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China's Governing System And Its Impact on Environmental Policy Implementation

By Kenneth Lieberthal

THE PEOPLE'S REPUBLIC OF CHINA (PRC) PRESENTS A PARADOX. ITS leaders are aware of its enormous environmental problems; impressive environmental laws and regulations have been adopted; a dedicated environmental bureaucracy extends from Beijing down through the provinces, cities, and counties to the township level; and China participates actively in the global environmental community. Yet, much of the environmental energy generated at the national level dissipates as it diffuses through the multilayered state structure, producing outcomes that have little concrete effect.

To understand how to work with China to improve environmental outcomes, one must appreciate the systemic dynamics that contribute to the disjuncture between the PRC's promise and its performance on environmental issues. Two factors—the distribution of authority and the structure of incentives—are particularly consequential.

I. Distribution of Authority¹

China has a multilevel political system in which the major territorial levels are: the *Center*, covering the entire country; thirty-one *provinces*; more than six hundred *cities*; over two thousand *counties*; nearly one hundred thousand *townships*; and close to a million *villages*. [See Chart #1] Typically, every office in the Chinese system has a bureaucratic rank assigned to it. One territorial level of government² contains within its organs several bureaucratic ranks. For example, in the national government in Beijing the State Council (China's cabinet) is at the top;³ commissions such as the State Planning Commission are one step down; ministries are an-

other step down; bureaus within ministries are yet another step down; and so forth.⁴ Provincial governments are the same bureaucratic rank as ministries, and provincial bureaus share the same rank as their ministerial counterparts. [See Table #1]

One key rule of the Chinese system is that *units of the same rank cannot issue binding orders to each other*. Operationally, this means that no ministry can issue a binding order to a province, even though on an organizational chart it appears that the ministries (which are at the Center) sit above the thirty-one provinces.⁵ The natural consequence of this operating rule is that there often is a tremendous need to build a consensus in order to operate effectively in China, and negotiations aimed at consensus building are a core feature of this system.⁶

Authority is channeled (or fragmented) by function as well as by rank. Chinese officials speak of

their government as being divided into broad functional "systems" (the Chinese term is *xitong*), so that each ministry sits atop a functionally-defined hierarchy of government units that exist at each territorial level of government. The National Environmental Protection Agency (NEPA), for example, is at the top of a hierarchy of EPAs⁷ at, respectively, the township, county, city, and provincial levels. Typically, each of these specialized organs has at least two potential masters: the government at each organ's own territorial level of the system and the office in the same functional sphere one level "up" the territorial hierarchy (e.g., the Hunan Provincial EPA is under both the Hunan Provincial Government and NEPA). [See Chart #2]

There is an obvious potential conflict between the "vertical" lines (in Chinese, *tiao*) of authority (e.g., the EPA at each level of the political system) and the "horizontal" lines (in Chinese, *kuai*) of authority (emanating from the territorial government at the same level as the functional office). The former coordinates according to function (in this example, environment); the latter coordinates according to the needs

Chart 1: Territorial Layers of State Administration



Table 1: Rank Equivalents among Government Organs

Lieberthal, Kenneth and Michel Oksenberg, *Policy Making in China: Leaders, Structures, and Processes*. Copyright© 1988 by Princeton University Press. Reprinted by permission of Princeton University Press.

of the locality that it governs. While specifics vary, generally one of the most notable thrusts of the reforms since the late 1970s has been to give the horizontal (that is, the territorial coordinating) line of authority priority over its vertical counterpart. The Chinese call this "Making *tiao* serve *kuai*." The result is that, in general, territorial governments have become more powerful and the central-level functional units such as ministries have had their wings clipped. Within each territorial government, moreover, typically there is one top person (called a "governor" at the provincial level) and several deputy heads. Each of

the deputy heads has formal responsibility for a specific array of functional offices, and a deputy head is not allowed to interfere in the affairs of functional offices outside of his/her prescribed jurisdiction.

As even the above simplified review suggests, authority in China is fragmented by function, by territory, and by rank. Specifics may vary, but it is important to "map" the lines of authority that apply to the implementation of any specific environmental policy in any given locality. It is easy, for example, to end up speaking to a vice mayor of a municipality who in fact has no

authority over the specific issues that are on the agenda of the foreign visitor.

