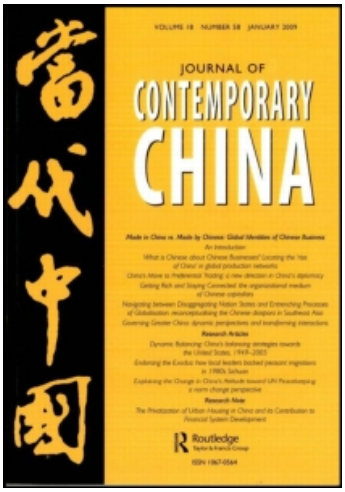
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China's Energy Decision-Making: becoming more like the United States?

BO KONG*

This paper investigates why some energy decisions are made faster than others in a reformed and globalized China. This investigation uncovers five factors that determine whether a proposal becomes a decision in the Chinese political system: (1) associated benefits of the proposed decision for other policy problems; (2) presence of a consistent 'issue champion'; (3) strength of mobilized and united 'veto players'; (4) vertical and horizontal support; and (5) clear policy preferences of the central leadership. The paper argues that the Chinese decision-making process has become increasingly consultative, iterative, and participatory and that it is also increasingly prone to deadlock, inaction, and paralysis. Thus, the Chinese decision-making process is increasingly similar to that of the United States in the era of reform and globalization. While the capacity of the Chinese state to make and implement distributive policies has remained largely unchanged, reform and globalization has weakened its capacity to make and implement redistributive policies.

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Understanding China through the prism of energy

This study has a simple purpose: to explain how energy decisions are made in China in the era of reform and globalization. Answering this question, however, helps uncover something that goes beyond the energy sector and opens a window to observe how the reformed and globalized China works. Indeed, in addition to reveling how energy decisions are made in China, this study also sheds light on three important aspects of the Chinese system: (1) How capable is the Chinese political system of dealing with its energy challenges? (2) How reform and globalization has changed the way that the Chinese political system works? (3) How able is the Chinese system to handle external shocks, such as the current global financial crisis?

Knowns and unknowns about decision making in China

Recent studies have significantly enriched our understanding of how the decision-making process works in China. Some findings have become stylized facts. For example, authority within the Chinese leadership is fragmented at both the

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horizontal and vertical level and consensus is essential to the decision process.[1] An important means to accomplish consensus is through bargaining.[2] Bargaining, however, is often messy because it occurs among not only the central government and local governments but also bureaucracies and localities at different levels. Thus, the decision process in China is often protracted, disjointed, and incremental.[3]

China's reform and opening up has further accentuated these features. Marketization and integration into the world economy have led to pluralization of both the Chinese society and its decision-making process. Think-tanks, businesses, NGOs, and the growing middle class are increasingly involved in various parts of the country's decision-making processes.[4] Consequently, the decision process in China has become more consultative, open, and participatory. Due to this increased consultation and participation, however, it has also become more contentious, iterative, and lengthened.[5]

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While useful in understanding the overall dynamics of the decision-making process in China, these features do not explain why some policy decisions, all being in a non-crisis scenario, are made faster than others in China. Thus far, this question has received scant scholarly attention. The comparative cases on the two energy decisions—one on the fuel tax and the other on the West–East Gas Pipeline (WEGP)—presented in this study constitute an attempt to account for the variation of the speed at which energy decisions are made in China. Specifically, this paper aims to answer why a decision on the fuel tax, which was passed on January 1 2009, took 14 years whereas the decision-making process of the WEGP was completed only two years after it was first proposed.

This study finds that for a proposal to become a national energy decision in China, five factors are most critical: (1) associated benefits of the proposed decision for other policy problems; (2) presence of a consistent 'issue champion'; (3) strength of mobilized and united 'veto players', i.e. those political actors who have the ability to decline a choice being made;[6] (4) vertical and horizontal support; and (5) clear policy preferences of the central leadership. Among the four factors, the last one is the most important because major decisions are made on a consensus basis in China. When consensus is hard to establish, the proposed decision is often kicked up to the highest

