources in their

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<sup>19</sup> For example, Preliminary Program on Managing the Initial-transfer Revenues of State-Owned Land, Ministry of Finance, [1989] no.94, Article 5; The 1990 Regulation (temporary) on the Initial Transferring (*churang*) and Transferring (*zhuanrang*) of Usage Rights of Urban State-owned Lands, State Council [1990] no.55, Article 50.

<sup>20</sup> This prohibition is revoked recently in 2009. See news report: “Press Conference of Ministry of Finance on local government bonds,”

[http://news.xinhuanet.com/fortune/2009-03/17/content\\_11027418.htm](http://news.xinhuanet.com/fortune/2009-03/17/content_11027418.htm)

own hands. The contrast between the size of national fiscal revenues and that of “land finance” therefore tells directly why the central government hesitates to regulate strictly land requisition and initial-transfer: in 2006 the former was 3.88 trillion *yuan* (central revenues plus local revenues, ~\$550 US billion) while just the direct initial-transfer revenues of land could be as large as 1 trillion *yuan*, without counting other land-related taxes and fees. Should the political clout be used, assuming its effectiveness, how could the central government have had the ends meet at the local levels while achieving the same miraculous “political achievement” the local officials had achieved?

To sum up, the unwillingness to use political clout is first caused by the central government’s reliance on the “creativity” of local chiefs. Although this “creativity” per se is induced by the political incentives, these incentives should not be used to strangle the local chiefs and latitudes must be granted.

**Case II: The Incident of Xinfeng Power Plant and the success of small power plants of Shandong Province**<sup>21</sup>

In April 2004, the Inner Mongolia government started the construction project of Xinfeng Power Plant despite the center’s specific mandate to suspend it for its violation in the regulation of land requisition and environmental protection as well as general economic retrenchment policies in effect at that time. According to local officials of Inner Mongolia, the construction of power plants is a good way to develop economy in a region

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<sup>21</sup> I borrow this comparison from Wang (2006).

rich in coal resources<sup>22</sup>, and although the construction violated the central mandates, “we should be more active to take initiatives for the country.”<sup>23</sup>

Fifteen months later in July 2005, a construction accident that left six people dead and eight injured finally terminated this project. On Aug 16, 2006, the State Council took a rare action to convene a special executive meeting to handle this accident. Nine individuals were disciplined and prosecuted; several major leaders including the chairman of Inner Mongolia government were commanded to write formal self-criticism reports to the State Council.<sup>24</sup> In the final injunction of the State Council, the “neglect of workplace safety” was actually put in a less important position as compared to the charges of the local government’s open defiance to the central government’s mandates. It seems that the central government in this incident showed some determination to counter local discretion.

However, a hypothetical question might challenge this interpretation of the central government’s move: Would the central government have stepped in if no accidents had happened? The overt defiance of Shandong province in power plant construction and its eventual success cast suspicion to the determination of the center. Since 1999, while the central government tried to eliminate small fossil-fuel power plants because of the worry

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<sup>22</sup> See news report by Gou and Liu, *Economic Observer*, Aug 20, 2006

<sup>23</sup> See news report by Liu, *China Youth News*, Aug 17, 2006

<sup>24</sup> “Executive Meeting of State Council is convened to handle the accidents of Xinfeng power plant,” [http://www.gov.cn/ztl/yzn/content\\_479533.htm](http://www.gov.cn/ztl/yzn/content_479533.htm), Aug 16 2006.

about investment overheating and pollution<sup>25</sup>, Shandong province has been very active in developing small power plants<sup>26</sup>, which now constitute a quarter of its provincial electrical generation capacity. No serious sanctions have been exerted on Shandong during the process. And later from 2004 when economic growth regained upward momentum, these new electrical capacities became an advantage of Shandong province when other provinces started to worry about electricity shortage. In 2005, Shandong province passed Guangdong to lead the country in industrial output: the “policy experiment” that was unchecked by the central government finally paid off.

It seems that different measures were taken by the central government in similar situations in two different provinces. However, this difference might not suggest the different “willingness” but rather the boundaries of “unwillingness” of the central government in countering local distortions. While policy experiment *per se* is a risky practice, if the risk breaks out before the realization of its intended goals, the central government would be “willing” to hold the local chiefs accountable for the consequences, as in the case of the Xinfeng Power Plant incident. In contrast, the Shandong case shows that if the risk did not break out, the willingness to sanction the openly local defiance is

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<sup>25</sup> For example, see State Economic & Trade Commission on Eliminating Small Electrical Generator, April 26, 1999.

<sup>26</sup> Most small power plants constructed had capacity between 50,000 Kwh and 135,000 Kwh, which are not strictly “small power plants” (defined as those below 50,000 kwh, see fn.26) and could be approved directly by the provincial government. In another word, the Shandong province played an “edge ball” in this policy issue.



much lower. And when the experiments later turned out to be “best practice,” Shandong’s defiance to previous mandates was not punished retrospectively.

To sum up, although having the political clout at hand, the central government relies heavily on the local governments to find resources to execute the all-inclusive functions and to take risk searching for unknown best practices. While political incentives are utilized to induce “creativity” from local chiefs, the central government might be unwilling to stall this “creativity” as far as its side-effect is not imminent: “look the other way” is necessary.

### ***The Lack of Ability to Sanction: Indirect Regulation and Loopholes***

The management dilemma faced by the central government in the reform era is also embodied in its lack of ability to regulate directly the local governance practice. Two factors account for the inability to exercise direct regulation.

First, even if the central government is willing to utilize the political clout to counter policy distortions, the influence it exerts is still indirect in the context of decentralization. As the central government does not have direct regulation capacity, it relies on the local execution power, ironically, to regulate the local distorted behaviors. When the goal of regulation is not “self-enforcing” and the local officials only show some *prima facie* conformity, the central government in many cases, without solid evidence of local officials’ open defiance, can not punish local chiefs directly and has to give in to those *de facto* oppositions. Case III below records the fluctuation of the

central-local sharing plan in land-related taxes and fees, which clearly shows the center's attempts to regulate distorted behaviors of the local governments and the eventual compromise reached by the center.

