The Emerging Model of Economic Policy Making under Xi Jinping

China’s Political Structure and Decision-making Process

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About the Author

Xingqiang (Alex) He is a CIGI research fellow. His work focuses on China and global economic governance, the Group of Twenty, domestic politics in China and their role in China’s foreign economic policy making and Canada-China economic relations.

Prior to joining CIGI in 2014, Alex was a senior fellow and associate professor at the Institute of American Studies at the Chinese Academy of Social Sciences (CASS) and a visiting scholar at the Paul. H. Nitze School of Advanced International Studies, Johns Hopkins University in Washington DC (2009-2010). Alex was also a guest research fellow at the Research Center for Development Strategies of Macau (2008-2009) and a visiting Ph.D. student at the Centre of American Studies at the University of Hong Kong (2004).

Alex is the author of The Dragon’s Footprints: China in the Global Economic Governance System under the G20 Framework (2016) (in both English and Chinese) and co-author of A History of China-U.S. Relations (2009). He has published dozens of academic papers, book chapters and newspaper and magazine articles. Alex’s upcoming book will examine China’s monetary policy-making process under President Xi Jinping.

He has a Ph.D. in international politics from the Graduate School of CASS and previously taught at Yuxi Normal University in Yunnan Province, China. Alex is fluent in Chinese and English.

About the Global Economy Program

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With experts from academia, national agencies, international institutions and the private sector, the Global Economy Program supports research in the following areas: management of severe sovereign debt crises; central banking and international financial regulation; China’s role in the global economy; governance and policies of the Bretton Woods institutions; the Group of Twenty; global, plurilateral and regional trade agreements; and financing sustainable development. Each year, the Global Economy Program hosts, co-hosts and participates in many events worldwide, working with trusted international partners, which allows the program to disseminate policy recommendations to an international audience of policy makers.

Through its research, collaboration and publications, the Global Economy Program informs decision makers, fosters dialogue and debate on policy-relevant ideas and strengthens multilateral responses to the most pressing international governance issues.
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<td>CCDI</td>
<td>Central Commission for Discipline Inspection</td>
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<td>CEWC</td>
<td>Central Economic Work Conference</td>
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<td>CLGCDR</td>
<td>Central Leading Group for Comprehensively Deepening Reform</td>
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<td>CLGFEA</td>
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<td>CSRC</td>
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<td>Chinese Communist Party Central Committee</td>
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<td>MBO</td>
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<td>NGOs</td>
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<td>NPC</td>
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<td>PBoC</td>
<td>People’s Bank of China</td>
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<td>PRC</td>
<td>People’s Republic of China</td>
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<td>PBSC</td>
<td>Politburo Standing Committee</td>
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<td>SEZ</td>
<td>special economic zone</td>
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<td>SASAC</td>
<td>State-owned Assets Supervision and Administration Commission</td>
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<td>SOEs</td>
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Executive Summary

The party-state dual model of governance is the basic institutional framework to understand the decision-making process in China. With its huge, highly institutionalized nationwide network that infiltrates into all institutions and organizations, the Communist Party of China (CPC) tightly controls the administration, congress, judiciary, military, media, social organizations and all other entities in Chinese society.

Based on its nearly 90 million members in more than three million party committees across China, the party hierarchy is the institutional basis upon which the CPC can play the leading role in the decision-making in China’s political process. The Politburo and the Politburo Standing Committee (PBSC) are the highest decision-making bodies, while the central leading groups perform the important role of coordinating the decision making. The party groups play an important role for the party to control government agencies and non-governmental organizations (NGOs) in which the party committees are in no position to fulfill its control.

Superficially, the Chinese government consists of three separate systems including the people’s congress (the legislature), the State Council and local governments (the administration) and the judiciary branch. In practice, all the agencies and institutions in each branch must follow the leadership of the CPC and unconditionally implement the guidelines, proposals and policies made by the CPC.

In China’s decision-making process, the Politburo and the PBSC make decisions on the most significant issues concerning China’s political economy. As the highest organ of the state administration, the State Council is the top authority in managing economic and other affairs and makes and implements policies on a daily basis. The ministries and commissions under the State Council oversee decision making and implementation within their special fields and are responsible for implementing the policies made by the State Council. The party’s central leading groups, in their respective special fields, focus on policy coordination and consultation between the Politburo, the PBSC, the State Council and the specific ministries and commissions involved.

With regard to economic policy making in China, the most significant economic policy initiatives, such as underlying principles, guidelines and strategic design, are made in a top-down way by the country’s leaders. Other significant but specific economic decisions are created by technocrats from lower-level government ministries, but the final decision needs to be made by the State Council or the party central. This constitutes the method of bottom-up policy making. A case study of the state-owned enterprises (SOEs) reform illustrates the two main approaches in China’s economic policy-making process. Over the past decades, the decision-making process of the SOE reform has demonstrated mainly the top-down approach, but has also shown some elements of the bottom-up approach.

The basic party-state dual model of governance and the primary principle that the party is the most important policy maker moulded the main characteristics of China’s decision-making process. This type of decision-making process can be referred to as the Chinese-style elite decision-making model, with collective leadership and consensus decision making in the party committee at each level. This decision-making model has its virtues: extensive field investigations are routinely conducted at the grassroots level, as well as consultations with experts, lower-level officials and the public figures are held outside the party system before and during the decision-making process. Incrementalism and trial-and-error approaches in decision making can help prevent a blunder from happening before it is too late. Collective leadership and consensus decision making can help avoid arbitrary opinions dominating the decision-making process and further developing into a policy that would lead to disastrous consequences. This decision-making model also has its disadvantages: decisions made by ministries and commissions and the gui kou management system normally undermine the legitimacy and rationality in decision making and encourage vested interests to take control of the decision-making process. Collective leadership and the consensus-based decision-making model cause the policy making process to be protracted and less efficient. Lack of coordination between different kous and among members of the PBSC particularly harms the consistency and efficiency of decision making. Finally, implementation remains the weakest link in the whole process of policy making and execution, and the complexity of
these processes throughout the whole party-state dual-bureaucratic system, is mainly to blame.

Introduction

The party-state dual model of governance is the basic institutional framework to understand the decision-making process in China. This fundamental political structure originated in 1949 when the CPC won the civil war and founded the national governance system for the People’s Republic of China (PRC). The relationship between the party and the government and its evolution, or, in other words, the roles played by the CPC in government, are key institutional factors to understand China’s governmental structure and process.

In the early years after the PRC was established (1949–1958), the CPC controlled the government indirectly via those party members in charge of specific departments and the party groups in different government agencies. At the central level, the CPC created the guiding principles and policies, and the central government implemented specific policies to realize these policies. In 1958, Chairman Mao, out of a deep-seated concern of being labelled irrelevant by other top party leaders, took control of the government by strengthening the party’s authority in creating guiding principles and implementing specific policies for government. The party central established five central leading groups to directly govern the state’s financial and economic affairs, political and legal affairs, foreign affairs, science affairs and, finally, cultural and education affairs. By doing so, the party central began to establish a whole hierarchy of administrative agencies that mirrored almost all their counterparts in the central government. Eventually, the party committees at each level replaced the government to directly govern state affairs and assumed control of the roles that should have been played by the government at central and local levels (Pang and Han 1987; Liu 2011). This situation continued until the end of the 1970s, when party leader Deng Xiaoping began the political reform that aimed to separate the party from the government. The basic principle of Deng’s reform was that the party should target the most important elements in creating guidelines, strategies and major policies to lead the way for the country. This included selecting cadres for leading posts, guaranteeing the party’s authority and legitimacy in leadership via ideological education and setting examples for the people to follow the party. The division of labour between the CPC and the central government (the State Council) was preliminarily outlined, and many of the party’s departments and agencies that paralleled its counterparts in the government were revoked.

Deng’s exploration in political reform did not go very far. After the Tiananmen Square event in 1989, the Deng-led party stopped the reform of separating the party from the state. The party’s leadership over the government in all respects, not just political affairs, was established and party groups in the government were resumed and endowed with the role of “making decisions in significant issues” for the ministry or institution they belonged to. The party’s core leading roles, in the local governments, enterprises, institutions and all the grassroot organizations, were emphasized and sustained. Meanwhile, the party rediscovered the role of the legislature — the people’s congress system — and redefined it as the source of the state’s power. The government is responsible for the people’s congress, and the party must act within the scope of both the constitution and the law made by the people’s congress, but the party remains in control of the people’s congress. Superficially, the party’s governance of China was becoming more institutionalized and formalized and developing toward a rule of law. In practice, however, there was no separation of function between the party and the state, and the division of labour between the two was not happening. The relationship between the party and the state was one of leader and their subordinates. In short, since 1989, the party’s leadership over the government at all levels, institutions and enterprises has been well established and the party assumed responsibility for the personnel and decision-making authorities on all significant issues.

The party-state relationship experienced a revolution loop from an embedded model of governance (indirect) to a unified one (direct) and back to an embedded one (indirect) again from 1949 until 1989. The CPC’s increasingly tightened control over the government was rediscovered and underlined in 1989 in a more subtle way and has since been shrouded in the rule of law.

The political structure in China, including the party’s organization and the government’s structure, will be discussed first in this paper, based on the premise
that the party has been tightening control of the state in a more institutionalized way. Subsequently, the decision-making process in general and economic policy-making process will be examined. After a review of case studies regarding China’s SOE reform, the paper will conclude with some of the basic features of China’s decision-making process.

The Party-dominated Political Structure in China

The CPC’s highly institutionalized organization constitutes the core structure of China’s political system, in which the party is in an overwhelmingly dominant position. With its huge, well-organized nationwide network that infiltrates into all institutions and organizations in Chinese society, the CPC exercises control over entities and institutions, including the administration, congress, judiciary, military, media and social organizations. Party branches are established in the organizations, including at all levels of governments (from the State Council at the top to villages’ committees at the bottom), the military (from the Central Military Commission at the top to the company level at the bottom), the enterprises and institutions that are affiliated to the government, non-party organizations (qunzhong zuzhi), private enterprises and social groups. In short, the CPC has control of the whole political process, including decision making and policy implementation, and its dominant role in Chinese society is stipulated clearly in the CPC’s constitution.

The party’s central authorities, the CPC’s Central Committee and the Politburo, constitute the highest level of leadership in the party. Under these central authorities, the whole structure of the CPC organization comprises three subsystems: the local party organizations (tiao), the central party organizations (kuai) and the party organizations in the military (Hu 1998). Each subsystem has channels with which each connects and interacts with the Central Committee and the Politburo. The military party organization is a closed system with party committees and branches that exist at each level, from the highest level of the Central Military Commission to military command, the group army, division, brigade, regiment and to the lowest level of company. The central party organizations (kuai) consist of the organizations in the state-level bureaucracy and in the departments under the Central Committee, as well as in the institutions and enterprises at the central level. The local party organizations (tiao) consist of entities at each level of the local government and at the institutions and enterprises at each local level.