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

2. David M. Lampton, 'Chinese politics: the bargaining treadmill', *Issues and Studies* no. 3, (1987), pp. 11–41.

3. Lieberthal and Oksenberg, *Policy Making in China*.

4. For more on how think-tanks influence decision-making in China, see David Shambaugh, 'China's international relations think tanks: evolving structure and process', *The China Quarterly* no. 171, (September 2002); He Li, 'The role of think tanks in Chinese foreign policy', *Problems of Post-Communism* 49(2), (2002). For more on how businesses impact the decision-making process in China through direct and indirect lobbying, see Scott Kennedy, *The Business of Lobbying in China* (Cambridge, MA: Harvard University Press, 2005). Premier Wen Jiabao's decision to suspend the construction of a 13-stage dam project on the Nu River in 2004 exemplified how NGOs can influence the decision process in China. For more, refer to Jim Yardley, 'China's Premier orders halt to a dam project threatening a lost Eden', *The New York Times*, (9 April 2004). The involvement of the growing middle class in China's decision-making process is demonstrated in the organized effort to halt the construction of a nuclear power plant near a beach city of Yintan. For more, refer to Geoff Dyer, 'China pressure groups learn to tread carefully', *The Financial Times*, (21 July 2008).

5. David Lampton, 'China's foreign and national security policy-making process: is it changing and does it matter?', in David M. Lampton, ed., *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978–2000* (Stanford, CA: Stanford University Press, 2001), pp. 1–36 at p. 13.

6. The author thanks Professor David Lampton for this point.

leadership for arbitration. A unified and clear policy preference from the central top leadership thus becomes the decisive factor in turning the proposal into a decision, whereas a lack of preference or an ambiguous preference pushes back the proposal to another round of consensus building among the ministries and localities, leading to further inaction and protraction.

However, not all four factors are always present at the same time and work in the same direction. Even worse, authority over energy decisions is severely fragmented and dispersed in China.[7] Further, energy decisions have to compete with other priority decisions, such as those that affect stability in China (e.g. economic growth and inflation) or crisis decisions (e.g. response to natural disasters such as the snowstorm and earthquake in the spring of 2008), for the attention of the central leadership. Thus, there often exists a 'leadership vacuum' in China over energy policy and many decisions are driven by projects promoted by localities or industries rather than being guided by a coherent national energy policy. Specifically, these decisions are formulated and debated along organizational, geographical, and sectoral lines. The bargaining table is occupied by ministries, localities, and industries, with each protecting their own turf and promoting their parochial interests. In the 'dumpling-making' process, what constitutes national energy interest and who is its custodian is ambiguous. Consequently, national energy interests in China are often departmentalized, localized, or sectorized. Similarly, the interests of those sectors or groups that are not well organized and represented go unprotected in this bargaining process.

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The evolution of the fuel tax into an energy decision

Before embarking on an investigation into the two energy decisions, it is important to highlight the fluid nature of energy decisions in China. This fluidity of energy decision in China is illustrated by how the fuel tax proposal and the WEGP morphed from one type of decision into another. When initially proposed in 1994, the fuel tax was formulated as an alternative to reduce excess levies in the transportation sector. At their peak, levies on vehicles accounted for roughly 40% of the total fees collected in China.[8] And these fees collected by various levels of governments accounted for 12.7% of the country's GDP and grew at 28.4% annually between 1990 and 1996.[9] However, these fees did not add to the central goverment's tax revenues. By contrast, the central government saw its tax revenues dwindling fast, accounting for less than 10% of the GDP in 1996.[10] In addition to diverting the central government's tax revenues, the plethora of fees collected by various levels of government also induced localism and departmentalism, which diminished the central government's power over the country's macro-economy. Moreover, many of these fees were collected without proper supervision or legal justifications, thus not only sowing the seeds of

7. Kong Bo, 'Institutional insecurity', *China Security*, (Summer 2006), pp. 64–88.

8. Liu Jiahai, 'Zhengshou Ranyoushui Dui Shihua Shengchan Qiye De Yingxiang Yu Duice' ['Influences of levying fuel oil tax on petrochemical production enterprises and countermeasures thereof'], *Shiyou Huagong Jishu Jingji* [*Petrochemical Technology and Economics*] 16(6), (2000).

9. *Ibid*., p. 1.

