

Central-Local Relations in China: A Political and Administrative Analysis

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I. Introduction

PRC shares the general features of centralization of unitary states in general

PRC unitary system also has its own features:

- the state power organ at and below county levels is elected directly by the voters and operated under the voters' supervision;
- that above the county levels is elected by the lower level counterparts with its delegates under the supervision of the voters and the lower level counterparts that elect it;

- ❑ Other branches of government (executive and judicial departments) are elected and supervised by the People's Congress at the same level.
- ❑ The People's Congress and Court at and above the county levels supervise their respective counterparts at the immediate next level;
- ❑ the executive branch and procuratorate at all local levels operate under the leadership system of the subordinate following the superior and all levels obeying the centre.

While the PRC form of state structure safeguards its territorial integrity and sovereignty, it has also developed three arrangements for different localities:

- the system for ordinary administrative divisions,**
- the system for ethnic autonomous regions, and**
- the system for special administrative regions.**

- ❑ **The three systems are inter-related yet distinct from each other.**
- ❑ **Due to such arrangements, under the PRC unitary system the central-local relations are diversified.**
- ❑ **The relationship between the central government and the 23 provinces and four centrally-administered municipalities manifests the basic characteristics of the centralization-category of the unitary system.**

- **The relationship between the central government and the five autonomous regions shows some features of local autonomy-category of the unitary system.**
- **The relationship between the central government and the two special administrative regions is unique in the world, carrying some features of a federal system.**

- Further, each arrangement is flexible enough to accommodate special needs. For example, a province or a centrally-administered municipality can designate special economic zones.
- The highly centralized system as established since 1949 inherits the 2,000 years' tradition of the ancient and pre-modern China and incorporates some elements of the Soviet system.

- ❑ The state power penetrates to the villages for the first time in the Chinese history.
- ❑ In the traditional China, the power of emperors had never reached below the county level.
- ❑ The main Soviet influence is the “highly centralized, bureaucratic and hierarchical social system that integrates politics and economy.”

Keeping these features in mind, I am to trace how such system was established and how it has evolved. Based on these, I will analyze the reforms and initiatives underway or planned and discuss various directions for future development.

II. The Formation and Evolution of the PRC Central-Local Relations

In 1954, the first PRC Constitution was promulgated.

The indirectly elected deputies compose the National People's Congress as the supreme state authority.

- ❑ It produces the executive and judicial branches of government, elects important state leaders and exercises the highest legislative power, supervision power and power to decide on the major state affairs.
- ❑ With evolution, China currently has four levels of administrative divisions of:
 - ❑ provinces (autonomous regions, centrally-administered municipalities and special administrative regions),
 - ❑ autonomous prefectures (prefectural level cities),
 - ❑ counties (autonomous counties and cities) and townships (towns).

- At each level, there are People's Congress and government with structure and operational pattern similar to the central level.
- China's state power structure based on the Constitution is shown in Diagram 1.

- NPC
- Standing Committee
- President
- State Council Court Procuratorate CMC
- Province PC
- SC Government Court Procuratorate
- Prefecture-
Level City PC
- SC Government Court Procuratorate
- County PC
- SC Government Court Procuratorate
- Township PC
- Presidium Government

- This description of China's political institutions according to the Constitution fails to locate the real source of political power in China.
- Actually, the Communist Party of China has established committees and branches from the top at the state level to the grassroots at the urban streets and neighbourhoods and rural villages.

- ❑ The CPC's leadership over other institutions is guaranteed organizationally by the CPC Core Groups in them.
- ❑ The operation of the centralized administration is inseparable to the CPC leadership.
- ❑ The CPC organizational principle is that the subordinate obeys the superior and the whole party obeys the centre.
China's actual political power structure is shown in Table 2.

| Level | Party | Government | Military | Judiciary | Grassroots Autonomous Organization |
|------------------|---|---|-----------------------------------|--|------------------------------------|
| Centre | Ctr. Committee Ctr. Discipline NPC Inspection Committee | President State Council CPPCC | Central Military Commission | Supreme Court & Procuratorate | |
| Province | Provincial Committee Discipline Inspection | People's Congress Government CPPCC | | Higher Court & Procuratorate | |
| Prov. Adm. City | City Committee Discipline Inspection Committee | People's Congress Government CPPCC | | Intermediate Court & Procuratorate | |
| County | County Comtee Discipline Inspection Committee | People's Congress Government CPPCC | | Primary Court & Procuratorate | |
| Town or Township | Town Committee Discipline Inspection Committee | PC Presidium Government CPPCC Group | | Tribunal* | |
| Street | Street Committee | Dispatched Office* | | Tribunal* | |
| Community | Party Branch | | | | Neighborhood Committee |
| Village | Party Branch | | | | Villagers' Committee |