The CPC’s Central Organization Structure

The hierarchy of the party central organization can be further divided into a three-tier structure as illustrated in Figure 1. The top-level leadership includes the National Congress, the Central Committee, the Politburo and the PBSC. In accordance with the party constitution, the National Congress and the Central Committee are, theoretically, the two highest organs of the party. In practice, however, the former comprises about 2,000 representatives and is convened approximately once every five years, while the latter consists of hundreds of members and meets once a year, which makes the 25-member Politburo and especially the seven-member PBSC the actual highest authorities in the party’s daily work. The PBSC is the highest authority in the country and includes the party’s general secretary as the paramount leader within the committee.

The second tier includes the Secretariat of the Central Committee, two special commissions under the Central Committee, the Military Commission of the Central Committee and the Central Commission for Discipline Inspection (CCDI), as well as all the leading groups of the Central Committee. Before the party’s thirteenth congress in 1987, the Secretariat of the Central Committee was the auxiliary body to the Politburo, assisting its decision making, but since 1987 the Secretariat has been demoted to an implementation

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1 In China’s context, non-party organizations or mass organizations refers to the groups consisting of non-party members, but organized by the party to work for the party’s cause. For example, the communist youth league, trade unions and women’s federations.

2 According to statistics from the CPC’s Department of Organization (2016), there were 4,413,000 grassroots organizations in China at the end of 2015, including 213,000 party committees, 276,000 party general branches and 3,924,000 party branches. See http://news.xinhuanet.com/politics/2016-06/30/c_1119139485.htm.

3 The lowest level of organization in China’s military is the squad. The party branch only exists at the company level and above.
organ for the decisions made by the Politburo. The Secretariat’s main responsibilities include managing the daily operations of the Politburo and the PBSC and supervising the departments and commissions under the Central Committee.

The Central Military Commission is the highest authority in the military. The chair of the commission is the party’s general secretary, reflecting the party’s control of the military. Normally, the Central Military Commission is not involved in governmental processes, but in the past it has intervened when the state was in crisis to play a crucial role. The CCDI usually takes charge of inspecting and supervising the implementation of the party’s regulations and rules. In the past decades, it has played only a minor role in China’s decision-making processes. However, as corruption has increasingly grown rampant in the past three decades, and as anticorruption was one of the top priorities for the party in President Xi’s first five-year term, the CCDI has played a significant role in today’s Chinese politics, becoming the party’s major anticorruption agency.4

Under the Central Committee are the central leading groups that play a key role in policy coordination and consultation in the decision-making process in their respective special fields. Among all the central leading groups, the Central Leading Group for Financial and Economic Affairs (CLGFEA), the Central Leading Group for Foreign Affairs (CLGFA) and the Central Leading Group for Taiwan Affairs (CLGTA) are the three most prominent. Initially, all the central leading groups were ad hoc task forces without permanent offices and staff. These three groups have evolved into institutionalized organs with permanent staff and offices. These offices ranked as ministry-level agencies. The CLGFEA is the highest body for coordination in economic decision making. The CLGFA and CLGTA serve similar roles in the decision-making processes in the realms of foreign affairs and Taiwan affairs, respectively. The Chinese president occupies the role of director for both the CLGFA and the CLGTA. On coming to power in 2013, one of President Xi’s institutional endeavours was to strengthen the leadership of the party in every field of China’s political economy, and, as a result, he has established additional leading groups and is the head of almost all of them.

The third tier of the party’s central organization consists of the departments under the Central Committee. They are responsible for managing specific day-to-day affairs in the party central and implementing policy within the party. Some of these departments serve as the administrative office for the central leading groups in the same area. Overall, these departments are responsible for a variety of aspects of the Central Committee’s work, including human resources, propaganda, the united front, relations with other communist parties in the world, foreign affairs, political and legislative affairs, Taiwan, policy research, public sector reform, social management, secret protection, ideology and others. Other department-rank institutions are affiliated to the party’s Central Committee with main duties in research, publication, translation, the party’s archives management and cadre training.5

Among these third-tier departments is the General Office of the Central Committee, which is effectively the “nerve centre” of the party central. The General Office is responsible for the implementation and follow-up of directives, important work arrangements given by members of the Central Committee, as well as routine administrative affairs of the Central Committee, including circulation of important and confidential documents, security guard service and medical care for the top leaders. The General Office of the Central Committee in China plays a similar role as the Secretariat of the Central Committee, but in the next tier down. Both serve similar operational functions as the office of the White House in the United States. The main difference is that the Secretariat is the working body for the Politburo and the PBSC while the General Office serves as the executive office for the Central Committee.

The Organization Department is responsible for party personnel assignments and selection of cadres for key positions both in the party and the governments throughout the country. Effectively serving as the

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4 In March 2018, China reshuffled its party central organizations and central government, and a new government agency, the National Supervisory Commission (NSC), was established. This newly formed agency is the highest state organ for anticorruption. It shares offices, staff and other resources with the CCDI, and its operations are merged with the latter. This reshuffle expanded the authority of the CCDI, a party organ, into the territory of supervising and conducting anticorruption investigations into the whole state bureaucracy, including non-party government officials.

5 See Figure 1 below for the list of these departments.
department of human resources for 90 million party members, the Organization Department is one of the most important party organs, a major pillar for the party to maintain power and control key party officials, the government and SOEs. The Organization Department is also a platform of fierce competition for political promotion inside the party.

Other major departments include: the Publicity Department, which takes charge of ideology-related work that includes establishing the guiding principles and policies for the media, propaganda, culture and arts, religion and the education system. With its main functions in media censorship and control, the Publicity Department, and its subordinate agencies at all levels, play an important role in ideology control and publicity across China.

The Taiwan Work Office, which serves as the administrative office of the CLGTA, is responsible for policy research and policy making for Taiwan affairs and the implementation of the guidelines and policies made by the party central and the State Council. It is also known as the Taiwan Affairs Office of the State Council —a typical example of one institution with two names in China's party-state model of governance. The Taiwan Work Office is of special importance in China due to the "one China policy" since the founding of the PRC. The PRC and the CPC regard Taiwan as a "renegade province" and Taiwan affairs concern the grand cause of the national unification of China.

The United Front Work Department oversees the party's connection with non-Communist Party elites and elite groups in business, the academic community and other sectors, as well as the other small parties under the leadership of the Communist Party. These individuals, elite groups and small parties compose the main constituents of the Chinese Communist Party Central Committee (CCPCC).

The CPC’s Local Organization Structure

The provincial-level party organization is similar to the structure of the party’s central organization, only on a smaller scale. The party organizations at lower levels, such as the municipal and county level, duplicate the provincial-level party organization on an even smaller scale. For instance, the party congress, party committee, the General Office of the Party Committee, the CCID, all the departments and institutions under the Central Committee, such as the Organization Department, the Publicity Department and the United Front Work Department, all have their counterparts at provincial, municipal and county levels. Leading groups are established at the provincial level. But at the lower levels, below the municipal, there is no clear stipulation for the establishment of the leading groups, and the picture varies in different places. The party committee, in the form of the party branch, exists at each level of the local government until the village, which is the lowest level of China’s administrative hierarchy.

The huge system of the CPC organization and its formidable functions in policy making and policy implementation are based on the great number of party members across China. The whole party and state hierarchies record nearly 90 million party members in numerous party committees.7 The party hierarchy is the basis upon which the CPC can play the leading role in the decision-making process in China’s political process. The Politburo and the PBSC are the highest decision-making bodies in China. The leading groups perform the important role of coordinating the decision-making process in certain areas (kous). For example, the CLGFPA oversees the policy coordination for financial and economic policy making among the senior officials in the State Council and other concerned ministers in this area, such as the governor of the PBoC (People’s Bank of China), the minister of finance and so on. The departments under the Central Committee are involved in the decision-making process in the fields they supervise. For instance, the Taiwan Work Office is in charge of Taiwan affairs, and the Publicity Department oversees media censorship. The party standing committee at each local level, including provincial, municipal and county level, constitute the core decision-making body. In practice, the

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6 This wording only exists for the media in the English-speaking world to describe the relations between Beijing and Taipei. See Fish (2016).

7 According to statistics by the CPC’s Department of Organization (2016), there were 88,758,000 party members who were distributed in about 3,260,000 party committees by the end of 2015. See http://news.xinhuanet.com/politics/2016-06/30/c_1119139485.htm.
Notes: China reshuffled its party central organizations in March 2018 when the NSC was established. The NSC shares offices, staff and other resources with the CCDI, and its operations are merged with the latter. Two new commissions under the Central Committee were established: the Central Commission for Comprehensive Law-based Governance and the Central Auditing Commission. The CLGCDR, the CLGFEA, the CLGFA and the Central Leading Group for Cyber Security and Information were upgraded to commissions under the Central Committee, with their new names respectively: Central Comprehensively Deepening Reform Commission, Central Financial and Economic Affairs Commission, Central Foreign Affairs Commission and Central Cyberspace Affairs Commission. The Work Committee of Central Government Department and Work Committee under the Central Committee were merged into a new committee: the Work Committee of the Departments under the Central Government and the Central Committee. The Compilation and Translation Bureau, Party Literature Research Centre and Party History Research Center were merged into the Central Institute for Party History and Literature. The Party School was reorganized with the Chinese Academy of Governance and established the new Party School. The Organization Department, Publicity Department and United Front Work Department expanded their jurisdictions respectively. A new Central Leading Group for Education was established. See Xinhua (2018) for information in detail.
The Structure of the Chinese Government

The Chinese government comprises the people's congress (the legislative branch) at all levels, the people's government (the administrative branch) at all levels, the people's court and people's procuratorate (the judicial branch) at all levels and the Chinese People's Political Consultative Conference (CPPCC) at all levels. The CPPCC is a political advisory body consisting of members from both the CPC and the United Front parties allied with the CPC, as well as independents.9

Superficially, there is a separation of powers and a system of checks and balances in the Chinese political system. However, the Chinese political system needs to be observed on the premise that the CPC controls every branch of the Chinese government. Although the legislature, administration and judiciary have separate systems, each is integrated within the CPC and can be regarded functionally as the assisting body to the party’s ruling in China (Hu 1998). More importantly, all the agencies and institutions in each branch must follow the leadership of the CPC.

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8 See Figures 1–3 for the structure of the CPC organization.
9 See Figures 4–5 for the structure of the Chinese governments.
Figure 4: PRC Government Structure


Figure 5: Local Government Structure

Source: Author; the official website of the People’s Government of Yunnan Province (www.yn.gov.cn/yn_jgzn/index.html); the official website of Yuxi Municipal People’s Government (www.yuxi.gov.cn/bmzz/); the official website of Eshan County People’s Government (www.yxes.gov.cn/); the website of Xiaojie Township Government (http://xxgk.yuxi.gov.cn/esxzfxxgk/jgzn9371/).

Note: In this figure, the government structures of Xiaojie township, Eshan county, Yuxi municipality and Yunnan province are used to illustrate the vertical structure of Chinese local government.
and unconditionally implement the guidelines, proposals and policies made by the CPC.