10. National Bureau of Statistics of China, *China Statistical Yearbook* (Beijing: China Statistics Press, 2007).

widespread corruption but also stoking popular discontent among the public. To reduce levies in the transportation sector and their resultant social problems, the National People's Congress endorsed the fuel surcharge as an alternative in the 1997 Highway Law and replaced it with the fuel tax in 1999. Nevertheless, throughout the 1990s, the fuel tax debate was confined to the transportation sector and was largely framed as a taxation decision to tackle a non-energy related problem.

However, as the 1990s wound down the debate on the fuel tax gradually transformed from a taxation decision into an energy decision. Two factors contributed to this transformation. On the one hand, following the taxation reform in 1994, the Chinese government has significantly enhanced its ability to collect taxes. Since 1994, the growth rate of tax revenues in China has consistently outpaced that of the country's economic growth.[11] Thus, concerns about the drain on the country's tax revenues largely dissipated. On the other hand, fueled by the rapidly growing economy, demand for oil in China has been rising above 7% per annum whereas domestic supplies have been growing at less than 2% per annum.[12] As a result, China became a net oil importer from 1993 onwards and saw its dependence on foreign oil deepening throughout the 1990s. Into the new millennium, both the speed and the magnitude of the country's oil imports picked up noticeably. For example, while China's crude imports grew by 34% in 1999, they almost doubled in 2000 despite an almost three-fold increase in the world oil prices. Thus, concerns about the country's dependence on foreign oil and its oil security began to emerge. The Iraq War only further heightened these concerns and intensified the sense of vulnerability in China.[13]

As the policy community in China searched for ways to reduce the country's dependence on foreign oil, they turned to the automobile sector, one of the primary contributors to China's surging oil demand. Since 2000, the auto sector has been galloping above 20% per annum in China. According to the *People's Daily*, automobiles now account for 39% of the country's total oil consumption and two-thirds of the country's incremental oil consumption.[14] With foreign oil accounting for 52% of China's total oil consumption, this means automobiles consume three-quarters of the country's imported oil. However, in the absence of a fuel tax, Chinese consumers have demonstrated a clear preference for cars with large engine displacement capacity. For example, the average engine displacement capacity of domestically produced cars in China jumped from 1.53 to 1.68 liters between 2006 and 2007, registering an annual growth rate of 9.8% and equivalent to a 5% increase in annual fuel consumption.[15] The growing fuel intensity of Chinese cars confirms empirical studies that demonstrate the positive correlation among fuel prices, fuel

11. *Ibid*.

12. British Petroleum, *BP Statistical Review of World Energy 2008* (BP, June 2008).

13. Wu Lei, 'Yilake Zhanzheng Dui Woguo Shiyou Anquan De Yingxiang' ['The impacts of the Iraq War on China's petroleum security'], *Guoji Luntan* [*International Forum*] 5(4), (July 2003), pp. 28–33.

14. Li Xiaoqing and Wang Chunlan, '2/3 Xinzeng Shiyou Xuqiu Laizi Jiaotongye Qiche Jieneng Pozai Meijie' ['Two-thirds of China's incremental oil consumption growth comes from the transportation sector and automobile fuel conservation is urgent'], *The People's Daily*, (12 September 2008), available at: http://env.people.com.cn/GB/7963888.html.

15. Bo Kong, An Anatomy of China's Energy Insecurity and Its Strategies (Seattle, WA: Pacific Northwest National Laboratory, 2005), pp. 27–29.

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consumption, and macroeconomic fuel efficiency.[16] Thus, the fuel tax is increasingly perceived as an energy policy instrument required to curb oil consumption in the auto sector and to reduce the country's dependence on foreign oil. For example, some scholars openly advocate using the fuel tax to improve petroleum efficiency and optimize the energy consumption mix in China.[17] Others go on to suggest that the lack of the fuel tax threatened China's oil security.[18] Even some government-affiliated scholars also acknowledge that the absence of a fuel tax system constitutes the loopholes of China's energy security regime.[19]

