China's "Soft" Centralization: Shifting *Tiao/Kuai* Authority Relations*

Andrew C. Mertha

ABSTRACT This article analyses China's recent attempts to counter "local protectionism" and establish standardization in policy implementation and enforcement by centralizing a growing number of its regulatory bureaucracies up to the provincial level (what I refer to as "soft" centralization). In this article, I argue that Beijing's experiment with soft centralization, while successful to some extent, has nevertheless fallen short of its goals and that thus far this transformation remains imperfect and incomplete. The institutional cleavages and fragmentation that so often give rise to corruption and other pathologies of the state appear to have shifted from horizontal, geographic lines to vertical, functional ones. Moreover, the principal beneficiaries of this shift to centralized management are the provinces, not Beijing, as the institutional mechanisms of personnel and budgetary resource allocations are concentrated at the provincial level. Although this has curbed localism to a degree by transferring power from local governments to the newly centralized bureaucracies, it has also contributed to a situation in which newly-strengthened provinces may play a key role in the emergence of a sort of perverse federalism.

Within the past quarter of a century China's former command economy has morphed into one largely governed by the market. China has become integrated into the world economy, and the living standards of many of its citizens have risen dramatically. During this time, China's leaders have experimented with two radically different structural approaches towards managing the economy. The first has marked the reform path since 1978: the decentralization of economic and political decision-making to local governments in order to establish the conditions necessary for markets to take root.

The second, more recent, approach is in many ways the opposite of the first: the partial centralization of a number of key bureaucracies in order to regulate and discipline local government agents in their management of the economy and the implementation of policy more generally. Under this "centralized management" (*chuizhi guanli*) system, individual offices

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within these bureaucracies are no longer beholden to superiors within local governments (*kuai*); rather, they are directly controlled by their functional administrative superiors (*tiao*) and have only a consultative relationship with their former local government bosses. This centralization, moreover, does not appear to be a temporary measure like the macroeconomic adjustments and retrenchment undertaken to cool the overheating economy.[1] Centralization establishes new economic and political incentives that guide officials' behaviour. It creates new winners and provides them with benefits they are unlikely to relinquish voluntarily. Finally, it forges new institutional arrangements that are likely to endure far into the future.

I refer to this as "soft centralization" because, although these bureaucracies are centralized from the township/county to the provincial level, they remain decentralized between the centre and the province (that is, governing the relations between the provincial bureaucratic offices and the provincial governments). In this article, I argue that Beijing's experiment with soft centralization, while successful to some degree, has nevertheless fallen short in its goals and that thus far this transformation remains imperfect and incomplete. The institutional cleavages and fragmentation that so often give rise to corruption and other pathologies of the state appear to have shifted from horizontal, geographic lines to vertical, functional ones. Moreover, the principal beneficiaries of this shift to centralized management are the provinces, not Beijing, as the institutional mechanisms of personnel and budgetary resource allocations are concentrated at the provincial level. Although this has curbed localism to a degree, by transferring power from local governments to the newly centralized bureaucracies, it has also contributed to a situation in which newly strengthened provinces may play a key role in the emergence of a sort of perverse federalism.

The sections below introduce the goals of centralization and the actual bureaucracies that have been centralized since 1998. I discuss the tools that have been used to effect these changes. I then analyse the initial outcomes of soft centralization and discuss their substantive and conceptual significance, particularly with regard to a strengthening of the provinces and a blurring of administrative and jurisdictional lines of authority at lower administrative levels.

Goals: Combating Local Protectionism and Establishing Standardization

Chinese officials point to local protectionism as the target and a greater degree of standardization of policy implementation and enforcement in China as the goal of soft centralization. "Local protectionism" (*difang baohu zhuyi*) is a difficult term to pin down conceptually and even more difficult to establish empirically in China. Conceptually, it can have a

1. See Richard Baum, *Burying Mao: Chinese Politics in the Age of Deng Xiaoping* (Princeton, NJ: Princeton University Press, 1994).

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number of different meanings. It can refer to trade barriers that reduce the sale of goods between localities, thereby preventing the growth of significant scale economies. In this definition, local protectionism represents a barrier to the creation of an efficient, integrated national economy from a mosaic of balkanized local markets that establish unfair barriers to entry, engage in illegal production and sales, or both. Others attach a broader definition, in which local protectionism refers to the adaptation and mutation of national laws and regulations to suit the interests of local officials and which are at a variance with the initial intent of Beijing. Indeed, the term has been applied so loosely that for some there is little if any distinction between "local protectionism" and "corruption."

Empirically, there is some debate over the extent of local protectionism as well as its overall effects on the economy. While there are countless pieces of anecdotal evidence (the Chinese press is full of such stories), there has thus far been little *systematic* analysis of the problem. Moreover, as Naughton and others have found, local protectionism has little, if any, effect on cross-border trade when aggregated to the provincial level.[2] Nevertheless, what is important is that it has been widely *perceived* as a genuine problem by the authorities in Beijing. Moreover, because the conventional wisdom in China is that local protectionism is rampant, it is useful as a political tool to mobilize individuals and agencies against those that might resist the changes to the status quo brought about by soft centralization.

If the target of soft centralization is local protectionism, the goal is to establish a degree of standardization in policy implementation and enforcement. In the case of foreign investment, for example, local governments often offer preferential policies – such as low (or no) taxes, tax refund schemes, or liberalizing remittance of hard currency to investing firms – to potential investors. The problem is that these local governments do not have the legal authority to do this; responsibility for enacting these types of laws and regulations rests with the national government. As a response to these phenomena, the national government wants to standardize policy enforcement throughout China, and centralization is theoretically an effective method of achieving this.[3]

Currently, there are three broad categories of organizations that are either already centralized or which are being considered for centralization: administrative regulation, financial regulation and commodities

2. Barry Naughton, "How much can regional integration do to unify China's markets?" in Nicholas C. Hope, Dennis Tao Young and Mu Yang Li (eds.), *How Far Across the River? Chinese Policy Reform at the Millennium* (Stanford, CA: Stanford University Press, 2003, pp. 204–232). Still others, like Wedeman, argue that local protectionism was actually *beneficial* to China's economic reform, particularly with regard to China's movement away from price subsidies. Andrew Wedeman, *From Mao to Market: Rent Seeking, Local Protectionism, and Marketization in China* (New York: Cambridge University Press, 2004).