Second, the problem of information asymmetry also weakens the regulatory ability of the central government. When a policy initiative from the central government to regulate the policy distortions at the local levels is proposed, loopholes are often left either because those at the center know little about the local conditions or, ironically, know too much of local conditions and try to allow flexibility for local variation. Given the existence of these loopholes, some policy distortions, if well "packaged," could literally be acceptable outcomes for the center's counter-distortion initiatives. Case IV below gives an example how an overly stringent regulation aiming to cool down the real estate market turns out to be futile because of the existence of loopholes.

### **Case III: Why has the center failed?**

As mentioned in Case I, "land finance" has been a very important revenue source for local government, and the zealous pursuit of it can result in serious policy distortion problem. Although the central government is generally unwilling to tackle this problem because of its outcome-oriented management system, efforts have been attempted by the center to alleviate this problem from time to time. A noticeable measure among these efforts is to adjust the center-local sharing plan on the land-related taxes and fees. *Table*

4- 1 lists the changes of the sharing plans of several land-related taxes and fees<sup>27</sup>. A pattern of changes is revealed in this table. Take the urban-land use tax (fee) as example: Local government as the “creator” of this fee at first monopolized the revenues accrued (0:100%, central share first); the center would then try to take a portion to be central revenue (50%:50%); eventually the center would give up the central share and the local government monopolized again (0:100%). The central government always gave in after trying to put its hands on the “land finance.”

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<sup>27</sup> There are four major types of taxes and fees in the requisition, use, transferring of land. Farm-land Conversion Tax (*gengdi zhanyong shui*, from Aug 1, 1987, Regulation (temporary) on Farm-land Conversion Tax of PRC), Urban-land Use Tax (*chengzhen tudi shiyong shui*, from Nov. 1, 1988, Regulation (temporary) on Urban-land Use Tax of PRC); Land initial-transfer revenue (*tudi churangjin*, May 12, 1989, circulation on strengthening the management of transferring revenues of State-owned Land, State Council Issued, [1989], No. 38); and Land Value-added Tax (*tudi zengzhishui*, Jan. 1, 1994).

Table 4- 1 Changes of Central-Local Sharing of Land-related Revenues

DATE	REVENUE TYPE	SHARE	
		Central	Local
Pre-1987	Farm-land Conversion Fee	0%	100%
Apr.1, 1987	Farm-land Conversion Tax	50%	50%
May. 31, 1988	Farm-land Conversion Tax	fixed-amount	Residuum
Feb.21, 1989	Farm-land Conversion Tax	30%	70%
Jan. 1, 1994	Farm-land Conversion Tax	0%	100%
Pre-1988	Urban-land Use Fee	0%	100%
Nov.1,1988	Urban-land Use Tax	50%	50%
Jan. 1, 1994	Urban-land Use Tax	0%	100%
Pre-1989	Land-Transfer Revenue	0%	100%
May.12,1989	Land-Transfer Revenue	40%	60%
Jul.1, 1989	Land-Transfer Revenue	32%	68%
Sept.25, 1990	Land-Transfer Revenue	32%-rebate	68%+rebate
Sept.21, 1992	Land-Transfer Revenue	5%	95%
Dec.8,1993	Land-Transfer Revenue	0%	100%
Apr.15, 1997	Converted Farmland Transfer Revenue	100%	0%
Apr.15, 1997	Urban-land Transfer Revenue	0%	100%
Jan.1, 1999	Farm-land Transfer Revenue	30%	70%

The managerial implication of the adjustment of the central-local sharing plan is straightforward: increase the central share to discourage local officials from “selling more land” and vice versa. For example, in a high-profile 1997 document issued by the central government to slow the rapid decline of farmland, it was specifically ruled that all the initial-transfer revenues of new construction land converted from farmland should be submitted to the center with all those of former construction lands left in the local coffers<sup>28</sup>, the effect was to discourage the conversion of farmland. This clear intent being

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<sup>28</sup> Center-issued No.11 Document of 1997, “Circular on further strengthening land management and protecting cultivated land seriously”

presented, the pattern found above is then very intriguing: while the center was “willing” to deal with the policy distortion problem in this case, why did it fail?

Some official documents mandating the decrease of central shares has suggested why the compromise had been made. For example, one year after the ruling that the center should take a 50% share in the farmland conversion tax<sup>29</sup>, the Ministry of Finance (MOF) issued another decree to adjust the fixed sharing percentage to a contract arrangement, i.e. “fixed amount to the central government with all the residuum remained at local level,”<sup>30</sup> and the reason to do so is that “quite some amount of (this tax) had not been properly imposed at local level and submitted to the central government.” What happened after this change showed that this concession made by MOF was still not sufficient and did not work out as planned. Again, less than one year later, the State Council directly issued a high-profile document adjusting the sharing ratio “30% to central and 70% to local”<sup>31</sup>, and the purpose was “to motivate local cadres to impose taxes.” That is, it was the delayed conformity of the local government that had led to the concessions of the center.

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<sup>29</sup> Farm-land Conversion Tax (*gengdi zhanyong shui*, from Aug 1, 1987, Regulation (temporary) on Farm-land Conversion Tax of PRC),

<sup>30</sup> MOF on improving the imposition and management of Farm-land Conversion Tax, MOF [1988] No. 13

<sup>31</sup> State Council Circulation on improving the imposition of Farm-land Conversion Tax, Feb 21, 1989

From the standpoint of the central government, there are not many options other than the reluctant compromises being made. As the local governments took charge in land requisition, transferring and taxing without external supervisions, they could easily find ways to evade the obligation of revenue submission,<sup>32</sup> which could constitute their “opposition power” in the interaction with the central government. When the indirect regulation from above was confronted by this opposition power from below, the central government, as shown in this case, could well be the one that caved in.