Decision-making concerning the fuel tax: deliberations without decisions

However, the fuel tax has become a hope deferred over the last 14 years. Soon after the NPC amended the Highway Law, the Tax Policy Department (TAP) of the Ministry of Finance (MOF) worked out fuel taxation collection schemes and submitted its proposals to the State Council's Bureau of Legislative Affairs for approval. Encouraged by the momentum of the fuel tax decision making, officials from the TAP declared 'the fuel tax will be launched very soon'.[20] By 2000, the fuel taxation collection schemes came into being. According to Liu Huan, associate dean of the Central University of Finance and Economics School of Taxation who participated in studying and designing the schemes, the fuel taxes were established at 1–1.5 yuan per liter for gasoline and 0.95 yuan per liter for diesel.[21] It appeared almost inevitable that the fuel tax would be initiated in 2000, but the preparations failed to lead to an implementation of the fuel tax in 2000 and the same story would be repeated in the years to come. At the State Council Press Conference on 4 January 2001, Jin Renqing, then director of the State of Administration of Taxation (SAT), revealed that all groundwork for the fuel tax was completed and that the central government would launch the initiative at an 'appropriate time', indicating further delays.[22]

On the surface, the steady rise in oil prices since 1999 seemed to have sapped the momentum to push forward the fuel tax. The central government was worried about the pass-through impact of the fuel tax on other sectors of the Chinese economy as well as negative reactions from the public, such as from taxi drivers. This concern was vividly illustrated in Premier Zhu Rongji's speech at Tsinghua University in Beijing on 6 June 2001. When explaining why the fuel tax was put in abeyance, he said the following:

16. Ernst U. Von Weizsäcker and Jochen Jesinghaus, *Ecological Tax Reform: A Policy Proposal for Sustainable Development* (London and New Jersey: Zed Books, 1992), pp. 31–35.

17. Yang Yufeng and Hou Jixiong, 'Woguo Ying Jiakuai Gexiang Zhengce Zhunbei Jishi Tuichu Ranyoushui' ['China needs to accelerate policy preparations regarding the fuel tax'], *Guoji Shiyou Jingji* [*International Petroleum Economics*] 13(11), (2005), p. 28.

18. Wei Ye, 'Ranyoushui Bu Kaizheng Weixie Woguo Shiyou Anquan' ['Delays in launching the fuel tax threatens China's oil security'], *Shanghai Zhengquan Bao* [*Shanghai Securities*], (10 July 2008).

19. For example, Zhao Yumin, senior researcher of the International Trade and Economic Cooperation Research Institute under the Ministry of Commerce, argues that delays in launching the fuel tax in China constitute a loophole in China's overall energy security regime. Zhao Yumin, 'Zhongguo Nengyuan Anquan De Loudong' ['Loopholes in China's energy security regime'], *Guoji Maoyi* [*International Trade*] no. 6, (2008), pp. 24–25.

20. Wang Qiang and Wang Mingming, 'Ranyoushui 10 Nian Luanxiang' ['Waiting for fuel tax'], *Shangwu Zhoukan* [*Business Watch Magazine*] no. 20, (2005), p. 49.

21. *Ibid*., pp. 49–50.

22. *Ibid*., p. 50.

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> Current problems [for the fuel tax] are high oil prices, with prices being $25 per barrel last year but now $28 to $30 per barrel. According to our original plan, [the fuel tax] would be launched sometime in the second part of the year, but now it has to be postponed. For if you impose the fuel tax, gasoline prices will go up, but what do you do if toll gates will be still instituted and fees collected?[23]

Oil prices did not drop back to the US$25 level. They have kept climbing since 1999 while the SAT kept repeating its statement that 'all groundwork was completed and the fuel tax will be launched at the appropriate time' every year between 2001 and 2008. Meanwhile, the Ministry of Communications (MOC) and its local branches kept collecting road maintenances fees.

In reality, the rise of oil prices was only partially responsible for the 14-year delay in the launching of the fuel tax. The real root cause of the delay lies in the government's inability to coordinate and resolve differences between the winners and losers that would be generated by the proposed fuel tax.

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Potential winners from the fuel tax

In addition to delivering some public goods, such as fuel conservation, environmental protection, and traffic decongestion, the launching of a fuel tax in China is likely to create a few specific beneficiaries. The central government would be the biggest winner because it would receive the lion's share of the fuel taxes collected. In theory, 60% of fuel tax revenues would go to local governments while the rest would go to the central government. However, China currently imports 50% of its fuel oil. Based on the tax-sharing regime, fuel tax revenues on imported fuel oil all go to the central government. Furthermore, more than 90% of refineries across the country are centrally owned enterprises whose tax revenues go to the central government. Therefore, if the fuel tax is collected at the production rather than the retail end, fuel tax revenues collected on centrally owned refineries will go to the central government. Moreover, the fuel tax system would standardize levies collected on vehicle and transportation, thereby reducing localism, lessening the financial burden on auto consumers, and easing the public discontent generated by corruption involved in fee collection.