3. Interview 02CD06, 18 July 2002; and interview 03BJ03, 9 March 2003.

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management.[4] Why have these particular sectors been selected? Interviews with local officials confirm that their bureaucracies were chosen specifically because of their vital role in China's economic development.[5] Administrative regulatory bureaucracies are key actors in monitoring the economy and standardizing commercial practices throughout China. The centralization of financial services is an attempt to help it withstand the competition to which it will be exposed under the World Trade Organization (WTO). Finally, the centralization of commodities is intended to target their unregulated production and sale and rationalize China's distribution networks and related infrastructure.

Commercial and Regulatory Agencies

Beginning in late 1998, the Administration for Industry and Commerce (AIC) was ordered to alter its authority relations from a decentralized (*kuai*-based) structure to a centralized (*tiao*-based) one. The functions of the AIC shifted from a focus on micro-level (local market and small individual retailers) to macro-level market supervision (the socialist market writ large). Geographic/jurisdictional areas were also enlarged. Moreover, the AIC changed its focus to supervision and was forced to give up its own enterprises. It was told to establish strict qualifications to ensure the professionalism and incorruptibility of its officials.[6]

In March of the following year, Beijing decided to apply centralized management to the sub-provincial level units of the Quality Technology Supervision bureaucracy (QTSB).[7] These changes were identical to those at the AIC, with the exception that the QTSB was ordered to focus less at the retail level and more on the wholesale level in the production chain.[8]

In June 2000, the State Council approved a drug supervision system reform plan that stipulated the provision of centralized management below the provincial level[9] led by the Pharmaceutical Supervision Management Bureau. This bureaucracy is responsible for supervision of all

4. Wang Dingqi, " 'Tiao guan bumen' ye yao jieshou renda jiandu" ("Vertically-managed units should also accept supervision from people's congresses"), http://zgrdxw.peopledaily.com.cn/gb/paper7/9/class000 700001/hwz160811.htm.

5. Earlier attempts at centralization in 1994–95 of the taxation bureau provided a blueprint for changing these other bureaucracies, which began around 1999–2000.

6. "Gaige gongshang xingzheng guanli tizhi sheng yi xia jiguan shixing chuizhi guanli" ("Reform the Administration for Industry and Commerce regulatory system by using vertical management below the provincial level"), http://202.99.23. 245/zdxw/21/981201/A114.html.

7. "Dang zhongyang guowuyuan jueding zhiliang jishu jiandu guanli tizhi shishi zhongda gaige – sheng yi xia zhiliang jishu jiandu xitong shixing chuizhi guanli" ("Party centre and State Council decide to reform management of the quality and technology supervision system – implement vertical management below the provincial level in the quality technical supervision system"), *Renmin ribao* (*People's Daily*), 27 March 1999.

8. "Zhiliang jishu jiandu zhineng zhize" ("Functions of quality technical supervision"), http://www.hn315.gov.cn/gov/znzz.htm.

9. *Ibid*.

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stages of production, distribution, sales and use of pharmaceuticals and medical equipment. The goals of this centralization include abolishing local standards and implementing uniform national ones, increasing the supervision and regulation of the pharmaceuticals market, enlarging the definition of "counterfeit" drugs, and raising the penalties for counterfeiting.[10]

Financial Services

The China Securities Supervision Commission (CSSC) was established in 1993. In July 1999, the "Securities Regulations" were enacted and two months later, the CSSC Stock Issuing Approval Committee was established. In 1999, the CSSC applied for centralized management in order to establish a uniform securities supervision system with adequate supervision and monitoring over securities and futures markets as well as to improve the quality of market information and thus market stability.[11] At present, securities supervision offices (as well as some of the securities-related responsibilities of the People's Bank of China, PBOC) are now under the direct centralized management of the CSSC. It has also consolidated a potentially destabilizing futures market after centralized management was applied to futures markets in 1998. The number of exchanges for futures was reduced to three (Shanghai, Dalian and Zhengzhou) and registered futures companies were scaled back to 180.[12]

The PBOC reinforced this commitment to centralized management by establishing nine large regional branches on 1 January 1999 and abolishing the 31 provincial branches. This reform, based on a pilot programme in Shanghai, seeks to enhance the effectiveness of the central branch's currency policy decision-making and supervision over financing. The PBOC now applies centralized management to commercial banks and credit organizations that are agents for managing state reserves.[13]

The China Construction Bank has established its own centrally managed auditing departments in Guangzhou, Xi'an, Wuhan, Beijing, Nanjing, Dalian, Shanghai and Chengdu,[14] each of which has independent

10. "Guanyu yaopin guanli fa lifa zongzhi de jueding" ("Decision regarding the tenets of pharmaceutical laws"), http://www.sda.gov.cn/webportal/portal.po?UID = DWV1_WOU1D_URL_68212&TOC = COLUMN_68212&OBJ = 71786).

11. "Zhongguo zhengjianhui 'san ding' fang'an huo pizhun" ("China Securities Commission 'three fixes' plan approved"), http://61.129.103.17/overview/publication/company/98/s981156.htm.

12. "Hua tiaozhan wei jiyu, yi guifan cu fazhan – tan wo guo qihuo shichang de xianzhuang yu weilai" ("Make opportunities out of challenges, promote the development of criteria"), http://www.czce.com.cn/Publish/research/200206/3310.asp.

13. "Dai Xianglong hangzhang da jizhe wen" ("Bank director general Dai Xianglong responds to reporters' questions"), http://www.china.org.cn/ch-xinwen/content/news/PressConferences/990127–2.htm.

14. "Jianxing sheli 8 da shenji fenbu" ("Construction bank establishing eight auditing departments"), http://www. sfnews.sh.cn/epublish/gb/paper9/146/class000900002/hwz12292.htm.

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vertical-based authority relations with the higher-level Auditing Department. An "auditor-in-chief" in each of the first-tier branches is in charge of the all the auditing that goes on in that particular branch office. Second-tier branches and those below now submit to the superior first-tier branch, while county-level auditing offices are in the process of being abolished.