#### **Case IV: Loophole: by mistake or by design**

In addition to the absence of direct regulation capacity, the loophole in the measures adopted by the center could also increase the opposition power of the local government. One recent example is a 2006 mandate issued by the State Council to regulate directly the construction plans of real estate developers. Aiming to stabilize the housing prices by increasing the supply of smaller apartments, this mandate ruled that “70% of the floor spaces of the new house developing projects should be used for mid-sized apartment with ‘standardized construction area’ smaller than 90 sq.m.”<sup>33</sup> This rule was directly contrary<sup>34</sup> as well as those of

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<sup>32</sup> For example, the local government could provide free lands in trade of the public goods provided by the land beneficiaries, in which no “revenue” would accrue.

<sup>33</sup> “Opinion to adjust the structure of housing supply and to stabilize housing price,” State Council General Office Document, 2006, No. 37.

<sup>34</sup> The cost is higher for building more units with smaller size than for less units with larger size

local cadres who often championed the fast growth of real estate industry. Local opposition was strong at first. However, local cadres soon found ambiguities in this rule and interpreted it for the advantage of developers. For one, the denominator of “70%” was not specified in the rule. It could either be 70% of each specific project or 70% of all projects at one locality. If it was interpreted to be the latter, high-end developers could still keep the luxurious floor design for their profitable projects while getting matched by other low-end and less profitable projects to meet the 70% requirement. For the other, the so-called “standardized construction area” is a technical term which was not commonly used in real estate market. Actually, with the same “standardized construction area of 90 sq.m.,” the “construction area,” which is the price unit in the market, could be as large as 110 sq.m. A very strict rule could therefore be easily circumvented by local cadres because of these loopholes.

The aftermath of this mandate showed that the center made compromises again to the local government. On July 5, 2006, forty days after the issuance of the original mandate, the Ministry of Construction issued a new document which explicitly supported the interpretation advantageously to the local government. One interviewee, a retired county chief and now real estate developer, believed that the exploitation of loopholes by local chiefs in this case has “taught the central government” and “those at the top” could recognize their mistakes and correct it.”<sup>35</sup>

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<sup>35</sup> Interview at Zhejiang, Feb. 2007. Similar words were said by an interviewee at Hubei.

An ensuing question is whether the center was aware of the loopholes when stipulating the rule. In this specific case, the answer seems to be “no.” One economist who had been consulted by the State Council for this rule said,

“These (70% and 90 sq.m.) are two numbers that we did not deliberate on due to the time constraints. I participated in the discussion at the end of April and the mandate was promulgated in May 17, we all did not have time to analyze these numbers in details”<sup>36</sup>

That is, when the central government tried to counter promptly the policy distortions at the local level, its good intentions might not be accompanied with rigorous measures that required more information and longer deliberations. When the loopholes were found by the local government in practice, it was not easy for the center to admit that it had made a mistake. And to correct such loopholes, another round of rulemaking would be needed, which would therefore decrease the efficiency of sanctions.

Negligence is not the only reason for the existence of loopholes. One interviewee in the Legal Office of the State Council (an office in charge of the drafting and circulation of official documents) disclosed another “secret” about loopholes,

“When documents were drafted, the State Council would usually level some ‘room’ (*yudi*) for local experiments. If you have local cadres stretched too

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<sup>36</sup> Xu Dianqing, see News report by Liang, Aug 04, 2006.

[http://www.ycwb.com/ycwb/2006-08/04/content\\_1178613.htm](http://www.ycwb.com/ycwb/2006-08/04/content_1178613.htm)



thin, there will be problems. Also, China is such a large country; in many cases we expect there would be situations that we did not understand and therefore should let local officials have some ‘room’.”<sup>37</sup>

In other words, with the expectation that the unified national regulation measure could not accommodate all specific local conditions, “institutional ambivalence”<sup>38</sup> might be “created” deliberately, which therefore leave “room” for exploitations.

To sum up, the indirect management method constrained the center’s capacity in direct intervention on local policy behaviors. The center’s lack of direct regulation capacity and proper information both increased the opposition power of the local government. Even if the center made serious attempts to counter the policy distortions, it might have to yield to local oppositions.

### ***The lack of Effectiveness to Sanction: “Too-many-to-fail” and Unsustainability***

Finally, let’s look at the effectiveness of using political incentives by the center to regulate local policy distortions. In some cases, the center has shown its willingness and ability to sanction policy distortions by demoting the responsible local chiefs, which seems to have exerted some influence on policy behaviors of the local officials. For

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<sup>37</sup> Interview at Beijing, Jan., 2007

<sup>38</sup> Ho (20001) provided an account how the Law of Land Administration has created “deliberate institutional ambivalence.”

example, the demotions of Meng Xuenong, then Beijing major and Zhang Wenkang, then Minister of Health, were believed to be the turning point in the national campaign against SARS crisis in 2003. Local officials at various levels, shocked by the determination of the central government shown in these rare demotions, scrambled to put the prevention and treatment of this epidemic as their utmost important task for that moment. The deterrent effect of this 2003 incident has been so strong that the local officials obviously overreacted six years later when facing a much less severe pandemic of H1N1 flu.

However, this same effectiveness is not guaranteed. Another result observed in many other cases is that pervasive distortions were actually not deterred by the fact that some local officials had been punished for the distortions caught. For example, two deputy-provincial level local officials of Henan were disciplined in 2006 for breaking the rules of land requisition<sup>39</sup>. Although the central government had publicized this case to deter other local officials, such deterrence seemed to be futile as the amount of the land conversion was still large in 2007 and 2008<sup>40</sup>.