In terms of personnel, the CPC’s organization overlaps with the whole Chinese government and the party leaders concurrently hold the key positions in the people’s congress, people’s government, people’s court and people’s procuratorate within the same level to ensure the party’s leadership in all government agencies (ibid.). For example, the party’s general secretary assumes the state’s presidency, while the premiership and the executive vice premiership of the State Council are consistently occupied by members of the PBSC. The chair of the Standing Committee of the National People’s Congress (NPC) is regularly shouldered by the member who ranks third at the PBSC. The chief justice of the Supreme People’s Court (SPC) is held by a member of the CPC’s Central Committee, as the rank of SPC is not high enough a member of the Politburo or the PBSC to host the position of chief justice. The governorship of any province is invariably held by one of the members of the standing committee of the provincial party committee.

**The Legislative Branch: The System of the People’s Congress**

In China’s constitution, the people’s congress at each level constitutes the organ of state power, and the NPC is the highest organ of state power (State Council 2004). In practice, its fundamental function in China’s political process is to assure that the CPC’s guidelines, proposals and policies can be transitioned legally to the state. From this point of view, the existence of the people’s congress is necessary although its role in China’s governmental process is not the most important. The function of the people’s congress as the state’s legislature has not been fully realized because the election of the members of the people’s congress at the national, provincial and municipal levels are strictly controlled by the party. The Chairs at all levels of the people’s congress are assumed by senior members of the CPC’s party committee, which reinforces the fundamental reason why the people’s congress is a rubber stamp in reality. It also accounts for the fact that a considerable proportion of the leadership positions in the people’s congress are occupied by non-party members, which is different from the situation in government administration. The CPPCC, at all levels, functions in a similar role as the people’s congress in China’s political process. Formally, it is not a part of China’s authoritative structure. Nevertheless, as a special political consultative body, the CPPCC is a complementary organization to the people’s congress, and similar to the people’s congress, it acts as a legal channel for more extensive social groups and individuals to participate in the management of state affairs in China’s political process. To sum up, the legislative and policy-making functions of the people’s congress and the CPPCC, at present, exist in name only, but their roles in gathering and expressing the interests of a variety of social groups in Chinese society are substantive.

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10 The constitution of the PRC can be found at www.gov.cn/gongbao/content/2004/content_62714.htm.
The Administrative Branch: The State Bureaucracy

China’s state administration consists of the State Council (the central government), which is “the highest organ of State administration” and three levels of local governments: the provincial, the municipal and county, and the township levels. At the state level, the State Council is responsible for managing affairs in all aspects of Chinese society. That explains why the State Council has such a huge apparatus that comprises: the premier; four vice premiers; five state councillors; one secretary general; 26 ministries and commissions; 10 administrations and bureaus directly under the State Council; 16 administrations and bureaus under ministries and commissions; nine affiliated institutions; two administrative offices; and one special organization directly under the State Council, the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council (State Council 2014). The premier has overall responsibility for the State Council, and the premier's leadership in decision making is carried out via two established meetings, the executive meeting of the State Council and the plenary meeting of the State Council. Both meetings are convened and hosted by the premier, and the executive meeting is attended only by senior officials at the vice-premier level, including vice premiers, state councillors and the secretary general. Attendance at the plenary meeting is open to all the officials at the ministerial level. If necessary, the heads of departments or units concerned can sit in the executive meeting (State Council 2008). Ministries and commissions under the State Council follow the principle of ministerial responsibility, and the ministers have overall responsibility for the respective ministries or commissions under their charge. Lower levels of administrations and bureaus, institutions and offices follow the same principle of the chief executive accountability system.

The chief executive officer at level local government, including provincial, municipal, county and township governments, has overall responsibility within their jurisdiction. Local governments, at all levels, basically copy the administrative structure in the State Council. Most of the ministries and commissions, bureaus, administrations and offices at the State Council have their counterparts at lower-level local governments. Some agencies, such as the Ministry of Foreign Affairs and the Ministry of National Defence, are not established at the lower-level of local governments as they are not necessary.

Management of the economy is the most important task for the State Council, and most of the ministries and commissions are responsible for governing and promoting economic growth. However, the most significant economic decision making, such as the formulation of guidelines, strategies and key policies, must be made and approved under the leadership of the CPC’s Central Committee, the Politburo and the PBSC. Implementing decisions made by the party’s organizations is the fundamental role and function performed by the State Council and local governments.

The Judicial Branch: The System of the People’s Court and People’s Procuratorate

In China’s state constitution, the people’s court enjoys independent judicial power, and the people’s procuratorate independently exercises its power (State Council 2004). However, they rank at a lower level in China’s political hierarchy and are less important than the other two branches, the government and the people’s congress. In practice, both the court and the procuratorate must exercise their judicial and procuratorial authority respectively under the leadership of the CPC, which means there is no judicial independence in China. Politically, the main duty of China’s judicial system, in some sense, is implementing the decision made by the CPC. For example, in the trials of former senior CPC

11 There are two-level and four-level local government systems in places. In some provinces, there are only provincial and county levels, and in others all four levels, provincial, municipal, county and township, exist.
12 The 26 ministries and commissions are not equally important. As far as the economic policy is concerned, the National Development and Reform Commission (NDRC), Ministry of Commerce and Ministry of Finance (MoF) are traditionally the more powerful groups while the PBoC, which used to be a relatively irrelevant department, is becoming a more significant agency with China’s ascendency in the international financial field over the past recent decade.
14 For the working rules of the State Council, see www.gov.cn/zwgk/2008-03/25/content_281829.htm.
leaders Jiang Qing and Lin Biao in 1980 and Bo Xilai in 2013, the Party’s Central Committee made the judicial decisions. The establishment of the Bureau Against Corruption and Bribery in the people’s procuratorate system was decided on by the CPC Central Committee to fight against increasingly rampant corruption (Gao 2011). Certainly, at the micro-perspective level, the court and the procuratorate are capable of exercising their judicial power independently on specific cases. For example, on the great number of criminal and civil cases that involves ordinary peoples’ interests, the court and the procuratorate can exercise their independent judicial power.

The Decision-making Process in China

The Institutional Arrangement of Decision Making in China

The CPC’s nucleus of power resides in its central authorities. Within the party’s central authorities are the de facto highest organs in the power structure, the Politburo and the PBSC, both of which are at the centre of China’s decision-making process. In general, the Politburo and PBSC make decisions on significant issues concerning China’s political economy with final approval by the CPC’s Central Committee. At this point in the decision-making process, the approval of the Central Committee is usually rubber stamped as decisions have already been made by the most powerful members in the committee (members of the Politburo and the PBSC). Specifically, the most significant policies, such as the five-year-plan, guiding principles, other strategic policies and the direction of China’s economic and social development, are drafted by groups under the direct leadership of the Politburo and the PBSC. These drafts are then discussed and approved by the Politburo and the PBSC. Originally, these most significant policies were made by the State Council, but needed to be discussed and approved by the Politburo before they could be implemented. This decision-making procedure has been in place since 1953 and it began to experience changes after the 1990s. As one of the results of the achievements on democratic and scientific decision making since the beginning of the twenty-first century, these most significant policies needed to be decided collectively, either by the PBSC, the Politburo meetings, the Central Economic Work Conference (CEWC), the plenary meeting of the Central Committee of the CPC or the National Congress of the CPC, depending on the significance of these policy issues (Zhou 2011). The leading groups, in their respective special fields, play the important role of policy coordination and consultation among the Politburo, the PBSC, the State Council and relevant ministries and commissions under the State Council. Finally, policy is discussed and approved at the plenary meeting of the party’s Central Committee or the party’s national congress.

The roles played by the leading groups in the policy-making process in China are distinct. To strengthen the party and his power over the state bureaucratic system, Chairman Mao started five leading groups in 1958 to manage state affairs. These ad hoc groups did not play a consistent role in policy making before the 1980s, when some of the leading groups, such as the CLGFEA, were rebuilt and developed into institutional forces, with permanent offices and staff, to coordinate and consult among all the participants in significant policy making in China. The office of the CLGFEA has become more significant as its main duty is to draft annual economic guidelines for China’s development. This constitutes an important organizational change in China’s decision-making process. With more leading groups established under President Xi, in particular the Central Leading Group for Comprehensively Deepening Reform (CLGCDR), they are becoming an important institutional force to change the decision-making process. Certainly, while the leading groups facilitate the policy-making process, there is a possibility that they will complicate the decision-making process and make it less efficient.

As the highest organ of administration of state power, as well as the highest executive organ, the State Council plays important roles in China’s decision-making system, in particular the management of the economy. The head of the State Council, the premier ranks second in the PBSC and enjoys the highest authority in managing economic and other affairs across China, making and implementing policies on a daily basis. The State Council and local governments at all levels are also responsible for implementing the most significant policies, strategies and guidelines made and
approved by the CPC, the Politburo and the Central Committee. The ministries and commissions under the State Council oversee decision making and implementation within their own special fields and shoulder the duties to implement the policies made by the State Council. The ministers take responsibility for decision making and implementation in their own department, but in practice the decisions are normally made collectively by the party group at the ministerial level, with the minister usually in a key role. The premier undertakes the same role in the decision-making process at the State Council level.

The most outstanding feature of China’s decision-making process lies in the party’s participation in government decisions, and that it is the most important policy maker in the process. China’s decision-making process is a dual structure that comprises the party and the government. At the national level, the Central Committee (in practice, the PBSC) makes decisions on significant issues, and the central government (the State Council) is responsible for implementing these decisions. On general issues, the State Council makes decisions and supervises the implementation by ministers and local governments daily. At the local level (including the provincial, municipal, county and township levels), the party committee (standing committee) makes the final decisions on all significant issues, and the local government is responsible for implementing these decisions. The relations between the party and the government in China’s decision-making process is similar to that between the board of directors and the executive team in a company; furthermore, the seven-member PBSC is similar to a board of directors, and the general secretary is akin to its chairperson. The huge hierarchy of the State Council is similar to a gigantic executive team consisting of different departments. The premier of the State Council is similar to a general manager and invariably ranks second in the PBSC (board of directors). At the provincial level, the interactions of the provincial party standing committee and the party secretary are similar to the role of board of directors and chairperson. The provincial government acts as the executive team, with the governor who ranks second in the provincial party standing committee (board of directors), assuming the role of the general manager.

A major concern of the party’s central leaders has always been how to ensure the party’s leading role inside the government, and this is where the party group (dang zu) comes in. The party group exists at each level of government (the central, provincial, municipal, county and township levels) to guarantee the party’s leading role in both decision making and policy implementation is ensured. The party group has the final say on policy matters in each level of Chinese government agencies. Typically, the premier of the State Council, the ministers, the provincial governor, the mayor and the executive chief of a county or a town simultaneously assume the secretary of the party group at their respective level. The party groups were established at the founding of the PRC in 1949 to strengthen the party’s leading role inside all government agencies, and its upgraded role as the core leader inside the government was granted at the sixteenth Party Congress in 2002. The party groups are also set up within other government agencies, including the people’s congress system, people’s court system and people’s procuratorate system at all levels. Other organizations in which the party group is established include: people’s groups, such as trade unions, the communist youth league and the women’s federation; economic organizations, such as industry associations; cultural organizations, such as the literary federation and writers’ associations; and non-party organizations such as the CPPCC. The party group at a certain level of government is appointed and led by the party organization (party committee or party group) at the higher level, and it will be the highest leading caucus and policy maker at the certain level of government agency. The party group enjoys the highest authority for overall important affairs at a certain government agency, while the party committee at the same level of government agency (Jiguan Dangwei) usually focuses only on party activities concerning the party members, such as education and supervision.