Finally, the life insurance sector is also experimenting with centralized management. A life insurance fund was created at the provincial level in 1992 and municipal-level governments were required to contribute a specified amount to it. However, because those life insurance agencies were subject to local government interference, the actual funding was not uniformly regulated.[15] The introduction of centralized management is intended to help resolve these problems.[16]

Regulation and Management of Goods and Commodities

The developments sketched out above have also extended into some of the institutions charged with managing goods and commodities, including the management of electricity and grain. Local protectionism was blamed by central authorities for causing widespread inter-provincial electricity market barriers, resulting in suboptimal allocation and utilization of scarce electricity resources.[17] At around the same time these other developments were taking place, the State Council Development Research Centre submitted a report suggesting that China establish an "Electricity Supervision Commission." Subsequent electricity regulation reforms have been based on this report.[18] The main functions of the Electricity Supervision Commission, an office directly below the State Council, include drafting nationwide supervision regulations, establishing electricity permit regimes, and supervising inter-regional electricity transactions. Regional agencies are charged with enforcing these national regulations as well as regulating electricity businesses that are inter-provincial but which stay within the larger region. The provincial level agencies' functions and duties are to supervise and regulate the electricity business within the province.[19]

On 10 March 1998, the First Plenum of the Ninth National People's Congress approved the "Decision on Reform of the Structure of the State Council," which placed the State Grain Reserves Bureau under the jurisdiction of the State Planning and Development Commission.

15. "Touxi chuizhi guanli" ("The anatomy of vertical management"), http://www.clssn.com/qqhg/2001/06/14/shbz 4b20010614.htm.
16. *Ibid*.
17. "Guowuyuan fazhan yanjiu zhongxin: jianyi sheli 'dianjianhui' " ("The State Council Development Research Centre: suggestions on establishing an 'Electrical Supervision Commission' "), http://www.sp.com.cn/newsp/ggzl/gdgs 04291. htm.
18. *Ibid*.
19. *Ibid*.

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Then Premier Zhu Rongji announced five reform projects, one of which was grain circulation. A "Notice on Transferring Property to Central Grain Reserves Warehouses under Central Control" mandated that in 1998, 20 billion kilogram storage capacity warehouses would be transferred to the central grain reserves system (Zhu Rongji also mandated the construction of 50 billion kilogram storage capacity warehouses to be placed under direct central control within the framework of centralized management).[20] In August of that year, local management companies and offices under centralized management by the State Grain Reserves Bureau were established in Beijing, Shanghai, Shenyang, Zhengzhou, Chengdu, Xi'an, Harbin, Wuhan, Changsha and Urumqi.[21]

The Parameters of Centralization: Tiao and Kuai

Chinese administrative units generally distinguish between two types of political relationships: those governed by binding orders, and those based on non-binding instructions. Any political unit in China has the second type of relationship with any number of other units. But it has the first type of relationship with only one, its direct "superior." A relationship based upon such binding orders is referred to as "leadership relations" or *lingdao guanxi* (the other type is based on "professional relations" or *yewu guanxi*). In China's largely decentralized political system, leadership relations are often not with administrative superiors (described by the Chinese as "leadership along a 'line'," or *tiaoshang lingdao*), but *with local governments at the same administrative level* (or "leadership across a 'piece'," *kuaishang lingdao*).[22] In theory, "line" administration ensures that higher-level government decrees are implemented smoothly and uniformly. "Piece-" or *kuai*-based leadership relations help local governments achieve a degree of independence from external influence, enhance sensitivity to local conditions in the policy process, and facilitate co-ordination between functional departments (see Figure 1).

The next section describes the means through which the transformation of a *kuai*-based set of authority relations to one based on centralized management takes place. It is largely through personnel/budgetary allocations (*bianzhi*), cadre recruitment and allocation (*nomenklatura*), and revenue collection.

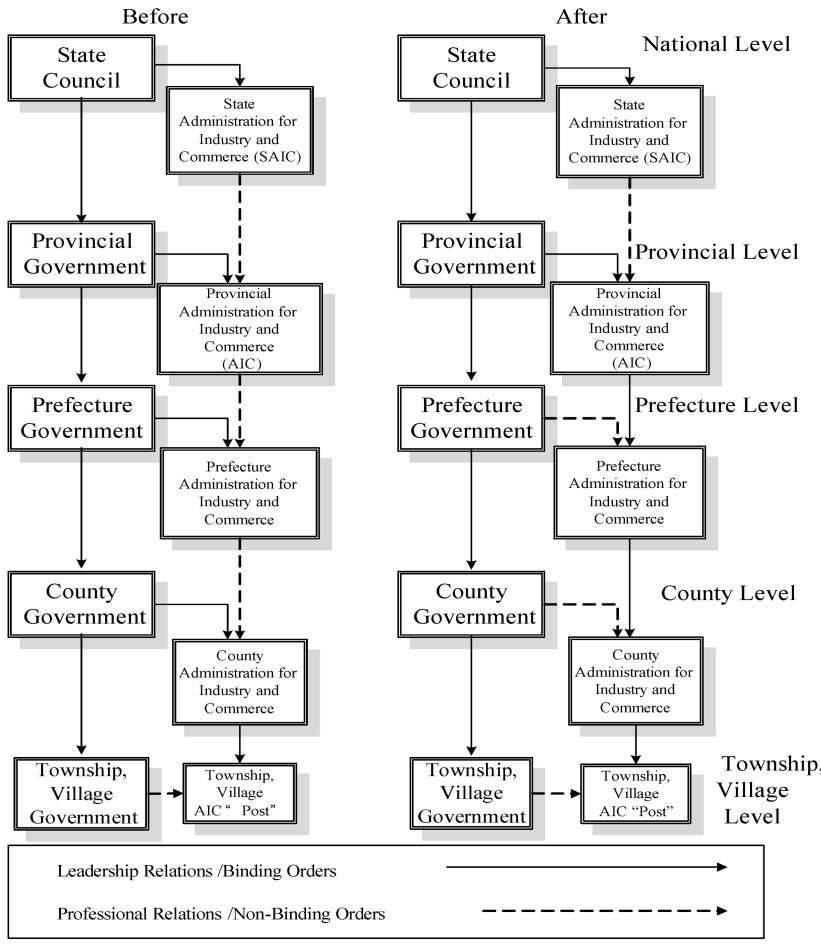
20. "Zhonghua liangwang" ("China grain net, timeline of major events – 1998"), http://www.cngrain.com/Publish/data/200110/58424.asp.