The failure of the center's deterrence again could find its causes in the indirect management method. First, the method used in center's deterrence is to punish a few specific perpetrators to deter others. Effectiveness of this "killing a chicken to scare the

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<sup>39</sup> See news reports, Xinhua news agency,

[http://news.xinhuanet.com/mrdx/2006-09/28/content\\_5147313.htm](http://news.xinhuanet.com/mrdx/2006-09/28/content_5147313.htm)

<sup>40</sup> About 188,300 hectares in 2007 and 191,600 hectares in 2008, although smaller than 259,000 in 2006, but still much larger than those in 2004 and 2005 (China Statistics Yearbook)

monkeys” is questionable if the number of perpetrators is large because the center would meet the problem of “too-many-to-fail.” As one interviewee put it, “you can not just punish everybody just because nobody did the work right”<sup>41</sup>. Therefore, perpetrators could actually be encouraged by the fact that only the “chicken” would be killed, and try to find ways (or purely test their luck) to get away with impunity.

Second, using political clout to deter the policy distortions is costly as this indirect method often requires some distortion-free outcome to be produced at any cost. While such deterrence could be effective for a short period, its effectiveness is by nature unsustainable. Also, because the distorted outcome is the target of deterrence, once the apparent distortion eases, its effectiveness would fade. In the example of SARS crisis, although the deterrence was effective to incentivize the local officials to go all out to deal with the specific pandemic, it did not help that much to reform the malfunctioning health care system in China. Once the imminent threat was gone, the center’s deterrence was put aside by the local officials.

Third, the effectiveness of certain deterrence is not an independent incident, and the outcomes of previous deterrence efforts in similar or even dissimilar cases would affect the effectiveness of current deterrence. If previous deterrence resulted in unsatisfied outcomes because of the two problems discussed above, the authoritativeness of the

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<sup>41</sup> Interviewee with COD officials at Beijing, Feb., 2007

deterrence would be questioned and the effect of later deterrence would likely to be worse, *vis versa*.

Together these three factors explain the ineffectiveness of the center using political clout to sanction policy distortion, all of which could be observed in Case V in which the center's efforts to deter "the mindless expansion of steel production" eventually failed despite the fact that political clout had been used.

### **Case V: Tieben Incident and the new "All Out for Steel Production"**

In March 2004, the private Tieben Steel was ordered to close directly by the State Council for carrying out its egregious production expansion plan. Previously a small-to-medium sized producer with maximum steel production capacity of 800 thousand tons, Tieben planned from 2002 an expansion project with production capacity of 8.4 million tons<sup>42</sup>. The Changzhou prefecture government was believed to have been involved in the making of this irregular development plan<sup>43</sup> and had been a responsible "midwife" for this project. With the help of local officials, Tieben obtained lands of over 9,000 mu (600 hectares) bypassing the required central approval for land requisition over 1,000 mu (70 hectares); it also got loans over 4 billion *yuan* (~ \$500 million) from State-owned banks in spite of its relatively small net assets of 600 million *yuan*. After the

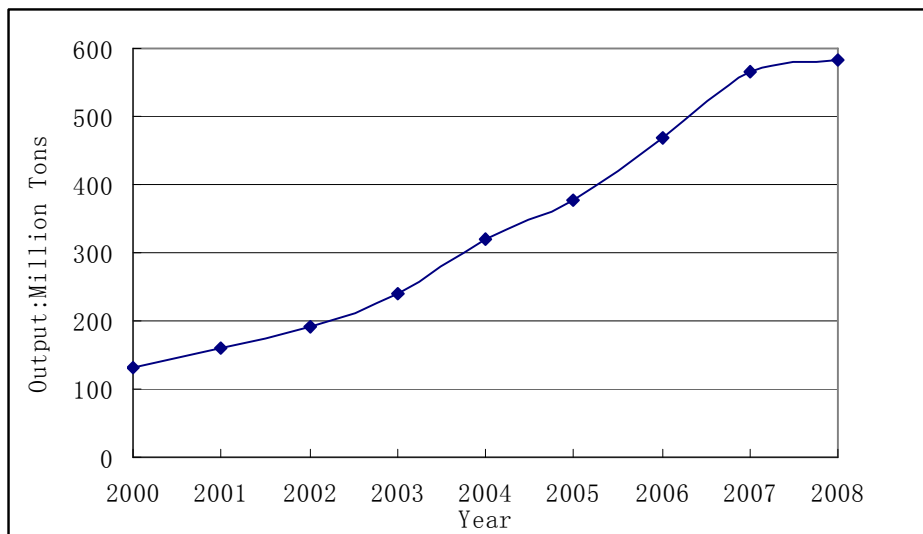
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<sup>42</sup> News reports, Zhang, *21<sup>st</sup> Century Business Herald*, April 28, 2004

<sup>43</sup> For example, see editorials of China Business Operation Newspaper, Aug 21, 2004 and of Beijing Youth Daily, Aug 22, 2004

incident was uncovered, eight major local officials both in Changzhou prefectural government and Jiangsu Bureau of Land & Resources were demoted or disciplined for the transgression.

Figure 4- 1 Output of Steel Materials from 2000-2008 in China



Source: China Statistic Yearbook, 2001-2008

Would the punishment of some local officials deter others from promoting the expansion of steel production? The growth trend of national steel production since 2004 showed that the answer is probably “no” (see Figure 4-1). At the end of 2003, just before the Tieben incident, the national production of steel materials was 241 million tons; and only five years later this number rose to 581 million in 2008, more than double that of 2003 and more than a third of the world’s output! It seems a new movement of “All out for Steel Production” (*Dalian Gangtie*), like the previous one during the Great Leap Forward, has actually been there pushing such miraculous growth. As this new movement

happened after the high-profile Tieben Incident, it is therefore hard to declare that the deterrence has worked as intended.