The local governments’ roles in decision making and policy implementation are also worthy of attention. On the one hand, the party committees at each level of local government hold the highest authority in policy making in the region they govern. This two-pronged decision-making process also exists at

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15 Except for the military units, public security organs, state security agencies and legal administrative organs, the SASAC, Ministry of Foreign Affairs and all embassies and consulates. A party committee, instead of a party group, is established within all of these powerful agencies. See the constitution of the CPC at www.china.org.cn/chinese/18da/2012-11/19/content_27156212.htm. Also see www.china.org.cn/chinese/18da/2012-11/19/content_27156212.htm.
The Economic Decision-making Process in China

The Chinese political structure and the institutional arrangement of decision making, as described above, provide the basic frameworks to understand the economic decision-making process in China, one of the most significant issues concerning the political economy in China.

The first key question regarding the economic decision-making process is where a policy started, or how a policy agenda is set up in the first place. In general, top leaders and elites are the most important initiators who start or introduce a policy in China’s policy-making process. Based on their observation and insight on the principal issues they believe will affect China’s economic growth and political stability, leaders and elites take initiative to establish certain policy agendas. Senior ministry officials normally instigate the policy agenda in the areas they oversee. At the local level, senior provincial, municipal or county officials play the role of policy initiators in the regions or fields they govern.

Where the policy originates dictates if it can be categorized into the bottom-up or top-down approach. Bottom-up policy initiatives are created by elites from lower-level government ministries who have expertise on the sector they manage, but the final decision must be made by the State Council or the party central. Policy initiatives can be fostered by an accumulation of local practices in a certain field, or even a fait accompli from provincial or lower-level practice. The party central or the State Council need to officially approve it. Top-down policy initiatives are generated by top leaders from the State Council or the Politburo and the PBSC, but typically these initiatives are just some guidelines in principle. Specific policy making and implementation are carried out by key government departments that focus on economic matters. There are, undoubtedly, rounds of back and forth of exchanging views between the ministry and the party central or the State Council, but in the end, the State Council and the party central make the final decision before the ministries and commissions can make any decision. On some occasions, the policy initiatives are generated by the joint forces from local and central, and it is hard to differentiate which force was playing a leading role behind the policy making.
These policy initiatives originate with top leaders and elites from within the government; other policy agendas are set as a response to outside pressure. These policy initiatives, apparently, fall within the scope of the bottom-up policy-making model. Incidents or crises could be another source for policy agenda setting and decision making. For example, a severe forest fire and several serious train accidents in the 1980s led to the introduction of policies to strengthen regulations in these two fields (Hu 1998). Public opinion on certain issues became influential after a lengthy period of accumulation and development, and when these issues reached the decision makers at senior or top levels, they were finally put on the policy agenda. In some cases, intensive exposure by official media or suggestions from government think tanks could promote certain policies to be put on the government agenda.

Based on the importance of a certain policy, economic policy making in China can be classified as two basic types: the most significant economic policy making and other significant but specific economic decisions. The decision process varies with these two different kinds of policy making.

The most significant economic policy initiatives, such as underlying principles, guidelines and strategic design, are the ideas of the top leaders. The five-year plan is the most important policy initiative in terms of China’s economic and social development, and the CPC Central Committee initiates this primary blueprint of economic development. Conventionally, the top leaders from the PBSC will propose clear guidelines for the goals and direction of economic growth and social development in five-year segments. The PBSC’s guidelines are based on the mid-term assessment of the previous five-year plan undertaken by the central government and local governments. Subsequently, the task for drafting the proposal of a new five-year-plan is entrusted to the NDRC in the name of the Central Committee and the State Council.

The preliminary research led by the NDRC incorporates field investigation, research and information collection, as well as the recommendations and suggestions by all ministries in the State Council and local governments. After that, the NDRC drafts “the basic thought” of the five-year plan on the grounds of this preliminary research and then submits it to the Central Committee and the State Council.

The PBSC and the State Council separately hold meetings to discuss this draft. After these discussions, political consensus is achieved and the top leaders, including the general secretary and the premier, brief ministerial- and provincial-level senior officials in an attempt to build further consensus. Political mobilization prompts political support among all the cadres.

Other significant, but specific economic decisions include the policies made by ministries and commissions following the strategic principles designed by the top leaders. These specific decisions need final approval from the top leaders before they can be carried out. In this scenario, these policies are made following a combination of the top-down and bottom-up approaches. These significant but specific policies can also be ones initiated by ministries and commissions based on their knowledge in the particular field they supervise. When approved by the State Council or the party central, these policies will become national policies. This demonstrates a typical bottom-up approach in China’s economic policy making.

The guiding principle of SOE reform is a significant economic decision and it needs to be made by the top leaders while the specific road map for the SOE reform under the guiding principle needs to be hammered out by ministries that oversee the SOE. The reform of SOEs in the past decades has demonstrated mainly the top-down approach, but has also shown some elements of the bottom-up approach in terms of the decision-making process. A case study of the SOE reform below will illustrate these two main approaches in China’s economic policy-making process.

**A Case Study of China’s SOE Reform**

Between 1978 and 1992, SOE reform was in an incubation stage, wherein the focus was on how to enhance the efficiency of SOEs through improving management and the introduction of a competition mechanism. During this time, substantial measures, such as reform of the SOE ownership, were not raised. The major policies consisted of “separation of administration and enterprises” (zheng qi fen kai) and “decentralization of power and transfer of profits” (fang quan rang li), which aimed to give managers the autonomy to manage the enterprises (Zhou and Xia 2008). In 1992, after the de facto paramount leader
Deng Xiaoping’s landmark speeches on his “southern tour” where he advocated for further market-oriented reform and opening-up, the leaders and elites changed their minds and began to build the so-called market economy under the rule of the CPC, i.e., the socialist-market economy. One of the key questions facing the reformers was how to define the role of the SOEs in the socialist market economy and what direction the SOE reform should go. At the beginning of the 1990s, the limited progress achieved by manoeuvres, such as decentralization of power and transfer of profits, had suffered from the law of diminishing marginal utilities. Facing strong competition from emerging private companies and joint ventures in China, most of the SOEs had descended into debt and become inefficient enterprises that could not survive without government subsidies and loans from the state-owned banks. They even threatened the stability of the financial system in China (Zhang 2015; Tao 2014).

Facing this severe situation, leaders and elites gradually realized the urgency of the situation and took substantial steps to push the SOE reform, which was, and still is, a central element of China’s building of the socialist market economy. The most difficult issue was how to define and reform the ownership of SOEs in a way that ensured the state’s control of SOEs and at the same time allowed SOEs more freedom to manage themselves and assume full responsibilities for their own profits and losses. In May 1993, before the CPC’s third Plenary of the 14th Congress held in November of that year, the Politburo decided to draft the road map for building the socialist market economy that had been already written into the report of the party’s 14th Congress in 1992 (Wang 2008).

The drafting group was established under the direct leadership of the Politburo. The group’s directors included senior officials Wen Jiabao, then the Chief of the Secretariat of the Central Committee and the secretary general of the CLGFEA, Zeng Peiyan, then deputy secretary general of the CLGFEA, and Wang Weicheng, then director of the Policy Research Office. The 25 members of the drafting group included six vice-ministers from different ministries and commissions, including the Ministry of Publicity, the MoF, the Commission for Restructuring the Economic System (CRES), the Planning Commission, the PBoC, the China Securities Regulatory Commission (CSRC); three directors in charge of financial and economic affairs at the NPC and the CPPCC; four director-level officials from the MoF, the Economic and Trade Commission, the Administration of State Owned Assets and CRES as well as four senior scholars from the Development Research Center of the State Council and the Chinese Academy of Social Sciences; and three senior researchers from the PBoC and the Ministry of Agriculture and Planning Commission.

The drafting process of the decision from the CPC’s third Plenary of the 14th Congress fully illustrated the common methods of China’s major economic decision making. It is a typical top-down decision process, originating in the Politburo, with many rounds of field investigations and consultations. At the first plenary meeting of the drafting group on May 31, 1993, the paramount leader, the party’s General Secretary Jing Zeming explained the requirements for drafting. Under the leadership and coordination of the heads of the CLGFEA, with participation by all the relevant ministries, commissions and state- or ministry-affiliated think tanks, the drafting group finished the outline for the draft, which was approved by the CLGFEA at the end of June 1993. Right after that, the CLGFEA organized 16 teams, which consisted of members of all relevant ministries and commissions, to do extensive field investigations and hold many rounds of discussions with the members of the drafting groups. Revisions were based on the results of these field investigations, and the third draft was submitted to the PBSC for discussion in early September 1993 and circularized to all ministries and commissions, the military, the party departments and all provincial-level leaders for advice. Simultaneously, the PBSC convened three consultation meetings to seek opinions from retired senior party leaders, democratic

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16 This refers to Deng Xiaoping’s tour in Shenzhen, Zhuhai, Guangzhou, Shanghai and other southern cities from January 18 to February 21, 1992. Through delivering a series of important speeches, Deng successfully forged positive public opinion nationwide for further economic reform. The southern tour finally changed the conservative economic policy, dominant since 1989, and restarted the stalled course of market-oriented economic reform and opening up.

17 The number includes the three directors of the drafting group, Wen, Zeng and Wang. In addition to the members listed here, it also included then Vice-mayor of Shanghai Xu Kuangdi and a representative from the Economic and Trade Commission (Wang 2008).

18 It was incorporated into the NDRC in 1997.

19 The predecessor of the NDRC.

20 The predecessor of the Ministry of Commerce.
parties, businesses, well-known public figures and economic experts. The drafting groups revised the draft, based on these opinions and suggestions, and submitted it to the PBSC for discussion in early November 1993. Further revisions were necessary after input from members of the PBSC and the draft was submitted again for final approval three days later. On November 6, 1993, after much discussion, the PBSC agreed to submit the eighth version of the draft to the third Plenary of the 14th Congress. The draft was discussed and revised for the last time during this third plenary.

The resolution on the direction of SOE reform was the toughest issue in the process of the decision drafting. The discussion of what constituted the fundamental characteristics of the so-called modern enterprise system occupied the whole meeting, and finally a consensus was reached (Zhang 2009; Wang 2008). The main component of the modern enterprise system should be public-owned companies, and the modern enterprise system constitutes the base of the socialist market economy system. The main features of the modern enterprise system were defined as “clearly established ownership, well defined power and responsibility, separation of enterprise from administration, and scientific management.”21 The key point was to clarify the ownership of the SOEs. It finally stipulated that state assets in the SOEs are owned by the state, and the SOEs own the corporate property rights. The SOEs became entities that enjoy civil rights and shoulder civil liability (Wang 2008). The establishment of the modern enterprise system and the fact that ownership of the SOEs was clearly defined as a corporate property right at the CPC’s third Plenary of the 14th Congress, opened the door for substantive SOEs reforms.