21. "Jianli wanshan zhongyang chubei liang chuizhi guanli tizhi" ("Establish and improve vertical management in central grain reserves"), http://www.cngrain.com/Publish/data/200105/32176.htm.

22. Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes* (Princeton, NJ: Princeton University Press, 1988), pp. 148–49.

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Figure 1: **Before and After "Soft Centralization" (the Case of the SAIC/AIC)**



The Mechanics of Soft Centralization: Bianzhi, Nomenklatura and Fee Collection

Soft centralization and bianzhi.[23] Perhaps the most important mechanism of this centralization is the shift in the allocation of *bianzhi*.[24] Authority over the quantity of personnel appointments and budgetary outlays at the national level is held by the Commission on the

23. The most thorough discussion of *bianzhi* can be found in Kjeld Erik Brødsgaard, "Institutional reform and the *bianzhi* system in China," *The China Quarterly,* No. 170 (June 2002), pp. 361–386.

24. Brødsgaard defines *bianzhi* as "the authorized number of personnel (the number of established posts) in a[n] … administrative organ, a service organization or a working unit" (*ibid.* p. 364). I refer to *bianzhi* as the authorized allocation for personnel, and, by extension, basic budgetary revenues. This system in which budgets are grounded in personnel (and not the other way around) is akin to that of the USSR. It is the reverse of conventional bureaucracies, in which personnel numbers are based on budgets.

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Composition of Government Organizations (CCGO, *jigou bianzhi weiyuanhui* or *bianwei*). The CCGO is an extremely powerful body because of its ability to allocate the number of personnel, and, by extension, the level of budgetary appropriation to government units throughout the system (although such power is far from absolute, as local offices have ways of exceeding their *bianzhi* numbers – *chaobian* – and they also bargain and lobby extensively with the *bianwei*). The number is centrally mandated. However, the provincial-level CCGO has the power to distribute this aggregate figure as it wishes among the various government offices within the provincial level. The number of personnel allocated to each unit is an indication of the unit's importance in the eyes of the provincial CCGO. For decentralized bureaucracies, this procedure is repeated, with some variation, all the way down to the county (there is no CCGO below the county level).[25]

Soft centralization takes these decision-making responsibilities away from the CCGO below the provincial level and transfers them to *within* the provincial-level functional bureaucracy in question. For example, the personnel and budgetary flows within the recently centralized Quality Technical Supervision bureaucracy are as follows. The provincial *bianwei* gives the lump-sum *bianzhi* figure to the provincial QTSB and the money is released from the provincial Finance Bureau. The provincial QTSB then slices up this aggregate figure in a manner that it sees fit (with consultations with lower-level QTSBs). The provincial QTSB still depends on the provincial government, which sets the constraints for the overall size of the QTSB *xitong* within each province (*bianzhi* allocations from the provincial QTSB to the sub-provincial QTSB are based upon the level of economic development, population size, degree of technical development and so on). These estimates are made in conjunction with the budget estimates by the sub-provincial offices. The county QTSB gives its estimate to the prefecture-level QTSB which reviews it and sends it on to the provincial QTSB. The provincial QSTB makes its decision and then gives the money to the prefecture-level QTSB for its own use, while the prefecture-level QTSB remits the money earmarked for the county QTSB to the latter.[26] It is important to note that under soft centralization, at the provincial level, the QTSB has decentralized leadership relations with the provincial government, so the latter effectively, albeit indirectly, controls the aggregate *bianzhi* for the entire QTSB bureaucracy at and below the provincial level.

Soft centralization and nomenklatura. Also significant is the shift in the allocation of *nomenklatura* appointments within these newly centralized bureaucracies.[27] Broadly speaking, *nomenklatura* appointments of the

25. At the township and village levels, personnel allocations (but not the lump-sum figure, which is decided upon by the county CCGO) are determined by the township and village governments. This number is generally very small, and there are no specialized village- or township-level CCGO (Interview 99CD06, 1 July 1999).

26. Interview 03GY01, 19 July 2003.

27. For a discussion on the distinction between *bianzhi* and *nomenklatura*, see Brødsgaard, "Institutional reform," pp. 363–66.

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highest-ranking cadres in any political unit (from a ministry all the way down to a state enterprise at the county level and below) are controlled by the Chinese Communist Party (CCP), primarily, although not exclusively, by the CCP Organization Department. Different organs at the same administrative level might have a different number of positions on the CCP's *nomenklatura* list, depending on the CCP's interest in controlling the unit in question.[28] There have been changes in the cadre appointment system in the past. In the mid-1980s, for example, the system was decentralized to some degree through the introduction of the "one-level down" appointment mechanism and by the shift of central-level appointment authority from the Central Committee to the "Party core groups" (*dangzu*) within a particular ministry.[29]

Centralization adds to this shift in *nomenklatura* appointments. Under the *kuai* system, leading cadres were generally chosen by the Organization Department office at the corresponding administrative level (that is, the leading cadres at the county-level Bureau X would be chosen by the CCP Organization Department at the county level).[30] Since centralization, leading cadres at the sub-provincial level (the director and the deputy director at the district/county levels) are now chosen by the Party core group at the provincial-level bureau. In other words, the national level of the Communist Party still retains the monopoly on appointing leading government and Party cadres at all levels of the system. However, with centralized management, cadres are chosen by the Party apparatus that is contained *within these bureaucracies*, and not by the "external" local organization departments.[31]

Again, using the QTSB as an example, before centralized management, the Party committee (*dangwei*) at the same administrative level (the county *dangwei* for leadership in the county-level bureau QTSB) would choose the leadership. Under centralized management, the provincial QTSB Party core group evaluates candidates for leadership at the prefecture level and the QTSB Party core group at the prefecture level evaluates the candidates for leadership at the county level. However, the QTSB Party core group at the provincial level must vet the leading cadre (the QTSB director) at the county level (the county-level deputy director is only vetted up to the prefecture level). Moreover, for county-level cadres, the Organization Department of the county-level Party committee participates in this process, and for prefecture-level cadres, the Organization Department of the prefecture-level Party committee participates in this process ("dual leadership"/*shuangchong lingdao*).[32]

28. John Burns, "China's *nomeklatura* system," *Problems of Communism*, Vol. 36 (1986), pp. 36–51.

29. Kenneth Lieberthal, *Governing China: From Revolution through Reform* (2nd ed.) (New York: Norton), pp. 234–36.

30. Local-level organization departments had non-binding, professional (*yewu*) relations with their administrative superiors and had binding, leadership (*lingdao*) relations with the Party committee at the same administrative level. Burns, "China's *nomenklatura* system," p. 41.