Why did the punishment in this incident not turn out to be effective deterrence for others? To answer this question, let's first figure out the reason why Tieben was specified as the "chicken" to be killed. Above all, similar transgression behaviors such as evading land regulations and issuing unsecured loans were pervasive in many other localities, and there were no accidents like the one in the Xinfeng Power Plant case, or conflicts affecting social stability rose up to expose the transgression of Tieben; so, why Tieben?

Several anecdotal explanations were found in public news reports and my field interviews. First and the most credible one is that two correspondents of Xinhua news agency heard about the Tieben project from a scholar in an interview about land protection policy. Their pursuits of this case resulted in a series of news reports broadcasted by Xinhua from April 4<sup>th</sup>, which attracted the attention of the State Council which acted ten days later<sup>44</sup>. Second, some believed that it is the owner's disinterest in developing "connections" with the central officials and his over reliance on the local chiefs that has offended the former<sup>45</sup>. When a "chicken" needed to be killed by the center, this private enterprise of Tieben without a powerful patron above became a good candidate. Third, another rumor is that Tieben's ambition to pass Baogang Steel, the

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<sup>44</sup> This news report won the "China news prize" in 2004. And the two correspondents wrote articles about how they found out the case and pursued it. See Niu and Chen (2004), Chen (2004)

<sup>45</sup> News report, Bo and Wang, *Advantage*, 2008

largest state-owned steel producer, irritated the latter, who wielded its strong lobby power and precipitated the sanctions on Tieben<sup>46</sup>.

What is really of interest here is not which explanation *is* true but rather the implication that people actually *believed* some of these explanations to be true. Besides the obvious differences, one commonality among these explanations is that all of them pointed to factors outside of the actual policy distortion. Local officials as well as average people all seem to accept the idea that Tieben was targeted mainly for these “outside” factors, and policy distortion *per se* was deemed as much less a cause. Put slightly differently, while engaging in policy distortion, perpetrators have the belief that they would not be the one to be caught as far as they made these “outside” factors right. With this belief in mind, the deterrence effect of “killing a chicken” can be expected to diminish.

The “wild” growth of other two private steel producers, Rizhao Steel of Shandong and Shagang Steel of Jiangsu, affirmed this belief. For Rizhao Steel, founded in the eve of the 2004 retrenchment also without the approval of National Development and Reform Commission (NDRC), the size of its land requisition was about 5,950 *mu* (~396 hectares) and its bank loans about 8 billion *yuan*, which are quite comparable to those of Tieben. Although this project also raised the eyebrow of the center<sup>47</sup>, it survived the retrenchment

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<sup>46</sup> News report, Yang, *Directors & Boards*, 2005, also in my own interview with COD officials in Feb 2007.

<sup>47</sup> News report, Deng and Gao, *21<sup>st</sup> Century Business Herald*, Dec.27, 2008

and now has annual steel production capacity of 11 million tons, way more than the planned 8.4 million of Tieben Steel. The similar story was seen in the development of Shagang Steel. In 2003, Shagang started a hot-rolling slab project with investment over 15 billion *yuan* and production capacity of 6.5 million tons. Also frowned upon by NDRC, it still survived and now has steel production capacity of more than 20 million tons.<sup>48</sup> In sum, despite the “almost-for-sure” policy distortion in these projects, no punishment has been imposed on them. As for the reason that these two went through with impunity, the good *connection* with government at various level as well as pure luck were often cited. For Rizhao Steel, it is believed that the promise of Shandong provincial government made to NDRC to eliminate projects of smaller steel mill has protected it as “large and high-quality” project.<sup>49</sup> For Shagang Steel, the owner’s past experience as the deputy party secretary of the city where his company later is located could have helped; and it is also lucky for him to have the whole expansion project finished just before the Tieben incidents.<sup>50</sup>

By punishing a specific target, the center aims to establish an example for others to learn from. However, given the problem of “too-many-to-fail,” the experiences of those who succeeded in avoiding punishment in spite of apparent distortions would be more instructive for average local officials: as most distortion are not punished, how could I be

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<sup>48</sup> News report, Chen, *New Fortune*, Apr. 28, 2009

<sup>49</sup> Fn. 47

<sup>50</sup> Fn. 48



one of them? That is, rather than being deterred by those killed and hence keeping themselves away from policy distortions, the local officials are more interested to find out the “smarter” way to avoid punishment. As a result, the intended deterrence effects would be nullified.

Besides the belief that punishment is avoidable, another factor weakening the deterrence effect of center’s anti-distortion measures is that these measures are by nature unsustainable. Specifically, the center’s harshness in “Tieben Incident” was a “sudden brake” for the whole steel industry because its development had resulted in policy distortion (e.g. land abuse and excessive production capacity) that has been so severe that something has to be done. However as far as the car has to move, the brake has to be released sooner or later; that is, the center could not sustain its strong-hand regulation on this economically important industry just for the purpose of suppressing policy distortions.

*Figure 4- 2* shows the monthly steel price index from Jan. 2000 to Jun 2008. On the one hand, the fast price drop immediately after March 2004 (the month when Tieben was closed) proved the correctness of the sudden brake from above: the production capacity was indeed excessive and retrenchment is necessary.<sup>51</sup> However, on the other hand, the market condition shifted a lot just a couple of years later. From early 2006, together with the speedup of GDP growth, the demand for steel materials increased fast and its price

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<sup>51</sup> The center’s retrenchment policy per se should also contribute to the price drop.

rocketed up (see Figure 4-2) despite the continuous growth in production capacity. To keep suppressing the whole industry in this situation obviously did not agree with the center’s main policy goal of economic development. As a result, although no revocation had been made to those harsh measures applied together with the Tieben Incident, the focus of the macro regulation in this industry quietly changed from “preventing the expansion of production capacity” to “eliminate the outdated production capacity.”<sup>52</sup> And several large steel mill projects proposed by the local government but stalled by the center were put back on track. For example, the projects of Fangchenggang Steel and Zhanjiang Steel, both with production capacity of 10 million tons were approved earlier in 2008.<sup>53</sup>

Figure 4- 2 Monthly Steel Price Index (Jan. 2001-Jun.2008)



Source: <http://www.mysteel.com>, Jun. 2008

<sup>52</sup> See news reports, Jia and Zan, *Chinese Business & Commerce Times*, Apr.26, 2006, ,

<sup>53</sup> From the web site of NDRC, [http://www.sdpc.gov.cn/gzdt/t20080319\\_198749.htm](http://www.sdpc.gov.cn/gzdt/t20080319_198749.htm)

With the expectation that the “brake” is to be released and the local discretion would take the wheel again sooner or later, the local government, rather than being deterred by political clout, would be more interested in preparing for the coming relaxation while carefully evading the punishment. The seriousness of deterrence is therefore eroded.