China’s Privatization of SOEs

Chinese leaders followed the incremental approach in developing the modern enterprise system in 1994, and the State Council, under the leadership of Premier Li Peng and Vice Premier Zhu Rongji, decided to experiment with establishing the modern enterprise system with 100 SOEs in 1994 (Hu 2008; Zhu 2011a, 711). The reform went slowly, and the experiment of the modern enterprise system did not work out well, and so it was not extended to other SOEs. By the early 1990s, the average profit rate for manufacturing in China dropped to nearly zero from 30–40 percent in the 1980s (Tao 2014). More than 60 percent of SOEs were at a loss in 1993 (Zhu 2011a, 878). The central government began to worry about the huge potential financial risks that could be triggered by the SOEs that had been heavily in debt and stopped providing the steady flow of loans. Consequently, some local SOEs declared bankruptcy.

In the same period, with the Eighth Five-Year Plan (1991–1995) approaching its end, the leaders from party central were developing the idea to make a blueprint titled the Ninth Five-Year Plan (1996–2000) and Long-Term Vision for 2010 for the coming decades and decided to present it at the CPC’s second Plenary of the 14th Congress in March 1993.22 The state planning commissions, and other relevant departments, were given the task by the party central and the State Council to prepare the drafting of the proposal. The drafting group was formed, after approval by the Politburo Committee, on March 8, 1995 (He and Chen 1995).

Following the same decision-making process as the CPC’s third Plenary of the 14th Congress in 1993, the drafting group was coordinated and led by the CLGFEA and its members including senior officials from ministries and commissions in charge of economic affairs, such as the Planning Commission, Commissions for Science and Technologies, CRES, MoF, the PBoC, Economic and Trade Commission, Ministry of Agriculture and senior researchers and scholars from the research centres at the State Council, affiliated institutions or research offices under ministries and commissions.

The drafting group was under direct leadership of the PBSC. Alongside the drafting group, 15 field investigation teams, comprised of ministries and commissions, research centres and institutions mentioned in the above paragraph, were organized to conduct extensive field investigations in various provinces and government departments in order to provide an important foundation for the drafting group (ibid.). When the outline for the proposal was finished, it was submitted to the PBSC for discussion and approval. General Secretary Jiang Zemin hosted the discussion and gave the keynote speech in which he detailed the

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guidelines, goals and directions for the proposal before the outline was approved in principle. Other members of the PBSC, such as Premier Li Peng, also gave their opinions on the proposal (ibid.).

After three major revisions, the final draft of the 1996–2000 plan was finished in the following two months. At the beginning of July 1995, the draft was sent to General Secretary Jiang, Premier Li and other top leaders for further revisions while the drafting group hosted symposiums to seek opinions on the proposal from experienced economists and experts. The PBSC and Politburo then reviewed the proposal respectively in July and August and provided further revisions. After incorporating these new suggestions, the draft was printed and distributed to all provinces, party departments and the military for further advice. In the meantime, General Secretary Jiang hosted symposiums with public figures outside the party23 while Premier Li Peng talked with economists to seek their opinions. The drafting group made more than 200 revisions based on these additional opinions and suggestions and then submitted the draft to the PBSC and the Politburo for discussion and approval on September 14 and 21, respectively (ibid.). Finally, on September 25, the Politburo sent the proposal to the fifth Plenary of the 14th Congress for discussion and approval. On September 28, 1995, the last day of the plenary, the party's Congress approved the proposal after the drafting group made final revisions based on the opinions from the representatives of the party congress.24

On the crucial issue of SOE reform, the CPC’s fifth Plenary of the 14th Congress in September 1995 introduced new guidelines on SOE reform focusing on the restructuring of major enterprises while relaxing control over small ones (Zhua Da Fang Xiao), based on the relevant proposal by the drafting group. By the end of 1997, 1,000 enterprises were chosen as major SOEs, and restructuring guidance was provided to them (Zhou and Xia 2008; Zhang 2015). On the subject of small SOEs, measures that relaxed control were taken, such as restructuring, joint operations, mergers, share cooperation, rent, contracting and sales. However, the difficult situation facing SOEs did not improve. On the contrary, 40–43 percent of SOEs were at a loss in 1995-1996 (Zhou and Xia 2008), which developed into a significant issue that threatened social stability.

The recommendation for the privatization of SOEs, Zhua Da Fang Xiao, aroused opposition from the party’s conservatives, even after the party’s Congress and the top leaders had already approved the suggestion after many rounds of discussions and revisions. The opponents insisted that all SOEs, no matter how small, should not be privatized if socialist China wanted to maintain a dominant position in public ownership (Zhong 2008). They published a long report pointing out that the decision of Zhua Da Fang Xiao made by the party central and the State Council was wrong.

Despite the resistance from the conservatives, the vigorous and resolute vice premier Zhu Rongji, who oversaw economic and financial affairs, began to implement the SOE privatization reform. In May 1997, when he met US Federal Reserve Chairman Alan Greenspan, he talked about implementing the “restructuring of major enterprises while relaxing control over small ones” within three years to improve the SOEs’ performance (Zhu 2011b, 700). In July 1997, Zhu raised the target of SOE reform to “out of difficulty in three years” after field investigations in Liaoning Province (Shi 2017).

The first Plenary of the 15th Congress, held in September 1997, officially approved Zhu’s proposal and specified the preliminary goal of SOE reform to establish the modern enterprise system and to lift most of the SOEs at a loss out of difficulty within three years (Zhu 2011b, 841; Zhou and Xia 2008). Thus, SOE privatization reform formally started in the name of lifting struggling SOEs out of difficulty.

With Premier Zhu’s25 iron-fisted implementation measures, the number of mid- and small-sized SOEs was reduced from about 245,000 in 1995 to about 149,000 in 2002. This was accomplished using, once again, restructuring, joint operations, mergers, rent, contracting, share cooperation and sales. The number of large and mid-sized SOEs fell from 65,000 in 1998 to 41,000 in 2002 via the economic layout transformation, asset reorganization and structural adjustment (Zuo and Ouyang 2008; 2017).

23 Including leaders from democratic parties, All-China Federation of Industry and Commerce and other independent public figures.


25 Zhu Rongji assumed the premiership in March 1998.
There are no accurate statistics on the loss of state assets in the
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The figure of 62.1 percent is based on 4,098 SOEs that were profitable
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There were no accurate statistics on the loss of state assets in the
privatization reform of the SOEs in the 1990s. The total number of
the state assets was ¥11.8 trillion by the end of 2002, according to
estimated the loss of state assets in the Zhu Da Fang Xiao reform in the
1990s was up to the level of ¥1 trillion.

26 SOEs in this section refer to state-owned and state-holding industrial
enterprises, according to the classification of the National Bureau of
Statistics of China. They do not include SOEs in the sectors of bank
and finance, farm, construction and transportation.

27 According to Premier Zhu, the number of laid-off workers from
1998 to the end of 2000 is 25.5 million (Zhu 2011c, 597).

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1990s was up to the level of ¥1 trillion.
infrastructure and important natural resources that have a vital bearing on the lifeline of the national economy and state security” (ibid.). Technologically, the establishment of the state property management system was aiming to further promote the “separation of government functions from enterprise management and separation of ownership from management so that enterprises can operate independently, and assume sole responsibility for their profits or losses” (ibid.). In practice, however, these large SOEs secured more financial support and other resources through political arrangements. They grew increasingly large and strong in key sectors such as oil and gas, telecom, public utilities and electricity while the private enterprises were kept out of these sectors and suffered legal and administrative discrimination in financing and market access, among others. Since 2004, many large privately held companies, specializing in electrical appliances, steel, high-tech, real estate and other sectors, suffered financial chain fractures under the Chinese government’s macroeconomic control policy (Chen 2009; Teng 2009; Huang 2009). Some of the companies’ owners served time in prison for their actions while a large number of private companies were purchased or merged with the SOEs in the same sector (Cai 2009; Huang 2009).

Another landmark policy on the SOE reform was the full introduction of the joint-stock system as the major form of state ownership. The report from the Sixteenth Congress states “except for a tiny number of enterprises that must be funded solely by the state, all the others should introduce the joint-stock system to develop a mixed sector of the economy” (Jiang 2002). The question of how to define the role of the SOE in a market economy has always been a difficult issue. The privatization of small and medium-sized SOEs under the principle of Zhua Da Fang Xiao during 1998–2002 streamlined the huge SOE system and lifted a considerable proportion of SOEs out of difficulty, but also triggered a huge controversy as it led to millions of workers being laid off, as well as a large-scale loss of state assets. Privatization is a highly sensitive term in China, and publicly advocating the privatization of the SOEs would have landed the reform in a dead end. The refashioning of SOEs into a joint-stock system allowed China’s new round of SOE reform to avoid being labelled as privatization and, thus, evaded this difficult situation. Supplemented by the rules of “the controlling shares in lifeline enterprises must be held by the state” and “the central and local government function as the investors in the SOEs” (ibid.), the SOE ownership reform made substantive progress.

The movement of “the state advances, the private sector retreats” was escalated in 2009 when the global financial crisis hit China, and the Chinese government introduced the huge stimulus package of ¥4 trillion (US$586 billion). The central enterprises obtained the majority of this ¥4 trillion investment, and subsequently many of these central enterprises grew and evolved into mega enterprises. In the first quarter of 2009, a bank credit of ¥4.8 trillion was issued, but private companies acquired little of it. On the contrary, because SOEs were supported by the government’s favoured policies in financing, market access, tax, land and others, many private enterprises, which were now faced with overwhelming competition from the SOEs, encountered more difficulty in financing. Some private enterprises were forced to withdraw from the sectors they were involved with previously (Teng 2009; Chen 2012). Generally, 80 percent of enterprise financing in China was provided by bank credit, but 80 percent of the credit was given to large SOEs, and 80 percent of private companies never received loans from banks (Huang 2009). The new round of “the state advances, the private sector retreats” in the context of the global financial crisis, underlined the growing “China model,” characterized by the powerful state-owned sector and government intervention, and made this round of SOE reform even more legal and attractive.

The progress made in the previous two rounds of SOE reform was limited. The first round of privatization in the name of Zhua Da Fang Xiao from 1998 to 2002 downscaled the SOE system and improved SOEs’ performance to a large extent. This was accompanied by huge controversy, in particular because millions of workers became unemployed and there was a huge loss of state assets. The second round of SOE reform, from 2003, shifted its previous market-oriented course and made large SOEs, the central enterprises in particular, even bigger and stronger with the support of powerful state intervention in key sectors in China’s economy. Reform was advanced under the management of the newly established SASAC and, again, some large privately held companies were forced to retreat from many sectors and areas.