31. Interview 02CQ02, 10 July 2002; and interview 02GY02, 24 July 2002.

32. Interview 03GY01, 19 July 2003.

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Soft centralization and remittances. Standardization of fee collection is an important goal of centralization. Along this dimension, the General Administration of Customs is the model: 20 per cent of the national budget is derived from customs remittances. Although officials have glossed over the fact that customs remains one of the more corrupt bureaucracies at the local level, the political logic here is that a centralized customs bureaucracy brings in a substantial amount of revenue.[33]

Under a decentralized system, a local unit receives its minimal base budget through its *bianzhi* allocations, decided upon by the local government. It can appeal for additional funds both to the local government (through the finance bureau at the same administrative level) and to the unit's functional superior at the next level up the administrative hierarchy. In addition, with regard to fines, fees and other extra-budgetary revenues, these units can either keep them "in house" (*zishou zizhi*) or make arrangements with the local finance bureau to gain access to them when necessary.[34]

This new system is called "two distinct avenues of fee collection" (*shouzhi liangtiao xian*).[35] In the past, fines were collected by the local administrative enforcement agencies which then were *supposed* to transfer them to the finance bureau at the same administrative level (but often did not). In the current system, the administrative enforcement agency is not even supposed to *see* the money. Instead, it issues a notice that sets a date by which the remitter must make payment. The fee remitter goes to the bank and remits the payment to a special account that is in the name of the enforcement agency but is actually managed and controlled by the finance bureau at the same administrative level. The bank issues a receipt to the fee remitter who then presents it to the original administrative enforcement agency to show that payment has been made (see Figure 2). If the offending party does not pay, the matter is referred to the administrative agency's enforcement arm, the investigation team (*jicha dui*).[36]

There are problems with this new rubric. Because of disincentives and because there is no exogenous control mechanism, there is nothing to prevent administrative enforcement agencies from demanding an on-the-spot cash payout instead of issuing a notice to the offender under *shouzhi liangtiao xian*. Complicating the notion of local governmental non-interference with centrally managed units is local governments' physical proximity to the units no longer officially directly under their control. Transaction costs are often lower when entering into arrangements with a unit's own county government than with that unit's administrative

33. Interview 03BJ03, 9 March 2003.

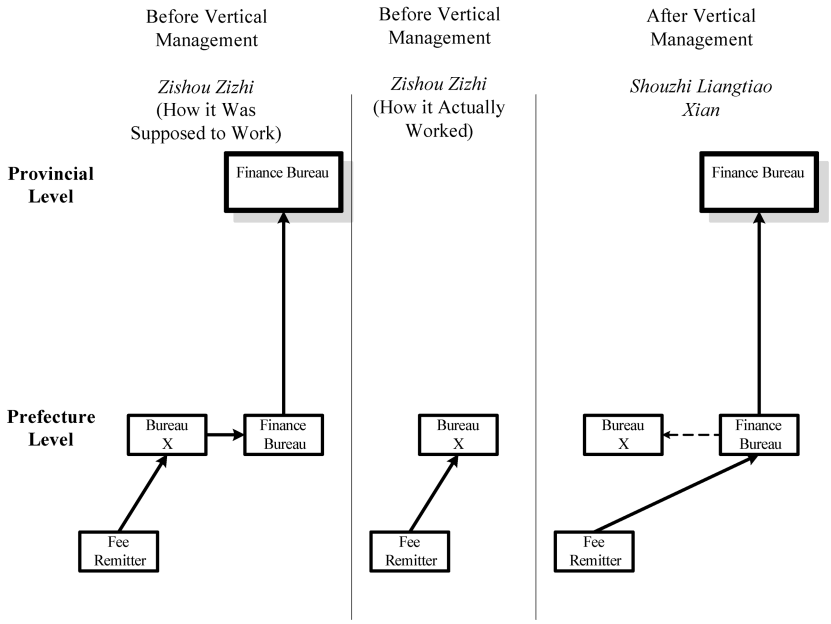
34. Interview 02GZ01 (telephone interview with Guangzhou source from Guiyang), 25 July 2002.

35. It should be noted that this system of *shouzhi liangtiao xian*, while facilitating vertical management (in theory at least), is nevertheless an independent policy. That is to say, bureaucratic units that operate under *shouzhi liangtiao xian* need not be vertically-managed units. I thank Dali Yang for this observation.

36. Interview 02SH12, 5 July 2002; interview 02SH13, 5 July 2002; interview 02GY02, 24 July 2002; and interview 02GY03A, 25 July 2002.

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Figure 2: ***Zishou Zizhi* versus *Shouzhi Liangtiao Xian* (Provincial and Prefecture Levels)**



superior at the municipal or provincial level. Moreover, extra-budgetary revenues can, and are, provided by the local government, which can use them to buy back some degree of the influence it has lost under centralization.

Outcomes and Unintended Consequences

Empowering the provinces. One important question is who has gained as a result of centralized management? One set of winners are those provincial-level bureaus of the "softly" centralized bureaucracies. These officials have witnessed a dramatic increase in their leverage vis-à-vis their administrative subordinates within their own *xitong*, particularly through their ability to control personnel and budgetary flows. *Bianzhi* becomes the responsibility of the newly centralized bureaucracy – and not the local government – from the provincial level down. This represents a potentially significant loss of leverage on the part of local governments over these bureaucracies, as the local governments can no longer directly control personnel, budgetary and other related arrangements.

Provincial governments (the generalists within the provincial government offices) are arguably even larger beneficiaries of these reforms. Because bureaucracies under soft centralization are decentralized at the provincial level, all the newly centralized bureaucracies continue to be under the direct authority of the provincial government. Of course, even

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under decentralization, provincial-level governments can influence prefecture- and county-level governments. One difference is that then the "implementation biases" by sub-provincial governments can go in myriad directions and take many different forms. If a provincial-level government enforces a decision through a softly centralized bureaucracy, it still encounters an *organizational* bias as the policy decision passes through that bureaucracy to be implemented, but such an outcome is theoretically far easier to anticipate (and thus pre-empt) than would be the case with the multidimensional biases of sub-provincial governments under decentralized leadership relations.