- The CPC leadership over all other government and public organizations is guaranteed by the enforcement of the Soviet type *nomenclature* system, which was adopted in 1953.
- The principle of this system was the management of cadres at the same level and the next two levels by the CPC Central Committee and local committees.

- For the CPC Central Committee, the immediate next level covers the ministers of the State Council, secretaries of the CPC Provincial Committees and governors of the Provincial Government.
- The second next level covers the director generals of the State Council ministries, provincial governments and the secretaries and commissioners of the provincial dispatched offices to the prefectures.

The basic principle guiding the central-local relations is the “unified leadership and level by level management.”

The unified leadership refers to the leadership of the centre. Although the term “center” has many connotations, such as the CPC Central Committee, the State Council and the departments of the CPC Central Committee or the State Council, it should be taken as meaning the CPC Central Committee.

- **The leadership of the CPC Central Committee is not only political but also administrative while the State Council focuses on the economic and social management.**
- **China's government administration is performed by five levels from the State Council to the township. But the State Council ministries and provincial governments play the main role in the level-by-level management.**

- **The level-by-level management is mainly carried out by the State Council ministries and the provincial governments.**
- **After the founding of PRC in 1949, the centralized administrative system was installed in order to consolidate the new state, restore and develop economy and unify the financial system. Thereafter, the central-local relations have been adjusted several times.**

- **The first delegation of authorities was implemented in the late 1950s when the central government gave the management power of a large number of enterprises, power over planning, approval power over capital constructions, power over labour management and power over taxation and finance to the provincial governments.**

- **As this round of delegation was implemented during the Great Leap Forward and too broad in scope and implemented too quickly, resulting in overheating in capital construction projects and waste of resources. Re-centralization had to be exercised.**

- **The second delegation of authorities was introduced in the later years of the Cultural Revolution in the 1970s.**
- **The focus was placed on creating self-sufficient local economic systems. The ensuing local separateness and large-scale repetition in production and construction projects forced another round of centralization.**

- Since the initiation of the reform and opening up drive in 1978, the central government has pursued more stressful delegation of authorities to an unprecedented degree, which brought local initiatives into play.
- But a decade later the emboldened localism weakened the central authority. As a result, the shared tax system was implemented in 1994 that has adjusted the central-local relations and strengthened the central authority.

III. The Current Pattern of the PRC Central-Local Relations

- In 1980 Deng Xiaoping noted in “On the Reform of the Party and State Leadership System” that the over-centralization of power was one of the obstacles to the political and economic reforms. As a response, he decided to adjust the central-local relations to delegate powers to localities and enlarge local autonomy.**

- In the political field, the central-provincial two levels of legislative system have replaced the one level system, under which the legislative power was monopolized by the centre.
- As a result, the provincial, autonomous regional and centrally-administered municipal People's Congresses, their Standing Committees and governments as well as their counterparts in large cities have been authorized to formulate local regulations and rules.

- **The local authorities' jurisdictions over personnel have been enlarged. The previous system under which the central authorities managed officials at the next two lower levels has been reduced to the immediate next level only. The delegation of personnel management power has brought the local initiative into play.**

- ❑ The provinces were also delegated power over the approval of the investment and capital construction projects, use of land, technical renovation projects, use of foreign exchanges, reduction and waive of taxes for businesses, pricing and wages.
- ❑ With these central efforts, progress has been made in reforming the over-centralized management systems to the benefit of local autonomy.

□ In particular, the coastal areas have made good use of their location advantages to develop economy and achieved unprecedented growth.

IV. The Existent Problems in the PRC Central-Local Relations

4.1. The Central and Local Jurisdictions Need to be Further Specified

Although the Constitution and the Organic Law have stipulations on the central and local powers, they are too broad and vague and difficult to be applied.