The substantive market-oriented SOE reform has been stalled over the past decade. Two resistant
forces blocked this reform. First, the large monopolized SOEs have evolved into powerful vested interests, which accounts for the stalled SOE reform in key sectors such as finance, energy, electricity and transportation. The stalled SOE reform has obstructed the economic restructuring for years and has threatened the sustainability of economic growth. The SOE’s monopoly in key sectors, alongside accompanying crony capitalism and massive corruption, has caused widespread dissatisfaction in the private sector, among consumers and with the public across China. In addition, this monopoly has placed continual pressure on SOE reform. The slowdown of China’s economic growth since 2013-2014 further underlined the urgency and importance of continual SOE reform. Since 2014, the new round of joint-stock system reform, wherein the ultimate goal was to develop a mixed sector of the economy, did not make any substantive progress. Theoretically, the introduction of private capital in the SOE-monopolized sectors should have ended the discussion of “the state advances, the private sector retreats” and made real development in SOE reform. In reality, what happened was that private shares were only introduced in non-critical aspects, or only a small portion of private shares were introduced in critical aspects in monopolized sectors, such as oil, petrochemicals, telecommunication, transportation, finance and the power grid. In this way, the private economy was not substantially introduced into these monopolized sectors and effective supervising mechanisms continue to be absent in these areas. Some tycoons of the private sector even expressed that they would have to be the controlling shareholders in a mixed-ownership enterprise, otherwise they could lose their capital, effectively contributing to the SOEs fruitlessly with their own money (Dong 2014).

Second, the leaders and elites are still fettered by the shackles of an ideology that the SOEs, and their control of key sectors in China’s economy, are crucial to keep the China model of growth, to maintain the course of socialist market economy and “reinforce the economic strength, national defense capabilities and national cohesion” (Jiang 2002). In other words, among China’s policy-making community, consensus has not yet been reached on whether the ultimate goal of the SOE reform should be establishing a real mixed sector of the economy.

There are other important technological issues obstructing the SOE reforms. Although the joint-stock system was introduced into the ownership reform, many controversies emerged during the process of establishing a joint-stock system among large SOEs in China. Three key questions include: how to effectively supervise the state assets in SOEs; how to prevent the state assets from losing in the process of reform; and whether equity incentive, a similar plan to management buyout (MBO) among SOE senior managers, should be practised in the SOE reform. The Chinese style of MBO began in 1999 and reached its heyday in 2003 (Jiang and He 2012). The huge controversy aroused by the MBO reform also peaked in 2004 when the well-known Lang-Gu dispute\(^3\) occupied the headlines of Chinese media. SASAC had to suspend the MBO in large SOEs in 2005 (SASAC 2005). The MBO reform was still practised in a small portion of listed SOEs around 2006, but the overall MBO reform was stalled, as it is a highly controversial topic. Employee stock ownership (ESOP) has been adopted since then and was approved by the party’s authoritative document in 2013.\(^3\) The decision to carry out pilot projects on the ESOP in some SOEs had already been made in 2016 (SASAC 2016). Related to these issues is the reform of the salary management system for senior managers in central enterprises, which remains an unresolved issue. The Politburo stepped in and made decisions on the salary reform for the central SOEs’ senior managers in 2014 (Xinhua 2014). The reform has been carried out, but whether it can be resolved remains to be seen. Illegal trade of SOEs shares as a major form of corruption in the process of SOE reform has incurred worry and criticism. These crucial problems have never been solved and were left to the next paramount leader, President Xi, when he came to power in 2013.

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\(^3\) It refers to the dispute about the privatization of the SOEs, which was generated by Larry Lang (朗咸平), who accused a private entrepreneur Chujun Gu (顾雏军) of having usurped state assets during the latter’s purchasing of four SOEs. Lang opposed MBO and doubted the direction of privatization in the SOEs’ ownership reform, which has been at the centre of debate of China’s SOE reform for decades.

\(^3\) See the Decision on Major Issues Concerning Comprehensively Deepening Reforms (in Chinese) that was adopted at the close of the third Plenary Session of the 18th CPC Central Committee on November 12, 2013, at www.china.org.cn/china/third_plenary_session/2013-11/16/content_30620736.htm.
Summary

The case study on SOE reform illustrates the typical top-down approach in China’s economic policy making. The most significant decisions concerning the principle, direction and goals of economic reform, such as the proposal of the five-year plan, the decision on the report of the CPC’s party Congress and the plenary meetings of the party congress are made by the drafting group that is under the direct leadership of the PBSC. As a significant reform regarding the state’s economic system, the principle and the guidelines of the SOE reform followed the same model. They were discussed, debated and finally decided upon by the drafting group that usually comprises senior officials from relevant ministries, commissions that manage economic affairs and prestigious scholars and researchers from research centres or institutions affiliated to the government. Members of the drafting group, top leaders and heads of economic ministries and commissions normally do many rounds of field investigations, consultations, brief and debriefs with economic experts, local governments, the party’s central departments, democratic parties, social groups, public figures outside the party and the public.

The most significant measures concerning the guidelines of major reforms such as SOE reform and economic restructuring, or the direction and guiding principles for exchange rate and interest rate reform, are typically made at the CPC’s annual plenary meetings or the party’s national congress. But specific regulations and the road maps of these major policies, such as SOE reform, economic restructuring, interest rate and exchange rate reforms, fall under the umbrella of the relevant ministries. For example, the principle of making the large SOEs even bigger and stronger, and the decision of setting up a state property management system, were made at the CPC’s sixteenth Party Congress, but the road maps to promote them were made and executed by the SASAC (Shao 2016; Kang 2009). The direction of promoting the exchange rate formation mechanism in 1994 was set in the Decision at the third Plenary of 14th Party Congress, but the specific plan was designed by the CRES under the State Council (Lou 2017). When approved by the State Council or the CLGFEA, the plans and road maps began to take shape and be put into effect. In these cases, the decisions are made following the bottom-up approach.

This bottom-up approach demonstrated a vital role played by ministries and commissions under the State Council in China’s economic policy-making process. On the one hand, the heads of ministries and commissions who supervise economic affairs are members of the main economic decision-making bodies, such as the CLGFEA and the plenary meeting of the State Council. They have their voices in the highest decision-making agencies and share part of the decision-making authority. When they hold strong opinions and preferences on certain issues, the chances are greater for them to affect the related final decision. On the other hand, with the expertise in the special fields they manage, and the duty entrusted by the State Council, ministries and commissions, these heads of ministries and commissions make most of the decisions in these fields. The government agencies who supervised the SOE reform in different periods, the State Economic Commission in the 1980s, the CRES in the 1990s, the State Economic and Trade Commission between 1998 and 2003 and the SASAC since 2003, played the role of designers and advocates for SOE reform in their respective eras.

These decisions are generally originated, designed and promoted by ministries and commissions and are issued in the names of the State Council and/or the party central (Politburo and its Standing Committee, the Central Committee) once they are submitted and approved by the State Council or the party central. For instance, the SASAC, the MoF, the NDRC and the Ministry of Human Resources and Social Security drafted the reform proposal for the salary management system for senior managers in central enterprises. The CLGCDR reviewed the proposal and the Politburo finally approved it in August 2014 (Zhang and Bao 2014; Xinhua 2014). Another example is that the PBoC designed the program of interest-rate reform and submitted it to the State Council. The proposal to cancel the floor of lending rate was approved finally at the executive meeting of the State Council in July 2013 (PBoC 2013; You, Dong and Yu 2013).

33 Ning Shao is the former director of the SASAC (2003–2013) and one of major designers of China’s SOE market-oriented reform.

34 It was incorporated into the NDRC in 1997.
Main Features of Economic Decision-making Process in China

Following an institutionalist perspective, characteristics of the economic decision-making process in China can be concluded as follows. The basic party-state dual model of governance and the primary principle that the party is the most important policy maker determine that the principal decision-making approach is a collective leadership and consensus decision process through the party committees at different levels. Both top-down and bottom-up approaches were used in the past decades, but the most significant economic guidelines and policies are made in a top-down approach with plenty of consultations and field investigations. While the fundamental model of collective leadership and consensus has some virtues, such as a wide range of policy input into the process, the policy-making process is protracted and less efficient. Perhaps due to the endogenous driving forces growing within the bureaucratic system, the departments that manage economic affairs play an increasingly significant role in the economic decision making. Finally, the policy implementation remains the weakest link in the whole process of policy making and execution, and the complex process throughout the whole party-state dual bureaucratic system is mainly to blame.

The top-down approach is taken to make the most significant economic policy making with conventional arrangements

The whole decision-making process within the party is as follows:

→ initiatives by top leaders in the Politburo or the Central Committee;
→ the NDRC\(^{35}\) leads preliminary research directed by field investigations;
→ the NDRC drafts basic ideas, based on the preliminary research and submits it to the Central Committee;
→ meeting of the PBSC to discuss and approve the basic ideas;
→ the CLGFEA leads and coordinates to establish the drafting group;
→ the top leader (the party’s general secretary) briefs the drafting group on the guidelines, goals and direction of the policy;
→ the CLGFEA approves the outline of the policy proposal finished by the drafting group;
→ members of the drafting group conduct extensive field investigations and draft the policy;
→ the draft is submitted to the Politburo and PBSC for discussions and approvals;
→ the PBSC circulates the draft to all departments in the party, the central and local governments and the military to seek opinions. Members of the PBSC conduct extensive consultation with retired senior party leaders, democratic parties, business, public figures and economic experts;
→ the drafting group revises the draft based on the collected opinions and submits it to the PBSC and then revises it again based on further suggestions by the PBSC;
→ the PBSC discusses the draft again and submits it to the plenary meeting of the party congress;
→ the drafting group makes the final revision, based on the discussions and suggestions at the plenary meeting;
→ the draft is finally approval at the plenary meeting of the party congress.

At this juncture, the decision-making process is finished within the party, and the policy will advance through the government procedures:

→ the State Council drafts the formal proposal of the policy based on the decision by the party, followed by communication with local governments, ministries and commissions and trade associations;

\(^{35}\) NDRC is a government agency instead of a party organ but it is entrusted by the party central to do field investigations and draft basic ideas for this significant economic policymaking.
The whole process of decision making (drafting) takes from six months to two years, depending on whether it is a decision at the plenary meeting of the party congress, the proposal of five-year plan or the report of the party’s national congress. The proposal of a five-year plan or the reports of party national congresses take longer and the process is more complicated. The decision of the plenary meeting usually takes six months and there is no preliminary research. The common features shared in the decision-making process include direct leadership by the highest decision-making body, the PBSC, coordination by the CLGFEA, extensive field investigation and consultation. The final decision and approval are made collectively at the CLGFEA and the PBSC after full discussion and consensus is reached. This explains why some Chinese scholars named China’s decision-making model as “consultative government” or “consensus decision making” (Wang 2016; Wang and Fan 2013).

The basic paradigm of the CPC’s decision-making system is the democratic centralism, which has been established and maintained since the revolutionary period.