It should also be noted that across the bureaucracies analysed in this article, centralization follows slightly different trajectories and is based on various blueprints (or experiments), and the province is not always the clear winner (as in the case of the PBOC and some aspects of the centralization of grain management). Put differently, some centralized bureaucracies are more firmly under the control of provincial-level authorities than others. Specifically, the regulatory bureaucracies remain more tightly under provincial control than those for financial services and commodities. Moreover, even within the latter two cases, some provinces seem to be doing better than others, given their location as regional "hubs" (in both the cases of the PBOC and grain management, Shaanxi, Hubei, Shanghai and Sichuan have benefited relative to other provinces). But in absolute terms provincial-level control of that bureaucracy *within the province* has increased in all these bureaucracies.

As far as the "losers" are concerned, those who have suffered the most appear to be the sub-provincial governments, who lose direct control over these bureaucracies and find it more difficult to manipulate provincial-level directives. One AIC official said that he received orders to "refrain from gloating" over the newly enhanced powers of his bureaucracy, especially when in the presence of lower-level government officials.[37] Moreover, the formal authority relations and procedural parameters between local government organs (people's congresses) and these newly centralized bureaucracies is anything but clear, as argued below.

But insofar as politics can be separated from policy, on the former dimension ("politics"), Beijing is also on the losing end, even if the policy is deemed successful. Although in theory soft centralization reduces considerably the principal-agent and other collective action-related problems by reducing the number of "gatekeeper agents" to the relatively manageable number of 31 provincial-level actors (although this point is itself debatable), the goals of provincial-level authorities are rarely the same as those of their counterparts in Beijing. Centralization may simply transfer local malfeasance and concentrate it at the provincial level.[38]

Of course, the spin that provincial-level authorities place on soft centralization is markedly different from that discussed above. When

37. Interview 99GY03, 14 June 1999.
38. Interview 02GZ01, 25 July 2002.

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asked why centralization only extends below the provincial level, these officials claim that soft centralization is a natural compromise in which Beijing can rein in local excesses, but provincial control allows for a degree of sensitivity for local conditions in the implementation of national policy (to avoid the problems of hyper-centralization of the First Five-Year Plan model, 1953–57).[39] However, this upbeat assessment stands in marked contrast to some of the unintended consequences of soft centralization.

Vertical protectionism? In the most general sense, centrally managed units are economic law enforcement agencies, fund management institutions or commodities co-ordination bureaucracies. The directors at the apex – most notably at the provincial level – of the centralized bureaucracies have a tremendous amount of power, specifically (but not exclusively) over cadre appointments and finance. Without supervisory checks and balances from the local governments, corruption from *within* the centralized system is difficult to avoid.[40] Centrally managed units are usually geographically distant from their functional and administrative superiors, and therefore difficult to supervise. In the opinion of one observer, it is easy for centrally managed units to establish "father–son relationships": when the higher level unit discovers a problem, it might be less inclined to be overly strict with its subordinate unit.[41]

Some have argued that although the enforcement of commercial laws is not a new problem, since the institution of centralized management, such as in the Administration for Industry and Commerce, it has actually worsened. Relations with local governments, the former superiors of AIC units in the area, have deteriorated; in some cases, their interests are diametrically opposed. In these cases, the local governments do not provide the support necessary for AIC work.[42]

Moreover, the police, procuratorial organs and judicial departments remain largely decentralized – regulated through spatial/geographic division of territory – and even though they may have the power to supervise centrally managed units physically within their jurisdictions, they usually do not provide serious checks because of their "preoccupation with local concerns."[43] Or, given the concentration of power on leading cadres of centrally managed units at certain administrative levels (the province), there may be a considerable disincentive to supervise or otherwise cross them.[44]

39. Interview 02CD03, 12 July 2002.
40. Ye Xiaoping, " 'Tiao tiao' shei lai jiandu?" ("Who will supervise vertical/*tiao* management?"), http:// www.people.com.cn/GB/channel7/35/20001218/353454.html.
41. *Ibid*.
42. Wu Fan, "Chui guan hou gongshang ban'an de zhang'ai ji duice" ("Handling obstacles and countermeasures after vertical management in industry and commerce"), *Zhongguo gongshang guanli yanjiu* (June 2001), pp. 56–58.
43. *Ibid*.
44. "Cong quanli yihua kan jinrong fubai" ("From influence to corruption in finance"), http://www.hubce. edu.cn/jwc/jwc5/messages/8965.html.

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Dubbed by some as virtual "separatist regimes," centralized institutions risk becoming independent entities in themselves. Personnel are no longer exchanged through normal channels with the local governments: personnel in centralized units do not move to local governments, and local governments do not move people to centrally managed systems (except through a breach as a result of a power grab or through unofficial "exchanges of interest").[45] Some county-level officials in Sichuan told me that once a unit becomes centralized, it is expected to move out of the common building complex that houses other (non-centralized) county-level government offices.[46] Perhaps to add insult to injury, sometimes the income of personnel in centrally managed units is not modulated to be commensurate with income and consumption levels of those non-centralized government offices in the same regions, arousing resentment.[47]

Relationship with local people's congresses. Under centralized management, units are not created and managed by, or responsible to, the corresponding local people's congresses. This raises a number of issues. First, centrally managed units are far from immune to corruption, but the people's congresses are powerless to stop them (this is nothing new, but with centralized management an enhanced degree of such a power imbalance is enshrined as policy). Secondly, it creates a procedural glitch in that it is unclear whether or not the work of these centrally managed units is approved or even reported on by the local people's congress in the latter's work reports.[48] More to the point, national and local laws stipulate that local people's congresses have supervision power over the administrative departments within the locality. At the very least, centrally managed units are "blind spots" for the local people's congresses[49]; at most they question the very durability of recent improvements in the people's congress system.[50]