The case here also suggested the question of “cross-time credibility” of the center could be a factor causing the ineffectiveness of the deterrence efforts. With political clout being used in the deterrence efforts, one should naturally expect that those who did not comply would be the ones to be punished. However, because of the problems of “too-many-to-fail” and “unsustainability,” it is often observed that many perpetrators not only get away with impunity, but even become the winners after the intermittent deterrence efforts. In this case, when the steel price rocketed up after 2006 (see Figure 4-2), it were those steel producers (local governments) that had not succumbed to the center’s deterrence that enjoyed the fast increasing profits (fiscal revenues); in contrast, those who had been “deterred” and slowed down their construction were excluded from it. That is, although local compliance was what the center asked for, it was not something to be rewarded as turned out later. The cross-time credibility of the center’s deterrence would therefore be questioned and the effectiveness of future deterrence by the similar measures would abate.

To sum up, when political clout was wielded by the center to punish specific local policy distortions, the intended deterrence effects of this punishment should not be

overestimated. As shown in this case of the center's retrenchment efforts in the steel industry, although Tieben and the local officials involved were harshly punished, this specific "example" set by the center did not effectively deter others from policy distortion. The problems of "too-many-to-fail" and "unsustainability" of anti-distortion measures, faced by the center and known by the local government, have constrained the effectiveness of deterrence. And the facts that the intended deterrence effects were not delivered and compliance did not pay off would have detrimental influence on the effects of future deterrence.

### ***Conclusion***

The question raised in this chapter is why the central government has not tackled the policy distortion problem by "making the political incentive right," which has been proved to be useful in inducing enthusiastic pursuit of local economic growth. With the help of five different cases, I argue that that the central government does not have serious willingness, adequate ability to tackle this problem, and even if efforts were made to deter the local policy distortions, its effectiveness is questionable. In one word, the center is shackled.

The key to understand the center being shackled is the "means-end" conflict troubling the center. To achieve its all-inclusive governance goals in the context of decentralization, the central government relies much on the local discretion while only manages this discretion indirectly through political incentives. When the local discretion

later developed into something out of the center's control, e.g. serious policy distortion, the "means" that the center had to tackle them is still only political clout. Several limitations of this "means" in countering policy distortions are as follows. First, political clout could not be easily triggered as the center must allow some policy distortions at the local levels to induce local creativity; second, it could not sanction passive conformity or overt exploitation of loopholes; third, it could not punish all perpetrators found and its harshness could not sustain. In conclusion, powerful and convenient as it is, political clout cannot be used effectively to counter policy distortions for fear that "pelting a rat" might "smash the dishes."

## **Chapter 5 Conclusion: Diagnosis and Prescription**

### ***The cause of policy distortion: A diagnosis***

The miraculous socio-economic development in China during the past three decades has caught the attention of the world. The government in China has been widely hailed as a contributor to this economic success. And since China is such a large country with a top-down unitary governance system, the way in which the central government has motivated the local government to adopt pro-growth policies should especially be credited for the overall success at the national level. This study, however, focuses on a problem on the dark side of the central-local interactions. That is, while the policy goals in economic development have been successfully fulfilled at the local level, many other commendable goals set by the center have been ignored by the local government. This results in the incongruence between the actual policy outcomes and the intended ones, for example, the rapid decrease of cultivated land and the “basic policy” of protecting cultivated lands, the investment overheat and the retrenchment policy, etc. Defining this incongruence as “policy distortion,” my questions are then: why has policy distortion emerged and why has it persisted in China?

My answer to these questions pivots on the political incentives which I believe is the most convenient and effective instrument for the center to manage local officials. Since the personnel decision power is still controlled in a top-down manner, the central government and superiors at various levels can encourage more production of desirable

policy outcome at the local level by promoting those local officials who have produced such outcomes. By the same token, if the local fulfillment of some other commendable policy goals has been neglected by the superiors in promotion consideration, these policy goals are likely to be ignored by local officials. Empirical evidence in Chapter 2 and 3 shows that political incentives embedded in the promotion rules and promotion practices have indeed been unbalanced. Political achievements in promoting local economic growth perceived by the superiors have been the most important measure of local chief's performance; and good performance in this policy issue would increase the chance of local officials to be promoted. In contrast, performance in fulfilling other policy goals has not been given similar weight in the superiors' promotion decision. As a result, as the local officials have been encouraged by political incentives to promote local economic growth, they could actually be encouraged to do so at the cost of other commendable policy goals: policy distortion therefore happens as a consequence of the unbalanced nature of political incentives.

At the same time, although it is clear that the unbalanced nature of political incentive has induced the local policy distortion, this nature cannot be changed easily by the center to prevent policy distortion, which therefore results in the persistence of policy distortions. The rationale is as follows. During the reform era in which the central task is "economic construction," the way that political incentive works has to be indirect and outcome-oriented because of the complexity of this central task. Local discretion is therefore both encouraged and required in this indirect management system which has not

and probably can not instruct local officials about the exact means to produce the outcomes desired. In other words, given the intended goals of economic development, the political incentive as an indirect tool is more useful to encourage “good” local discretion rather than to sanction directly the “bad” discretion that would bring about policy distortion. Therefore, while political incentives have successfully induced local chiefs into a competition of pursuing “mindless GDP growth,” it can not be successful in deterring them from producing policy distortions in other issues. Case study in Chapter 4 verifies this argument and shows that the center does not have the willingness, ability and effectiveness in sanctioning policy distortion. In this sense, the unbalanced nature of political incentive is locked in, and policy distortion would persist.