In practice, the democratic centralism is specified as decisions by the party committee at each level. Decisions by the party committee, in substance, is one form of collective decision making, in which a decision is made collectively by members of the party committee after discussion. At each level, the standing committee of the party committee constitutes the core of decision making. Being included in the party standing committee is the symbol that an official is within the nucleus of the decision-making body. For instance, the PBSC is the highest decision-making organ at the central level, the provincial party standing committee is the highest decision-making body at the provincial level and so on, until the township level.

Except for collective decision making, the model of the decision by the party standing committee contains another component: the division of labour by each member in the committee. Each member oversees one aspect of the decision making in China’s political economy, such as financial and economic affairs, political and legal affairs and propaganda and ideological affairs. In practice, the collective decision making and division of labour among members of the party standing committee has evolved into “decision by the highest leader,” i.e., the party secretary. At the central level, decision-making authority is supposed to be shared by members of the PBSC but Chairman Mao and Deng Xiaoping, in their eras, enjoyed almost absolute power in decision making. To some degree, General Secretary Jiang Zemin had paramount authority in the PBSC during his terms, in particular during 1997–2002 while Premier Rongji took substantive control of the economic and financial affairs. In the Hu-Wen era (2003–2012), it seemed the division of labour was abided by as each of the then nine members of the PBSC had the arbitrary power in the area the member managed. General Secretary Hu lacked absolute authority over the other members, but the collective decision making in the Hu-Wen era was absent as power was divided and shared by the then nine members of the PBSC, which makes it a de facto anarchy rather than a collective leadership. At the provincial level, the party secretary has enjoyed substantive absolute power over other members of the party standing committee and the principle of collective decision making is not well-practised in reality. In the administrative branch, the premier and the ministers, acting as the secretary of the party group, dominate the decision-making process as the system of premier responsibility and minister responsibility are applied respectively.

Although the decision-making process by the party standing committee was interrupted from time to time, it is still the basic mechanism for decision making in China. More importantly, the party committee provides a legal and flexible mechanism by which a variety of elite groups bring different interests and perspectives into the decision-making process. They compete, compromise and make final decisions on important issues concerning China’s economic and social development.
The Chinese-style Elite Decision-making Model

Political leaders and elites are the main initiators of the policy agenda in China’s top-down decision-making process, although there are some exceptions of the bottom-up approach in which the policy originates from grassroots practices by low-level, even rank-and-file officials. Significant policies are made only by party leaders and elites. Input and influence from the grassroots, NGOs, social groups and public figures who are outside the government on the decision-making process is negligible. The leaders and elites lead the masses, and it is hard for the public to influence, let alone dominate, the leaders and elites. From this standpoint, decision making in China is not yet a pluralist model, but a typical elite decision one. Unlike the general elite decision or the pluralist-decision model, however, the Chinese elite decision model has its own outstanding features.

The public policy-making model in China is defined by some scholars as so-called interior-input decision making (Hu 1998; Gao 2009), in which the power elites believe and claim themselves as the representatives of the Chinese people’s interests and make decisions on behalf of the people. The power elites “synthesize” public opinion through the “mass line” and in a variety of ways such as field investigations, listening to advice from think tanks and internal advisers. The public is excluded from the decision-making process. Public policy making is not made based on people’s expression of interests, but by the power elites who seek and identify major issues in China and claim they are making decisions for the interest of the people. It is not a pluralist model of decision making based on exchanges between different groups.

The mass line is the fundamental methodology of the CPC’s governance, and it constitutes the very nature of the Chinese-style elite decision model. During the decision-making process, Chinese leaders and the elite always take the initiative to do extensive field investigations (xia jichen, go to grassroots) to reach the grassroots or the lowest-level officials. This underscores that lianzhi qunzhong (stay in contact with the masses) is the only way to understand the actual situation and the people’s need. Tuoli qunzhong (separate oneself from the masses) means failing to understand the realities. The mass line accounts for an important source of legitimacy and orthodoxy for the party cadres’ governing and performance.

It is a necessity to proceed with expansive field investigations and large-scale consultation with the groups from within and outside the party and the government before making final decisions. Only in this way are the policy makers able to correctly integrate the perspectives and interests of the people into the decision-making process. Otherwise they would lose their legitimacy in the decision-making process, and the orthodoxy of their governance would be in doubt.

In practice, different elite groups in China represent different interests of certain social groups and classes, although they all claim they speak on behalf of the Chinese people’s interests. Different opinions exist on what constitutes “interests of the people,” and not every field investigation can result in an objective understanding of the reality. Factions or groups inside the party have their own specific policy advocates to advance the people’s interests, but their connections with the social groups they claim to represent are regularly weak, non-institutional and informal, which again explains why China’s decision-making model is not a pluralist one. When a certain elite group, or a few elite groups, dominate the explanation of the people’s interests and run the government based on their understanding of the people’s interests, other factions or elite groups are marginalized, and the interests these groups represent would not factor into the decision-making process. For example, the conservative (the left wing) policy advocates in the party have been basically excluded in the policy-making process since the beginning of the reform and opening-up policy at the end of the 1970s. Their voices, however, have been heard more often, and obtained more attention, with the increasing emergence of problems and difficulties, such as rampant corruption and the widening gap between the rich and the poor since the reforms in the 2000s. In most cases, different elite groups can reach compromises on decision making, indicating the integration of a variety of interests in Chinese society.

The centralized management by specialized departments (gui kou guangli) and its influence on the decision-making process in China

As discussed earlier, to understand China’s political system and decision-making process, it is necessary to keep in mind the gui kou management system. There exist many “kous” in China’s political system, including the kou of organization and personnel, politics and law, publicity and education, finance and economy, foreign affairs, defence and industry,
agriculture, construction and infrastructure, the people’s congress, the united front, discipline inspection and so on. It is the management system with which the CPC manages its cadres. This kou represents the division of labour in the governance and management of the party. It is a vertical management system that consists of all levels of cadres and officials who focus on the same area. For example, in the kou of “politics and law,” Zhou Yongkang, who supervised the political and legal affairs in the then nine member PBSC, used to be the highest leader. Zhou as the Secretary of the Central Political and Legal Affairs Commission (CPLAC), directed the civil affairs, public security, judiciary affairs, stability maintaining and comprehensive control of public order. The minister of civil affairs, minister of public security, the president of the Supreme People’s Court, the procurator-general of the Supreme People’s Procuratorate and the minister of justice under the State Council all reported to him. The heads of the commission for political and legal affairs in provincial, municipal and county level were also under the leadership of Zhou, and they were simultaneously subordinates of the party secretaries at the same level.

The vertical, centralized gui kuo management system matches the top-down decision-making process in China. The leading groups are the highest coordination organs, which are divided into different groups according to the kuo. In the kou of finance and economy, the CLGFEA is the paramount group coordinating the decision making for financial and economic affairs. One of the seven members in the PBSC, either the premier or the general secretary, oversees the financial and economic affairs and is the highest leader in this field. All the departments that supervise economic and financial affairs, such as the PBoC, the MoF, the NDRC and the Ministry of Commerce, are under the leadership of the head of the CLGFEA.

The centralized management by specialized departments originated in the 1950s when the highest party leaders felt the need to bolster the leadership of the party over the central government. Many kous under the party’s supervision were established, and the leading groups were set up accordingly in the following years. The gui kou management system reinforced the relations between the party and the state bureaucracy and, with the establishment of the leading groups, improved the efficiency of decision making, although simultaneously making the consistent efforts of separation of party and government a mission impossible. The biggest problem of the gui kou management system, however, lies in its intensifying of the policy conflicts and making policy coordination difficult. Kou is a vertical leadership system that is much like the “tiao” (local party organization or local government). The gui kou management system easily evolves into a closed and exclusive circle, making policy coordination with other kou system labourious and even leading to rampant corruption in a certain kou. As the highest leader at the kou of politics and law, Zhou Yongkang became the so-called “king in the politics and law arena” and built a corruption empire with his unsupervised authority in this field.36

The gui kou management system also created a two-track administrative and decision-making system, under which the ministries and commissions reported to two supervisors, the State Council and the leading groups at the party central. This led to conflicts in decision making between the State Council and the leading groups. In general, the State Council makes decisions on specific issues that involve relatively narrower fields, while the party central has the final say on more important decisions concerning significant policy changes. There is, however, not a clearly defined standard for the importance of certain issues, and leaders need to discuss and decide the level of importance first. In reality, conflicts occur among those who make final decisions on many economic issues.

Incrementalism was applied widely in a variety of areas of reform and economic decision-making processes

Chinese leaders and reformers follow the principle that makes experiments and trials new ideas first, and if these ideas are successful, they can be dispatched across the nation. The guiding philosophy of reform, “crossing the river by feeling the stones,” was set and carried out by the forerunner of the reform, the paramount leader Deng Xiaoping. Establishment of the

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36 Zhou retired in 2012 and was investigated by the party’s CCDI in 2013. In 2015, Zhou was convicted by the Intermediate Court in Tianjin and given a life sentence for bribery, abuse of power and the intentional disclosure of state secrets. With Zhou’s fall, the CPLAC was downgraded in 2013, and the new secretary of the Commission was demoted to a member of Politburo instead of a member of the PBSC. Currently, the secretary of the CPLAC reports directly to the party’s secretary general, Xi Jinping, and the party central’s control over the Commission has been strengthened.
first special economic zone (SEZ) in Shenzhen in 1980 marked the inception of the great trial in China’s market-oriented economic reform and opening up. With the success of the first batch of five SEZs in 1980, 14 more SEZs were established along China’s coastal areas. Establishing the modern enterprise, a key element in the SOE reform, began with the trial of 100 SOEs in 1994. From 1995 until 1997, the SOE reforms of Zhua Da Fang Xiao commenced with trials in small enterprises in district- and county-level cities in Shandong, Sichuan, Heilongjiang, Guangdong and other provinces, and the scheme was expanded to larger SOEs at the national level once it was known to work (Zhou and Xia 2008). The establishment of the Shanghai Pilot Free-Trade Zone in 2013 is the latest example of incremental reform. In almost every aspect of economic decision making in the reform process, officials practised the principle of experiment and trial first and expanded it nationwide once it was proven to work.

There are top-down and bottom-up approaches of incremental reform, and in some cases, the two approaches in practice are both applied in the same economic decision-making process. Most of the significant reform decisions concerning principle, direction and goals are designed by leaders and elites. For example, the inception of market-oriented economic reform, the building of the socialist market economy, the modern enterprise system, the joint-stock system in the SOE reform and the establishment of SEZs in the 1980s, among others, all originated with, and were created by, leaders and elites. Meanwhile, many pragmatic modus operandi and ways to promote reform first arose from the grassroots level and were further explored by policy makers and then extended into a national policy. The beginning of China’s economic reform stemmed from the audacious trial in 1979 in Xiaogang village, Fengyang county, Anhui Province where 18 households began to produce food by themselves instead of for the people’s commune. Their trials were a huge success and were finally approved and developed into the national-level household responsibility system in China’s countryside. The practice of Zhua Da Fang Xiao emerged first in Chongqing in 1994 and 50 large enterprises were chosen and reformed to lift Chongqing out of a difficult economic situation. The exercise in Chongqing provided an important successful precedent for the national campaign of Zhua Da Fang Xiao policy in the SOE reform.