II. Incentives

Relations among territorial governments are complex and important. Typically, all communications go up and down the national hierarchy level by level; skipping levels (by, for example, having the Center communicate directly with a county) is not the norm. In addition, formally each territorial level of government is permitted to issue binding orders to the territorial governments within its jurisdiction one level "down" the national hierarchy. But an implicit political/economic deal developed under the reforms has vastly complicated this straightforward operational rule.

China's reform leaders recognized early on that they had to find some way to spark the genuine enthusiasm of territorial leaders at all levels if they were to succeed in their quest to jump start the Chinese economy and transform it, over time, into a technologically dynamic, efficient engine of growth. Simply issuing orders from Beijing would inevitably produce huge errors and crushing rigidity in a country as large and complex as China. Yet, leading officials did not want to give up ultimate control. The solution to this quandary, reached through experimentation and never codified in either law or specific documents, is a national political-economic deal which says, essentially: *each level of government will grant the level just below it sufficient*

Chart 2: Allocation of Authority



flexibility to enable the lower level to grow its economy rapidly enough to maintain social and political stability. Rapid economic growth, accompanied by social and political stability, is, in turn, rewarded with promotions and other benefits.

This underlying national political/economic deal has produced dramatic results. It has provided enormous incentives for key officials in each locality to become entrepreneurial — to find opportunities to maximize economic growth in the territory under their jurisdiction. Officials at all levels of the political system have become increasingly adept at negotiating for additional flexibility from those at the next higher level — or of concealing activities that violate restrictions imposed from above.

China has thus become a highly negotiated political system. At each territorial level, officials retain enormous ability to interfere in the affairs of the territorial governments one level down the national hierarchy that are under each officials' direct jurisdiction. The officials can stop almost anything they wish to bring to a halt. Therefore, at every level key officials spend an enormous amount of time negotiating for additional flexibility and trying to devise ways to keep higher levels from becoming overly restrictive. This is a bargaining game in which economic growth and social and political stability are the chips at stake.

This situation has had particularly interesting results at the township level. Townships amount to small cities, and they are absorbing a good deal of the surplus labor that has been leaving the land since the breakup of the rural communes in the early 1980s. Township and village enterprises have been the most dynamically growing sector of the Chinese economy for more than a decade, providing a substantial portion of the impetus for the economic miracle widely associated with China over that period.

Township governments do not

receive a regular budgetary allocation from higher levels of the state apparatus. Rather, they rely primarily on generating their own operating funds, and many township leaders have their remuneration tied more or less directly to the profitability of township enterprises.

Although formally considered collectives, the township enterprises are usually creatures of the township government itself. The local government may appoint the enterprise's managers, specify the business scope, provide the access to credit, facilitate the marketing, determine the size of the labor force, and keep the profits, among other activities, for each of the township enterprises under its jurisdiction. Although government and enterprise appear separate it is more realistic to regard the two as a joint local territorial corporation, with the township government serving as the corporate headquarters and the enterprises serving as the various business arms. [See Chart #3] A major purpose of the local government is to make the territorial economy grow rapidly so as to maximize income, employment, and stability.

The above description of the township level requires various modifications as one shifts either "down" to the village level or "up" to county, city, and higher levels of the political system. But many of the most basic features remain quite

similar, such as:

- Key officials see themselves as both government administrators and entrepreneurs;
- There is massive official involvement in the economy at all levels;
- Enterprises enjoy few secure property rights that protect them from official intervention; and,
- There are pervasive incentives to produce rapid economic growth.

The above characteristics do not bode well for implementation of environmental policy. Given the lines of authority and the incentives in China, the entrepreneurs (local territorial officials) typically control the regulators (local environmental officials). Some entrepreneurs are personally environmentally sensitive, and in some localities tourism or other environment-related activities are crucial to the economy. But in most cases, this combination goes far toward explaining the paradox of good environmental laws and poor environmental performance that is pervasive throughout China.