The debate is rife with empirical examples of such "contradictions." In Pinggang town, Jiangcheng district, Yangjiang municipality, Guangdong province, the Number Two Market was prevented from opening (it attempted to do so no less than three times) by the local AIC office. The local people's congress deemed the AIC actions to be in violation of the law, but after more than three years, it has been unable to do anything about it; it has been "blindsided" by the centrally managed AIC.[51] In

45. Zhang Liming, "Zhongguo xingzheng jigou piping" ("Criticism of China's administrative organizations"), http://www.xslx.com/htm/mzfz/gjzz/2002–9–25–10043.htm.
46. Interview 03XJ01/1–6, 17 July 2003.
47. Zhang Liming, "Criticism of China's administrative organizations."
48. Wang Dingqi, "Vertically-managed units should also accept supervision from people's congresses."
49. Shen Luhu, "Renda jiandu wu mangqu."
50. Yin Zhongqin, "Difang renda pingyi: zai hansuo zhong qianjin" ("Local people's congress criticism: advancing the inquiry"), http://www.npcnews.com.cn/gb/paper8/6/class000800001/hwz170514.htm.
51. "Yi fazhi shi guanjian zai yu yange zhifa" ("Act according to the law, strictly enforcing the law"), http://www.yjfazhi.gov.cn/ab3htm.

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Henan, law enforcement has become disjointed: it is extremely difficult to enforce the law within the jurisdiction of centrally managed units. Although the local people's congresses have the right to supervise law enforcement, they lack means with regard to centralized units. The results have been pockets in which there is a vacuum in law enforcement.[52]

Lack of local co-ordination. The lack of uniformity, the crisscrossing and intersecting responsibilities and jurisdictions, and the lack of co-ordination that results, have made the emerging system akin to one in which some of the worst parts of localism have been combined with the bureaucratic inefficiencies endemic to planned markets.[53] There are contradictions between the central government policy of centralized management and how it is actually financed at the local level. Because personnel, finance and remittances are all subject to centralized management, financing at the local level for these responsibilities has dried up (and, as noted above, there is an increase in the demand by these local governments for extrabudgetary revenues).[54]

There are several other problems associated with the transition. The first concerns shortfalls in funding. Before the introduction of *shouzhi liangtiao xian*, budgetary allocations came from the finance bureaus, fines and fee collections. Income and expenditure were not separated (*zishou zizhi*). As a result, AIC units competed for cases because of the positive financial incentives in doing so. Now there is no such incentive to engage in proactive and (positively) aggressive behaviour. In addition, this has robbed the AICs in poorer regions of direct control over especially precious resources.[55]

In other cases, the local governments have maintained the upper hand. According to one AIC official, although local AICs are nominally centrally managed, in fact the transformation is only half complete. Some aspects of personnel appointments are still unclear, but the extra personnel necessary for law enforcement work is squarely under the control of local governments, which are reluctant to penalize those commercial operations that provide jobs, money and social stability to

52. Yang Qingshan, "Lun dangqian jiceng zhifa yu jiandu gongzuo cunzai de wenji ji duice" ("Discussion of current problems and countermeasures in local level law enforcement and supervision work"), http://zgrdxw.peopledaily.com.cn/gb/paper8/5/class000800001/hwz165418.htm.

53. "Xiao cheng zhen xingzheng tizhi yingchuangxin" ("Small city and town administrative systems should take the initiative to create something new"), http://www.hnjmw.gov.cn/jmw.nsf/0/FFEA86A8CA9166 B948256A40002F2B59?opendocument.

54. Bu He, Qi Qinghai and Lin Yongcai, "Fangfan he huajie xian xiang caizheng fenqian de duice yu yanjiu" ("Research and countermeasures for preventing and dissolving county and village financial risks"), http://www.wuhai.gov.cn/whsczj/2003dcyj11.htm.

55. Li Yafei, "Gongshang xingzheng chuizhi lingdao tizhi queli hou zhifa lidu he nandu yanjiu" ("Study on law enforcement following the establishment of vertical management in the administration for industry and commerce system"), *Zhongguo gongshang guanli yanjiu* (September 2001), pp. 31–33.

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their jurisdictions. He likened this situation to "mixing fresh air with coal gas" (*meiqi chan kongqi*).[56]

The experience of the Shaoxing county QTSB illustrates how even within the context of centralized management, local governments can effectively isolate the QTSB units in their areas and prevent the latter from enforcing the law. In June 2001, the Shaoxing QTSB found a local clothing manufacturer, Buxinsheng, to be making counterfeit shirts and ordered the manufacturer to pay a fine of 31,000 RMB. Buxinsheng sued the QTSB, and the court, which was under the control of the local government, ruled in favour of Buxinsheng, citing that "the facts are not clear, there is insufficient evidence, and that the QTSB Supervision Department went beyond its scope." In December, the Shaoxing Intermediate People's Court struck down the lower court ruling, after the case gained sufficient international interest (the French company Givenchy, an interested party, made its displeasure known to the State Council and to the Zhejiang provincial government). The above success notwithstanding, the lack of certainty that the QTSB can enforce its own mandate without being taken to court, coupled with the expenditure of time and other resources spent on the litigation process, undermines the QTSB's ability to do its job, even under the structure of centralized management.[57]

There are two other ways in which local governments have resisted centralized management. The first concerns how they view these former subordinate agencies. Often, their thinking is along the lines of "these are no longer 'my people,' so I do not have to take such good care of them in the future," according to one QTSB official.[58] Secondly, there is an "eating in separate kitchens" (*fenzao chifan*) situation with regard to the flow of budgetary revenues. Before centralized management, the local (municipal or county) finance bureaus would send money up to the provincial-level Finance Bureau and then receive their allotment from the provincial Finance Bureau. The latter would transfer funds to the provincial-level QSTB and the city or county finance bureaus would transfer funds to the city- or county-level QTSB. However, what can – and does – happen is that in the "after centralized management" environment, the sub-provincial government might push the finance bureau at the same administrative level to remit less than it should to the provincial Finance Bureau.[59]

The case of the Pharmaceutical Supervision Management bureaucracy (PSMB) is even more poignant. Although experiencing many of the same co-ordination problems as the AIC and the QTSB, the PSMB seems to

56. Cheng Gang, "Fushun 'meiqi chan kongqi' shijian zai bao xinwen" ("News on Fushun 'mixing fresh air with coal gas' "), http://stock.163.com/editor/011210/011210_70584.html.