This study’s argument that the unbalanced nature of political incentives cause policy distortion demonstrates a diagnosis of the problem of policy distortion different from the one made by the “economic decentralization school.” According to the latter, it is the local officials’ “mindless pursuit” of local economic interests that has brought about the perverse policy distortion in practice. In contrast, this study concludes that the root of policy distortion lies in the top-down political incentive system that has been consistently using promotion to reward good performance in promoting local economic growth, even if this good performance is at the cost of failing to achieve other commendable policy goals. The mindless pursuit of economic growth, especially the GDP growth rate, by the “political-interest-centered” local officials, is a result generated



by the unbalanced political incentive. Therefore, if the source of policy distortion has to be identified, it is the unbalanced political incentives that are to be blamed.

### ***To tackle the policy distortion: prescriptions***

Recent years have witnessed several policy initiatives from the central government to tackle the problem of local policy distortion, for example, the establishment of vertical regulators to increase the center's capacity to directly intervene in the policy behaviors of local government, the introduction of a new development philosophy of "scientific outlook of development," and the idea to increase the participation of the masses, etc. Are these measures the correct prescription for the diagnosed problem of policy distortions? Based on the diagnosis I made above on current policy distortion, I discuss the effectiveness of these prescriptions in this section.

#### **1) The reform of "Vertical Management" (*Chuizhi Guanli*)**

After two decades of economic reform featuring the decentralization of administrative power, China in 1998 launched a centralized "vertical management" reform in several key functional departments<sup>1</sup>. The core of this reform is to transform the local functional departments to be branches responding directly to their functional superiors at the upper level instead of a working department responding to the local government. Two earlier examples in 1998 were the establishment of the nine

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<sup>1</sup> For a detailed account of the "vertical management" reform, see Mertha (2005) and Yu (2003, in Chinese)

cross-provincial regional branch office of the central bank<sup>2</sup>, and the change of the leadership of local Administration of Industry and Commerce (AIC) at sub-provincial levels from the local government to the provincial AIC. By changing the leadership relation, the purpose of this reform is clear: to recentralize regulatory capacity and to constrain local discretion.

Expectations of the effectiveness of this reform measure were high. In a 2006 survey, 85.90% of 4,339 respondents chose “yes” to the question of “whether center government should strengthen vertical management”<sup>3</sup>. Could it actually tackle local policy distortion as expected?

Based on my discussion above, the lack of direct regulatory capacity is indeed a factor that has prevented the center from punishing policy distortions. However, this simple increase of regulatory capacity without reshuffling the political incentives system for local chiefs may not solve the problem.

First, the regulatory capacity is not necessarily increased by simply changing the leadership of local functional department. Since the local government still holds many other executive capacities in its hands, the “new” regulatory units made from previous local functional departments have to cooperate rather than go into direct confrontation with the local government to guarantee its normal function. As one interviewee of local

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<sup>2</sup> This reform measure copied the structure of the Federal Reserve.

<sup>3</sup> This is an online survey hold by China Youth Daily together with qq.com in 2006.

AIC put it, “the job of my wife and the school of my son are both in the hand of local government, why should I irritate it?”<sup>4</sup>

Second, the effective regulation from the center all the way down to the grass-root level is impractical. Local variation is one problem as those at the center could hardly grasp all the information at the local level. To fund such a large top-down regulation system is another problem. In practice, the form of vertical management taken by AIC, i.e. centralizing the local regulatory agencies only up to provincial level rather than all the way to the central level<sup>5</sup> is often adopted in later vertical management reform.<sup>6</sup> Because the provincial chiefs are also affected by the unbalanced political incentives and would like to have their local subordinates create more political achievements for them, they would be more likely to collude with rather than regulate the latter.

Third, given the all-inclusive governance goals set for the local government, the restriction of some local latitude would either push the local chiefs to further abuse the remaining latitude or stall their proper functions, which certainly is not something the center would like to see. For example and presumably, if the Land and Resources Bureaus in the vertical management system had managed to cut off the “land finance,”

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<sup>4</sup> Interview with local AIC officials, Aug,2006

<sup>5</sup> Mertha called it “soft-centralization” (2005)

<sup>6</sup> For example, Quality Technology Supervision Bureau in 1999, Drug Administration in 2000, Land and Resources Bureau in 2006

many local governments, especially those in poor localities, could barely maintain their normal operations.

In sum, although the expectation is high, the reform of vertical management might not be an effective solution to the problem of policy distortion. At the same time, corruption and rent seeking could emerge because more regulation has been introduced<sup>7</sup>.

## **2) The “Scientific Outlook of Development” (*Kexue Fazhanguan*)**

This new philosophy of development was first proposed by Hu Jintao in Oct 2003 at the third plenum of the Sixteenth Party Congress. By “scientific outlook,” it means that the development should “put people first and be comprehensive, balanced and sustainable.” In contrast to the reform of “vertical management,” this measure has directly targeted the political incentives system. Specifically, since the achievement in “development” has been the most important performance of local officials to be evaluated, the redefinition of “development” therefore attempts to transform the evaluation on local officials and hence the political incentives for them. Presumably, if “development” were redefined as the improvement of life quality of local people rather than focusing on economic construction, the local governments would divert more effects to the former rather than to the mindless pursuit of GDP growth.