There are additional ways in which this basic structure and set of incentives inhibit effective implementation of environmental policy. "Local corporationism," the name I am ascribing to the nexus between government and economy at the township level, means that various localities tend to become inward

Chart 3: Local Corporationism



looking and regard each other as competitors. But most environmental problems travel across local boundaries and require the cooperation of various territorial governments to address effectively. Such cooperation is difficult to achieve: indeed, there is some evidence of purposeful activity to benefit a locality at the cost of a neighbor's well being. For example, after China imposed water discharge fees for adding pollutants above permissible levels to rivers and streams, there was noticeable movement of offending enterprises to the downstream boundaries in various townships and counties.

The strong incentives to expand local employment and generate new wealth mean that the local government may conspire to blunt the effectiveness of disciplinary actions initiated by its own environmental organs. There are documented cases, for example, of a local EPA imposing a fine on a large local enterprise and then passing along the amount collected to local government coffers; the government then provided a tax break to the enterprise roughly in proportion to the amount of the fine that had been levied. In this way, the EPA met its responsibilities by imposing the fine and the government met its responsibilities by maintaining the financial health of an important source of local jobs and income. Only the environment lost out in this scenario.

Some research suggests that China's large state-owned enterprises may be more effectively subject to government environmental controls than are the local enterprises under the country's new political economy. But the state-owned enterprises are under increasing pressure to issue stock and to separate themselves from government administrative dictates. This rapidly growing trend may, in turn, mean that increasing numbers of firms are slipping into the "neither state nor private" status that has proven so difficult to subject to

the discipline of environmental regulations.⁸

III. Central Power and Its Limits

The above comments might create the mistaken impression that higher levels of government in China retain little clout in this political system. That is decidedly not the case. China remains an autocracy, albeit one committed to economic reform and increasing interaction with the international arena. Among the levers that the center has available to enforce its priorities, the following are particularly important:

- Appointments to all top positions are made by the leaders one level "up" in the hierarchy. The Center thus appoints all provincial governors, vice governors, and party secretaries, while the provincial leaders make comparable appointments at the next level, and so forth. No leader is secure in office if s/he raises the ire of leaders at the level directly above. Perhaps to highlight this ongoing vulnerability, tenure in top provincial positions typically is shorter than the mandated term of office for those positions.⁹
- The Center must approve loans from all international financial institutions before those funds are made available for local projects.
- The Center establishes the regulatory environment, including granting exemptions from specific regulatory requirements.¹⁰ Even though localities often find ways to soften the edge of regulatory demands, local leaders nevertheless fear adverse regulatory rulings and lobby hard to gain regulatory relief from upper levels.¹¹
- The Center controls investment approvals for large projects, which can have significant economic repercussions for various localities.¹²
- The Center can employ the organs of coercion — the Public Security and State Security forces on the civilian side, plus the military — to bring recalcitrant localities into line.
- The Center can dispatch work

teams (the Chinese term for what in the United States would be termed "strike forces") into localities to investigate irregularities, remove offending officials, and clean up problems. Local leaders work hard to avoid the type of attention that might trigger investigation by a higher level work team.

Given these prerogatives in the hands of the Center (most of which also apply to the ability of each successive level of government to exercise leverage over its immediately subordinate level), how is a balance struck between "top — down" discipline and local flexibility and entrepreneurship? There is no hard-and-fast rule that adequately answers this question. China at this stage in its history is simply highly dynamic, consciously experimental, poorly institutionalized and therefore quite diverse.

In broad terms, though, the Center can generally obtain high levels of reasonably disciplined compliance when three conditions are present:

- All top leaders agree on the issue;
- All top leaders are willing to give the issue priority; and,
- The degree of compliance of lower levels is measurable.

In the presence of these three conditions, lower level authorities know that failure to comply will bring substantial punishment, including the possibility of being fired. In these circumstances, compliance is usually impressive, as witnessed by China's extraordinary birth control effort. But only very few policy issues meet all three of the above conditions. Most environmental policies, for example, are too complex, long term, and deeply enmeshed in competing economic interests to be effective. They do not provide the kind of clear-cut priority at the top, and measurable performance evaluation at lower levels, required in the above explanation.

Where the above conditions are not met, policy implementation is

more uneven. When top leaders turn their attention to the issue and publicize their concern about it, local officials tread more carefully. When the attention of those at the top shifts elsewhere, compliance levels may quickly fall off.