57. Cui Lijin, "Kua guo zhi jia shouduan fanxin, zhifa bumen zaoyu ganga" ("Transnational counterfeiters adopt new methods, law enforcement departments faced embarrassment"), http://www.zj.xinhuanet. com/gazetteer/clj/page/clj_r2002080807.htm.

58. Interview 03GY01, 19 July 2003.

59. *Ibid*. and interview 03CD01, 14 July 2003.

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be suffering from an even greater shortage of operating funds, particularly those necessary to establish municipal- and county-level offices. This transformation was also plagued by a sluggish separation of administration and enterprise (*zheng qi fenkai*) as well as a lack of unified standards governing the layout of the new system at the local level. One PSMB official said that while his department had many responsibilities, his office had very little money to accomplish them.[60] Indeed, funding is so problematic that local governments end up finding themselves responsible for some portion of the local PSMB budget[61]: municipal and county governments have been called upon to provide the conditions necessary for the normal operation of local *centrally managed* PSMBs. These include office- and law enforcement-related equipment and guaranteed funding for normal operation of drug supervision work.[62] One lament taken from the minutes of a finance work committee meeting was that "drug supervision personnel have no place to work … there is inadequate equipment for law enforcement … no transportation or communication tools and equipment for gathering evidence."[63]

Conclusion: Implications of China's Soft Centralization

The foregoing provides a basic sketch of some of the more opaque but important changes that are taking place in the Chinese government today, and it suggests several implications for the continued evolution of the Chinese state. The first is that these moves signal the beginning of an important shift in the structure of the reform-era state in terms of managing central–local relations and economic development. If the first 20 years of economic reform in China can be defined by the degree of decentralization that unfolded, we are entering a brand new phase of economic management, regulation and control. It would be overstating the case to say that local governments are being forced to give up the freedoms they have grown to expect. Nevertheless, these adjustments signal a dramatic change by bumping up the locus of management to a smaller number of provincial-level offices for these bureaucracies,

60. Interview 02CD09, 19 July 2002.

61. Zheng Xiaoyu, "Renzhen guanche 'san ge daibiao' zhongyao sixiang, jiakuai tuijin yaopin jiandu guanli tixi gaige" ("Earnestly carry through the important thought of the 'three represents' step up and advance the reform of the pharmaceutical supervision management system – speech by Pharmaceutical Supervision Management Bureau eirector Zheng Xiaoyu"), 29 August 2001, http://www.sda.gov.cn/webportal/portal.po?UID = DWV1_WOUID_URL_4241&TOC = COLUMN_4241&OBJ = 20793.

62. Shao Mingli, "Bawo quanju zashi gongzuo nuli wancheng jinnian de gexiang gongzuo renwu" ("With all bureaus plunge into and carry out hard work and complete this year's tasks – speech by Pharmaceutical Supervision Management Bureau deputy director Shao Mingli"), 31 August 2001, http://www.sda.gov.cn/webportal/portal.po?UID = DWV1_WOUID_URL_4241&TOC = COLUMN_4241&OBJ = 20795.

63. "Quanguo yaopin jiandu guanli xitong caiwu gongzuo zuotanhui huiyi jiyao" ("Minutes of the national pharmaceutical supervision management system finance work meeting, 8 April 2001"), http://www.sda.gov.cn/webportal/portal.po?UID = DWV1_WOUID_URL_4241&TOC = COLUMN_4241& OBJ = 20789.

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concentrating power at the provincial level and within these discrete bureaucracies, and insulating them from interference (but also from more positive dimensions in their interactions with their former local government hosts). The initial institutional arrangements have been completed; the evolution of the informal networks critical to policy implementation and enforcement around these new institutional arrangements is already beginning.

What is the impact of these changes on the debate on decentralization? The ability of the central government to enact the changes – even if the most direct beneficiaries are the provincial and not the national-level authorities – calls into question the notion of "durability" of market-protecting federalism. That Beijing can recast so dramatically such fundamental authority relationships as those governing personnel, budgets and property rights from a *kuai*-based decentralized system to a *tiao*-based centralized one demonstrates its power and ability to effect significant unilateral change on its economic reform programme and undermines durability claims. This disputes the market-protecting federalism claim that "each government is autonomous within its own sphere of authority."[64] Given that the direct control of these bureaucracies – including those operating within their jurisdiction – is no longer exercised by local governments, it seems that local government powers have certainly been deflated. Moreover, insofar as these bureaucracies are crucial to the management of local economic development and commercial activity, the authority of sub-provincial governments over the economy within their jurisdictions has eroded.

A second implication concerns the centralization of these bureaucracies and the impact this will have on China's evolving legal system. China is unique in that it has both a legal and a separate administrative structure to handle the resolution of disputes. One might assume that this increases the effectiveness of adjudication and enforcement of dispute settlements. The reality is quite different. These two systems are often in conflict with one another as their jurisdictional and economic interests clash. Insofar as the new centralization strengthens these bureaucracies, it makes them even more formidable competitors and can further undermine the smooth transition towards greater legal and judicial power, particularly concerning enforcement. This is especially true with regard to the uncertain authority relationship between centrally managed administrative units and local people's congresses.

Finally, this glimpse into China's administrative centralization is also interesting conceptually because it provides an example of substantial domestic structural change to enable China to meet its

64. Gabriella Montinola, Yingqi Qian and Barry Weingast, "Federalism, Chinese style: the political basis for economic success in China," *World Politics*, Vol. 48, No. 1 (October 1995), pp. 50–81; Steven Lewis, "Marketization and government credibility in Shanghai: federalist and local corporatist explanations," in David Weimer (ed.), *The Political Economy of Property Rights: Institutional Change and Credibility in the Reform of Centrally Planned Economies* (New York: Cambridge University Press, 1997), pp. 259–287.

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international commitments, particularly those of the WTO. It is relatively easy to harmonize laws and regulations, particularly in an authoritarian country such as China. It is quite another to undertake such fundamental institutional change in the service of meeting international obligations. As such, the foregoing problems and challenges notwithstanding, China's administrative centralization may be interpreted as demonstrating credible commitment to implementing its WTO obligations. How, or whether, China is actually able to do so will depend on the durability of these more recent institutional changes.

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