Chinese leaders even developed means that combined both top-down and bottom-up approaches. The central government often encouraged local governments to make trials and experiments first to explore the new route for economic reform in certain areas. The increasingly frequent use of the term Xian Xing Xian Shi [literally Go First and Try] since the mid-2000s indicated this policy drift. The Shanghai government first used the term in a decision in 2007 and it was written into the State Council’s decision in 2008 (Wang and Hu 2014). In the outline of the Plan for the Reform and Development of the Pearl River Delta (2008–2020) issued by the NDRC in 2009, the term was widely used to foster the Guangdong Province to make trial and experiments on the transition of economic growth (Wang and Hu 2014; Feng 2012). For years, the central policy makers in China have learned to take initiatives to facilitate the bottom-up approach in the decision-making process, which demonstrates an advanced way of deliberately following the fundamental philosophy of “crossing the river by feeling the stones.”

Ministries and commissions that manage economic affairs play a key role in the economic decision making concerning their respective areas

The party’s dominant role in the structure of the Chinese political system determines that the highest party organs make significant economic decisions, including the PBSC and the CLGFEA. However, the State Council, as the administrative branch, is traditionally tasked to govern economic affairs and plays dominant roles in daily economic decision making. Ministries and commissions that are responsible for managing the specific aspects of the economy under the State Council are usually the source of many policy initiatives. For example, the PBoC oversees monetary policy making, such as inflation control, adjustment of the interest rate and exchange rates. When the PBoC becomes aware of a need to adjust the interest rate, it will draft a detailed

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policy proposal that includes the specific decision and the reasons behind it. The policy proposal is then submitted to the State Council for discussion and approval at the executive meeting of the State Council. If the decision is made at a sensitive time and deemed to affect the direction of China’s economic growth and stability, it needs to be submitted to the PBSC or CLGEFA for final discussion and approval.

The way that policies are initiated by ministries and commissions can be defined as a bottom-up approach, as they may originate from the officials at the bureau-chief level or lower-division-chief level. These, obviously, need to be approved by the State Council. Ministers and vice ministers are important policy initiators, and policy initiatives may be generated by them as a broad idea. Further development of the idea and design of a detailed road map would then be assigned to the officials at the bureau-chief level. Officials at the bureau-chief level play important roles in the formation of specific decisions. Upon receipt of instructions, or a rough idea on a certain policy from their immediate supervisor (minister) or from higher leaders in the State Council or the party central, these bureau-chief-level officials would organize symposiums and a drafting panel to prepare for decision making. The lower-level officials at the division-chief level are also important members for the policy discussion and drafting. The bureau chief may have a final opinion on policy after discussions with division-level officials and debriefing with the vice minister and the minister for approval (Wang 2012; Zhu 2008). Policies can be triggered from a lower-level-division chief or rank-and-file officials. The proposal from the division chief has the chance to become a ministerial or state policy in some cases if the chief has great resolution and confidence in their policy initiative and it is approved all the way by superior leaders from bureau, ministerial and State Council levels.

Another common way of decision making by ministries and commissions is the second-time decision making or specific decisions to materialize the instructions given by the State Council or the party central. China’s decisions are always forwarded with written instructions and comments from more senior policy makers. Typically, these instructions only give a general idea on the direction, tasks and goals of the policy, not detailed information or plans. What the ministries and commissions normally do is make the second decision and this occurs on a daily basis. This decision-making model fully embodies, even exemplifies, in many cases, the roles of the ministries and commissions in the policy-making process. By the same token, the bureau-chief-level officials make the decision and draft detailed road maps for a policy before it is submitted to senior officials. For instance, the State Council had repeatedly asked the Ministry of Civil Affairs (MCA) and the MoF to propose a rational remedy for houses destroyed in natural disasters. The Bureau of Disaster Relief at the MCA and the Bureau of Social Security at the MoF oversaw the decision-making process in setting standards for remedies for the destroyed houses after discussing with the officials at division-chief level and experts and scholar from both within the governments and outside the system (Wang 2012).

The fact that the ministries and commissions devise most of the economic policies is a prevailing problem in China’s economic decision-making process: each ministry or commission is prone to maximize its departments’ interests and, to some extent, can easily evolve into vested interest groups in the Chinese political economy. Departments’ interests dominate when the ministry and commission make a decision, and their interests have a good chance to become the interests of the state after the decision is approved in the State Council or the party central. The institutional structure and arrangement in China’s political and administrative system put ministries and commissions in an advantageous position, and each department emphasizes its interests and tries to protect and expand its jurisdiction in the policy-making process. The turf war among the ministries and commissions is intense. Conflicts need to be coordinated by the premier or vice premiers, and in some cases, left unsolved, which then delays the decision-making processes or leads to a failed implementation.

**Protracted process of decision making caused by collective leadership and consensus decision-making model**

As discussed earlier in the literature review, many western and Chinese scholars have concluded that the fundamental approach in China’s decision making is a consensus-based model. The basic principle of collective leadership is followed in China’s decision-making bodies, the party committee or standing committee at each level. Before a final decision can be made, a consensus among members of the party committee needs to be reached. The

decision making can be delayed at any stage, and it leads to a protracted decision-making process. The process of consensus building requires a lot of persuasion, interest trade-offs and compromise behind the scenes among the members in the PBSC or the leading groups, which prolong the decision-making process. Failure to reach consensus leads to many decisions being left unsettled and practically abandoned in the end. Realizing that no consensus can be reached, the leaders who promote the decision would commonly choose not to raise the issue in the PBSC or leading group meetings to avoid an embarrassing stalemate. What they often choose to do is wait for better timing to convince and compromise until most of the members in the PBSC or leading groups give their approvals.

When facing tough decisions on significant or controversial issues, such as the SOE reform, making decisions needs unflinching determination, which was regularly absent. No one is willing to take the responsibility to make those critical decisions as significant decision making comes with great accountability. Even if a general consensus could be grudgingly reached, the best result would just be a vaguely worded instruction, and substantive decisions are typically missing. In this case, the job to make essential decisions is often conveyed to the lower-level authorities. In addition, the ministries and commissions that are habitually the target department for reform perform as their own supervisor to oversee the reform. For instance, specific decisions on tough SOE reform are customarily tasked to the SASAC, the supervisor of the SOE, but the SASAC is associated with and “captured” by the SOEs it supervises. It is illogical to expect a major stakeholder of the SOE to make a decision at their expense. In the end, no substantive progress would be achieved and the decision making and related reform would be delayed.

If there is significant objection or counterviews on the issue being discussed at the PBSC or leading group meetings, the decision will be deferred, and a new round of view exchanges, interest trade-offs and compromises are required. The final decision will be pushed to the next PBSC or leading group meeting. The decision-making process can be delayed by the discoordination between the ministries and commissions as well. The decisions by the party central or the State Council are normally in the form of a general instruction or principle, and the second-time decision expands on this. Lack of consensus among the relevant ministries and commissions on how to materialize the instructions from senior officials typically stalls the second decision.

In summary, the collective leadership and consensus decision-making model in China can generally result in a protracted policy-making process. In the past decades, powerful paramount leaders with personal charisma have shown great resolution and capacity to push forward the reform and make tough decisions. Chairman Mao and Deng Xiaoping are the two prominent examples, and Premier Zhu Rongji’s achievement on promoting the SOE reform between 1998 and 2002 equally revealed the determination needed to make tough decisions and implement them.

Policy implementation has been the biggest problem in the whole policy-making process

The problem originates from the structure of China’s political system. Both the party central and the central government lack their own executive agencies to implement the decisions they make. The ministries and commissions under the State Council are responsible for specific policy making, but not implementation. The centralization of authority in China’s political structure determines that the final implementation of policy relies on the local government at each level, including at the provincial, municipal, county and township levels. Both the party central and the State Council rely on the local administrative system to carry out their policies.

The main incentive for the local officials to implement policies made by the party central and the central government lies in the opportunity for promotion. Provinces are comprehensive political entities with their own interests, but they are also the primary target of the direction and decisions made by the party central and the central government, neither of which have their own executive bodies. The party central uses personnel management to control the provincial leaders (mainly the party secretary and governor, but sometimes other members of the party’s standing committee), and frequently transfers officials between different provinces to prevent them from being captivated by local interests. This internal institutional conflict, however, is resistive and hard to solve. The immediate consequence of this yielding is that the party central’s directions and policies face great difficulty in being implemented. Commonly, the decisions of macroeconomic control to regulate an overheated economy by the party central in the recent decades have encountered constant resistance from local governments, as the GDP growth boosted
by investment was an easy and effective way for local officials to improve their performance.

Local governments generally have no voice in the national policy-making process and have authority only in their local decision-making process. One of the basic responsibilities of local governments is to implement the decisions and policies made by the party central. For any local government, it has to listen to directions from two supervisors, both its senior administrative authorities (kuai) and its higher competent authorities (tiao). Typical problems in implementation brought by the highly centralized decision-making system include: the policy losing its original intention, in total or in part, when distributed across the whole hierarchy of the bureaucratic system; a quite low efficiency in decision making due to the extremely complex administrative procedure; and local governments having less incentives to take the lead and be creative when implementing policy. As a consequence, fuelled by these problems, local governments tend to leave tough policy issues unsettled while competing for policies that will benefit themselves (Yan 2001).

This explains a widely existing phenomenon in Chinese politics, “the decisions cannot go outside the Zhongnanhai” (the location of the Chinese central government), which means policies and directions are hard to implement. This has been an unyielding problem in Chinese politics for years, and leaders have failed to provide effective solutions. In the 1990s, both Premier Zhu Rongji and President Jiang Zemin, China’s top leaders, had expressed this helplessness. President Jiang once lamented that even he could not get things done due to the obstacles by local interests that consist of local governments and enterprises (Zhu 2011b).

Conclusion

The Chinese-style elite decision-making model, with collective leadership and consensus decision making in the party committee at each level, has its virtues. Extensive field investigations are routinely conducted at the grassroots level, and consultations with experts, lower-level officials and the public figures are held outside the party system before and during the decision-making process. Incrementalism and trial-and-error approaches in decision making can help prevent a blunder from happening before it is too late. Collective leadership and consensus decision making can help avoid arbitrary opinions dominating the decision-making process and further developing into a policy that would lead to disastrous consequences.

However, decisions made by ministries and commissions and the gui kou management system normally undermine the legitimacy and rationality in decision making and encourage vested interests to commandeer the decision-making process. Lack of coordination among different kous and among members of the PBSC, who respectively have the highest authority in the special field they govern, particularly harm the consistency and efficiency of decision making. Incrementalism, such as the principle of “crossing the river by feeling the stones,” was deemed inadequate. A new methodology should be introduced to supplement the decision-making process. The worst part of the defective decision-making process lies in the implementation. The new philosophy of top-level design has been developed since 2010 (Zhang et al. 2017) and has evolved into the main approach with which President Xi reinforces the decision-making process with a systematic requirement to coordinate decision making and implementation in all the kous (fields and areas).
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