- If there are generally two categories of power:
- those mean interests and rights; and
- those carry responsibilities and duties.
- Both central and local governments tend to pursue the former and shun the latter. In the situation that the jurisdictions are not clearly demarcated between the central and local authorities, the game will inevitably lead to insufficient provision of public goods and under-supply of public services. The conflicts between the two will intensify. There are many signs that China is facing such a situation.

4.2. The Shortcomings in the Current Tax-sharing System

- “The reform plan of the 1994 tax-sharing system is an inadequate one and an outcome of compromises between the conflicting interests.”
- The problems or defects can be boiled down as: Firstly, the tax-sharing system is based on a vague division of the central-local jurisdictions over specific public affairs, which actually should be a basis for dividing the fiscal and taxation powers.

- The prerequisite for the smooth operation of the tax-sharing system is to satisfy both the central expenditures on macro-regulation and major national functions and the local expenditures on the economic and social development.**
- But the reform was carried out in 1994 when the central and local responsibilities for public affairs and accompanying needs for financial resources were not specified.**

- The asymmetry between the responsibilities and fiscal resources is unavoidable, which is the very case China is currently facing.
- Secondly, it is problematic to fix the ratio of revenue sharing between the centre and localities in light of the 1993 base figures. More specifically, the revenue turned over by the provinces to the central government in 1993 is taken as the base figure for the central government's tax returns to the local authorities.

- ❑ From 1994 onwards, the base figure is to be increased in proportion to the increases in value-added taxes and consumer taxes.
- ❑ Such arrangement is favourable to the more developed regions, resulting in the situation that rich provinces receive more tax returns and poorer provinces get less. Ironically, the tax-sharing system that intends to reduce the gaps between the regions actually is enlarging such gaps.

- ❑ **Some local authorities manipulate the base figures to cheat the central government for more tax returns.**
- ❑ **Thirdly, another purpose for implementing the tax-sharing system is to reduce the regional gaps by introducing the transfer payment system. But instead of increasing the central revenue, the implementation of tax-sharing system has weakened the central capability of macro-regulation.**

- The tax returns have replaced the transfer payments, contrary to the original plan.

4.3. The Challenges the PRC Faces in Terms of Central-Local Relations

- The adjustment of the central-local relations is a constant undertaking and currently the country is facing a number of challenges:
 - Firstly, the central-local jurisdictions have yet to be specified as discussed previously.
 - Secondly, the local protectionism is developing.

- At the time when Deng Xiaoping launched the reform and opening up drive, he pushed the delegation of authorities as he held that the over-centralization of power was not conducive to political and economic development.
- The decentralization has brought about changes in the central-local relations.

- “The localities have been transformed from the agents of the central government to the relatively independent actors with a considerable expansion in their power.”
- The local protectionism manifests in the following two aspects:
 - (1) some local governments distort or fail to implement the central policies to pursue local interests;

(2) they use power to control raw materials, capital, labour and circulation of commodities and protect local interests, becoming so-called “economic fiefdoms” that impede the forming of unified national market.

□ Thirdly, the central capability of macro-regulation has been weakened and the gaps between the regions have been enlarging.

- ❑ **The ineffective transfer payment mechanism is responsible for the enlarging regional gaps.**
- ❑ **Finally, the separation between the government and economic enterprises has not been sufficiently realized.**
- ❑ **A major drawback of the planned economic system is the government's micro-management of enterprises, making them lack of vitality.**

- **Since the introduction of the market-oriented reforms, the central government has enlarged the autonomy of enterprises. But the local government has kept it. Hence the situation that the separation between the government and enterprises is better implemented at the centre than localities.**

V. Recommendations and Prospects

5.1. A Call for Introducing a National Financial Equalization System

- Considering the frequent and large scale changes in the central-local relations since 1949, I suggested in 1995 to formulate a Law on the Central-Local Relations.**

- ❑ **The improvement in the central-local relations should consider to having jurisdictions over the public affairs shared among local governments while concentrating a relatively large amount of financial resources in the centre.**
- ❑ **To counter the age-old tradition of centralization, division of jurisdictions should take the bottom-up approach.**

- ❑ **The principles guiding the relevant legislation should include subsidiarity, clarity of functions and powers as well as integrity of powers for each level of government.**
- ❑ **Proportionality between the power and responsibility is a basic principle in public administration.**

- But there exists disproportionality in that the power is more concentrated in the upper levels while the lower levels shoulder more responsibilities with less power.**
- The situation can be improved by proper authorization of lower level governments.**
- Avoidance of overlapping jurisdictions among levels of government should be a task of improving the central-local relations.**

- The dual management structure under which some departments receive the leadership of both the government at the same level and their counterparts at the next higher level usually bring about conflicts.
- For example, in the early 1990s the banking sector met serious interference of the local government, which ordered the banks to provide loans to local enterprises and business corporations.