The institutionalization of policy initiatives, therefore, is particularly important. Given the pervasive bureaucratic nature of the Chinese system, new initiatives fare best when specific units are created (or adapted) and concretely tasked with implementing that particular initiative.¹³ This has been done with environmental policy, as attested by the development of a nationwide apparatus of environmen-

Cooperation with authorities at the Center will not be adequate to produce substantial outcomes in environmental efforts.¹⁴ Efforts at the Center are crucial in that central level opposition (or, for that matter, opposition at any higher level) can kill an initiative, but rarely are such efforts in themselves sufficient. Rather, it is also important to cultivate understanding and support in the localities whose actions can make a significant difference. The Center places so many demands on localities that local leaders effectively have some ability to prioritize their compliance. Foreign efforts may move some environmental issues higher up the list of local pri-

sive. In addition, given the Chinese side's short term focus on making money, it is often important to devise approaches that sharply limit any downside risks.

In China, as in many more democratic countries, it is important to develop coalition strategies. China is in most instances a consensus building system. The fragmentation of authority outlined above means that most major initiatives require the cooperation of people in a situation in which no single official has command authority over each of the important participants. Put differently, a winning strategy in China must take account of the various units or individual officials

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tal offices from the top to the bottom of the system.

It is important, though, to ask about reporting lines as well as the mere existence of dedicated offices. In the case of the environment, as noted above, the EPA at each level has a solid line relationship with the territorial government at that level and only a dotted line relationship with the EPA one level up in the national government hierarchy. This structure of authority effectively puts each EPA under the thumb of precisely the officials who have the greatest responsibility for — and interest in — accelerated development of the local economy. Environmental policy implementation inevitably suffers accordingly.

IV. Recommendations for Environmental Assistance

The above analysis has significant implications for foreign approaches to China's environmental problems. Details inevitably must vary according to the specific nature of the issue under consideration and the part of the country in which a remedy is sought. But several broad lessons warrant attention.

orities.

Foreigners must take care to understand the division of responsibility in each location. If talking with a vice governor, for example, it is important to know whether that particular individual actually has responsibility for environmental issues (or for energy or whatever specific project is under discussion).

In most localities, there is overwhelming pressure to expand the local economy rapidly. That pressure comes not only from above (those officials who are successful generally enjoy both higher standards of living and better prospects for promotion), but also from below. For example, research has determined that one of the strongest driving forces of local elections in China's villages has been the desire by peasants to put into place local leaders who are more entrepreneurial and therefore better able to expand the local economy.¹⁵ Approaches to local officials must seek, therefore, to tie environmental improvements to short term economic growth. Promises of long term benefits at the cost of near term growth are unlikely to prove very persua-

whose opposition could effectively stymie an initiative and develop an approach that assures their neutrality, if not their active cooperation.

China's system is one that creates ongoing negotiations among its various officials and offices. Foreign partners do best if they make the effort to understand these behind-the-scenes negotiations and to work out how they can most helpfully contribute to the negotiating effort of their Chinese counterparts.

China's concentration on economic development reflects its still deep-rooted and pervasive poverty. Foreign initiatives backed by foreign funds and technology, especially initiatives that are job-creating, are going to be more successful in general than will potentially more important initiatives that require immediate Chinese outlays or that might reduce local employment.

V. The Future

The above comments lay out pertinent characteristics of the current Chinese system and some of their implications for cooperation on the environment. The overall thrust of the above analysis should

be sobering: China's present political system operates in a rather fluid fashion, with great local variation, considerable opportunity for local initiative, and tremendous pressure on local officials to give priority to rapid economic development. As a consequence, the country's implementation of its extensive environmental regulations is very inadequate, and its environmental offices generally are under the authority of officials whose priority is short term growth rather than long term sustainability. Putting these factors together, China's environmental conditions are likely to continue to deteriorate overall during the coming 5 - 10 years.