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<sup>7</sup> For example, in May 2007, Zheng Xiaoyu, the former administrator of State Drug Administration, was convicted with corruption and dereliction of duty and was sentenced to death. During his tenure, SDA promulgated a series of industrial standards to be met by pharmaceutical companies, which leads to large amounts of rent-seeking activities.

A nationwide campaign was later launched in 2007 to “study and implement the requirement of ‘scientific outlook of development’.” Could this campaign succeed in having local officials change their perception on the political incentive and hence not to pursue economic growth at the cost of other commendable policy goals?

Based on the diagnosis of policy distortions in this study, the intended policy goal in “economic construction” has prevented the center from changing the political incentives rewarding faster economic growth. And looking into the content of “scientific outlook of development,” the cardinal principle of “focusing on economic construction as central task” has not been touched. As a result, the ongoing campaign of “scientific outlook of development” is unlikely to meet its goal in changing political incentives.

Specifically, the COD promulgated in 2006 a new evaluation system for the achievement of local chiefs according to “the requirements of the ‘scientific outlook of development.’”<sup>8</sup> A comprehensive grading system was again designed to measure achievement, but with more indicators being added. The limitation on aggregative grading systems, which has been discussed in Chapter 2, applies to this new one. Put succinctly, even if a comprehensive set of indicators are chosen, rational local chiefs would still focus their attention on those tasks that are more important, more doable and less risky. Among the twelve set of socio-economic indicators included in this evaluation system

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<sup>8</sup> Mentioned in Chapter 2; Instruction on implementation of comprehensive evaluation of local party-government chiefs adapting to the requirement of “scientific development outlook,” COD, July, 2006

(see Chapter 2), eight are related to local economic growth directly (e.g. GDP growth rate) or indirectly (e.g. urban employment).<sup>9</sup> In other words, the local economic development *again* stands out in this evaluation system claimed to be comprehensive.

In fact, the principle of “focusing on economic construction as the central task” has been reemphasized in the official interpretation of the “scientific outlook of development.”<sup>10</sup> Apparent contradiction exists between this new comprehensive and scientific conception of “development” on the one hand, and the old one that is “economic-construction-centered” on the other hand. It is unclear whether the reemphasis of the latter is a political compromise made to internal opposition or a rhetorical tribute paid to the elders. However, it is clear that the “scientific outlook of development” probably would not be able to transform the perceived political incentives since the “central task” is still economic construction.

### **3) The democratic participation of the masses (*qunzhong canyu*)**

Another change proposed in the theory of “scientific outlook of development” deserves a separate discussion. As this new theory says that development should “put people first” (*yiren weiben*), it calls for an increase in the democratic participation of the masses in the evaluation of local officials. In the 2006 COD document about the new

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<sup>9</sup> Four sets of indicators that are irrelevant (or even negatively related) with local economic development are resources consumption and workplace safety, population and family planning, protection cultivated land and other resources, environment protection

<sup>10</sup> Hu, Jintao, speech at the Seventeenth Party Congress, Oct 24, 2007.

evaluation system, a separate section was written to stipulate the procedures and methods to carry out “polls and surveys” for the performance of local officials. While policy distortion has been defined as the incongruence problem between the center and the localities, would the inclusion of local citizens help to alleviate it?

Let us go back to the diagnosis of policy distortion in this study. The primary dilemma of policy distortion is that the center is willing to or has to have some commendable policy goals fulfilled but does not have the executive capacity to do so, while the local has the adequate capacity but is not willing to do so. From the standpoint of local officials, the calculation is rather clear: since they only respond to the political incentives from above, they do not have to care too much about those policy goals whose fulfillment could not be managed by the political incentives, even if these goals are deemed commendable by the center and the local people alike. The information advantage that local people have suggests the potential to solve the problem of policy distortion: compared with the central government which has to rely on a few outcome-oriented indicators to evaluate the performance of local officials, the local people can actually observe and assess their overall performance. The problem with local people, however, is that they do not have the power to provide political incentives to the local officials. Therefore, as the increase of democratic participation of the general public in evaluating local officials’ performance is a positive move to empower the local people, it could be heading towards the right direction to solve the problem of policy distortion.

Optimism does not equal solution. And the actual procedure of “poll and survey” laid out in the 2006 COD document does not lend much optimism either. The individuals to be polled and surveyed, according to this document, are still limited to a small group of insiders and elites, i.e. local officials, delegates to LPC and LPPCC. The average local citizens are left out. However, compared with the previous evaluation and appointment system in which an even smaller insider group only participates in the “democratic recommendation” of nominators (see Chapter 2), the move to include local representatives is clearly significant progress.

Different diagnoses would result in different prescriptions. If policy distortion is diagnosed as the consequence of the unbalanced political incentives, the prescription should therefore target the unbalanced nature of political incentive as well as its causes. Some current structural reform measures, though gradual and limited by themselves, indicate the positive direction to alleviate the problem of policy distortion.

First, although the principle of “focusing on economic construction as the central task” had helped lead China out of the era of ideological rigidity and isolation and hence produce the miraculous economic development, its side-effect has clearly emerged after three decades of mindless pursuits of economic growth. Other commendable development goals are sacrificed and social discontent accumulates, all of which happens with the presence of the eye-catching GDP growth rate. As the new theory of “scientific



outlook of development” only takes a small step to redefine the concept of “development,” a shift in the “central task” is essential.<sup>11</sup>

Second and related, the side-effect of the top-down political incentive system also entails changes, despite the positive effects it had previously. Given the increasing complexity of local economy and severity of local discontent, the indirect management tool of political incentives that the center relies on becomes more and more inadequate to manage the policy behaviors of local chiefs. Direct local accountability of local officials should therefore be strengthened by empowering the local people.

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<sup>11</sup> Hu Angang, a famous Chinese scholar who has influence on Chinese government, clearly stated that the central task should change from “economic construction” to “national institutional improvement,” see Hu, Wang and Zhou (2003)

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