- In fact the banking institutions operate under the vertical control line. But the element of dual management means the local CPC committees have a say in their personnel appointments. It is necessary to strictly enforce the vertical control line.**

5.2. A Call for Introducing a National Financial Equalization System

- I have suggested at different occasions to establish a national financial equalization scheme to address the uneven development of different regions.**
- This proposal is raised against the background of ever-enlarging gap between the east, central and west regions of China.**

- I have proposed that in the initial stage, the standard of equalization can be modest for the new system to be accepted with less political resistance and financially less demanding.**
- With the further economic development, the intensity of equalization can be increased to bring the provinces closer with each other financially.**

- **Considering the huge difference between provinces in terms of areas, populations and levels of economic and social development, two or three tiers of equalization can be designed between provinces first, to be followed by that between counties.**
- **If necessary, it can be crowned by the equalization between the east, central and west regions.**

- The key to introduce such a scheme to China lies in converting to and improving a public financial system, which will be a major reform of the current government-dominated and oriented- financial system.
- This in turn requires the further transformation of government functions from micro-economic management to service-oriented.

5.3. A Call for Increasing the Number of Provinces

- A brief survey of the first tier administrative division of the developed countries shows:**
- the United State has 50 states,**
- Germany has 16 states;**
- France has 26 regions and 100 provinces; and**
- Japan has 47 first tier administrative divisions.**

- ❑ In comparison, China has only 34 first tier administrative divisions.
- ❑ Except for the United States, the other countries are each equal to a province in China. None of them can be compared to China in terms of population size. Therefore, it is obvious that China's number of provinces is not adequate and each province covers too large an area.
- ❑ Such a large province is not an appropriate unit for providing public goods and tends to form its own separate economic entity that is not conducive to the cross-provincial cooperation and the unity of the country.

- The large provinces in terms of territory and population can be divided into smaller entities. This can be realized through the following two methods:
- one is simply to break a province into two or more units by taking into consideration the need of economic development, the cultural traditions of ethnic groups, natural conditions and the national security;
- the other is to designate one or two metropolises in a province as the centrally-administered municipalities to display their radiation effects for promoting the development of surrounding areas.

- Secondly, many provinces depend on the prefectural level cities to administer counties as in average a province has 89 counties.
- The smaller provinces should and can directly administer some 50 counties.
- In this way, China can reduce the administrative division to four levels or even three levels if the town or township level institutes the system of residents' self-governance or becomes the dispatched offices of the county government

5.4. Prospect of the Pattern of the PRC Central-Local Relations in the Near Future

- The ideal pattern of China's central-local relations should be a combination of the necessary centralization and appropriate decentralization.
- The necessary centralization means that the centre commands the adequate authority to implement macro-regulation, maintain a balance among regions, gradually reducing the regional gaps and safeguard the national unity.

- **The appropriate decentralization requires that under the central leadership, the local authorities can manage local affairs and take proper measures to promote local economic and social development in light of local conditions.**

- Once the previous recommendations are accepted and implemented, China's central-local relations will acquire the following features:
 - First, the institutionalization and legalization.
 - The proposed law will ensure that any further adjustment of central-local relations, including the central delegation of authorities to local government is to be introduced by new legislation. This will establish reliable expectations among the local government, helping to prevent its short-term irrational behaviours.

- **Second, if the recommendations are accepted and implemented, a better balance between the centre and localities will be achieved.**
- **Such balance does not mean equality between the two, but a state of mutual check and supervision, in which the centre takes a more forceful position and can resort to various means to supervising the localities;**

- meantime the localities can use their own resources to negotiate with the centre and thus apply check on the centre.
- Third, the proportionality between the responsibilities for public affairs and required financial resources. The public finance system provides a material basis for the government to perform its functions and implement policies.

- If the recommendations are accepted and implemented together with other policies and measures, China's central-local relations will be put on the track of rule of law and become more balanced. The country is united yet full of vitality.**

Thank you for your attention

*Comments and Questions are
welcome*