However, China's system is in the midst of constant change, and the longer term prognosis is less gloomy. Trends already evident in the system that are likely to become increasingly important include the following:

- Greater circulation of information based on a more relaxed view toward release of data, better communications infrastructure, and more tolerance for a diversity of views on technical issues;¹⁶
- Greater expertise, based in part on increased contacts with the international environmental community, better educational resources within China, and research dedicated to tackling environmental problems;
- Growing concern with quality of life among the increasing number of Chinese who have put poverty behind them. This is accompanied by a gradually increasing willingness by the government to consider the opinions of the population and to try to be responsive to popular sentiment;
- Greater understanding on the part of national political leaders of the real costs of environmental degradation; and,
- Gradual moves away from the "local corporatism" model and toward sharper differentiation of government from enterprises. This may result in greater official willingness

to enforce environmental standards.

Over time, the Chinese system should move in a direction more favorable to responsible environmental stewardship. Increased information and analytical capabilities, structural changes that begin to disentangle the interests of officials from those of entrepreneurs, and greater responsiveness to growing popular sentiment in favor of environmental protection should combine to increase China's desire and ability to move toward sustainable development. Foreign assistance in education, research, technology transfer, and funding can make contributions along, but such contributions are likely to be more effective if they are tailored to the structure and dynamics of the Chinese political system than if they are addressed solely to resolving a specific problem.

Endnotes

¹ For a more detailed treatment of the issues raised in this section, see Kenneth Lieberthal, *Governing China: From Revolution Through Reform* (New York: W.W. Norton, 1995).

² Comments made about the government in this paper generally apply also to the Communist Party's governing structure.

³ The Communist Party's Politburo ranks higher than the government's State Council.

⁴ China's National Environmental Protection Agency has a rank below that of a ministry.

⁵ The same rule means, of course, that ministries cannot issue binding orders to other ministries, provinces cannot issue binding orders to other provinces, and so forth.

⁶ David M. Lampton and Susan Shirk provide additional explanations for this phenomenon in their chapters in Kenneth Lieberthal and David M. Lampton, eds., *Bureaucracy, Politics, and Decision Making in Post-Mao China* (Berkeley: University of California Press, 1992).

⁷ The actual nomenclature changes—from agency, to bureau, to department, to office—as one goes down the national governmental hierarchy.

⁸ Key information for these three points is drawn from Abigail Jahiel's excellent

study, *Policy Implementation Under "Socialist Reform": The Case of Water Pollution Management in the People's Republic of China* (Ann Arbor: University of Michigan Political Science Department Ph.D. Thesis, 1994).

⁹ Yasheng Huang, *Inflation and Investment Controls In China: The Political Economy of Central-Local Relations During the Reform Era* (New York: Cambridge University Press, 1996).

¹⁰ Susan Shirk argues that during the 1980s the Center's leaders followed a very specific political strategy in their granting of regulatory relief to various provincial authorities: Susan Shirk, *The Political Logic of Economic Reform in China* (Berkeley: University of California Press, 1993).

¹¹ Dorothy Solinger documents this phenomenon well for the major central China metropolis of Wuhan: Dorothy Solinger, "Despite Decentralization: Disadvantage, Dependence, and Ongoing Central Power in the Inland—The Case of Wuhan," *China Quarterly* (March 1996), 1-34. See also Paul Schroeder, "Territorial Actors as Competitors For Power: The Case of Hubei and Wuhan," in Lieberthal and Lampton, 283-307.

¹² Cf. Huang.

¹³ Kenneth Lieberthal and Michel Oksenberg, *Policy Making In China: Leaders, Structures, and Processes* (Princeton: Princeton University Press, 1988).

¹⁴ The exception to this rule is large scale projects that are funded basically from the Center. But even here, local cooperation is often vital for success. Cf: Lieberthal and Oksenberg.

¹⁵ Allen C. Choate, "Local Governance in China: An Assessment of Villagers Committees" (The Asia Foundation: Working Paper #1, February 1997).

¹⁶ See, for example, Zhu Hongfei, et al., *Fazhan yu weiji: Changjiang liuyu fazhan zhanlue sikao* (Development and Crisis: Reflections on the Development Strategy for the Yangtze River Basin) (Shanghai: Shanghai renmin chubanshe, 1996), which provides the very skeptical view of current Yangtze River Basin strategy of a research team at the State Council's Development Center.

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