The central government's taxation and financial system would also be a major beneficiary. The fuel tax system would help strengthen China's overall taxation governance, centralizing taxation power and reducing local off-budgetary revenues. Power for collecting fuel tax revenues would be transferred from the MOC and its local branches to the SAT and its local branches, thus augmenting the bureaucratic clout of the SAT and its local branches. Similarly, the MOF would also benefit because if the SAT assumed this revenue collection role, the MOF would no longer need to keep the fee collectors across the country on the central government's payroll.

The automobile sector would also benefit. The fuel tax would boost China's auto industry in two aspects. On the one hand, the fuel tax would make it possible to increase the international competitiveness of automakers in China. Currently, automakers in China have to pay a total of 24.5% of final sales price in taxes before

23. *Ibid*.

they sell a car,[24] which places them in a disadvantageous position when competing with imported cars. Taxing auto consumers directly on fuel would make it possible to reduce the amount of tax paid by automakers in China, thus enabling them to spend more on innovation. On the other hand, because taxation on cars with different engine displacement capacities does not vary much, the auto sales policy in China actually is skewed in favor of large, fuel-intensive cars. For example, between 2002 and 2004, more than 68% of cars sold in China had engine displacement capacities above 1.6 liters whereas only 32% were below 1.6 liters.[25] Because the fuel tax regime would be based on the principle of 'more fuel consumption, more taxes', it would predispose consumers to purchase smaller and more fuel-efficient cars, thus forcing the automobile industry to be more cost competitive, more fuel efficient, and more technologically innovative. Old and energy-inefficient cars would lose market share while small and energy-efficient cars would gain market share. The institutionalization of the fuel tax would force China's automobile industry as a whole to adjust to the change in the incentive structure, upgrade its product, and enhance competitiveness.

Finally, some regions and social groups would also be beneficiaries. Areas such as the east coast and cities are where the majority of the country's wealth is concentrated. These areas have more cars and use more fuel than other parts of China. Hence, local governments in these two areas can collect more fuel tax revenues than other parts of China. Similarly, some individuals would also be winners. Under the annual road maintenance fees program, private automobile consumers pay a fixed amount of fees regardless of their mileage. This system is unfair for those who do not drive much. The fuel tax system would establish fairness by collecting taxes based on fuel consumption. Those who drive more would pay more while those who do not drive much actually save on fuel tax.

Potential losers from the fuel tax

The fuel tax would also inevitably generate some losers. The biggest potential loser would be local governments. As discussed earlier, local governments would obtain a smaller share of the fuel tax revenues relative to the central government. In addition, local governments would lose their off-budget revenues in the form of road maintenance fees and transportation fees from local transportation administrations. Moreover, if not allowed to collect road maintenance fees, local governments could face the possibility of being unable to recover returns on their investment in roads and bridges.

Some branches of the central government may also become losers. Among all the central government ministries, the MOC has the most at stake. Under the road maintenance fees and transportation fees system, the MOC and its local branches have the power to collect various fees. While some of the fees go to local governments, the majority is at the disposal of the MOC and its local branches. However, under the fuel tax system, all this power would be taken away, with the

24. Yang Zaishun and Liu Yuan, 'Zhongguo Shishi Ranyoushui Nanzai Nali?' ['What is the root cause of the problems for the fuel tax in China?'], *Qiche Gongye Yanjiu* [*Auto Industry Research*] no. 8, (2005), p. 28.
25. *Ibid*., p. 29.

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SAT and its local branches in charge of collecting fuel tax revenues. As a result, the MOC's budget has to be reviewed and approved by the MOF. Moreover, in the absence of various transportation fees system, the MOC and its local branches would lose power over road inspection. Furthermore, the MOC and its local branches would have to lay off the fee collectors on their payrolls, with the total number estimated to be 270,000 people.[26] Another bureaucracy that may become a loser is the Customs Bureau, assuming that fuel product smuggling would become rampant. However, this may not be the case if the fuel tax is collected at the retail end rather than the production end and if the anti-smuggling efforts are effective.

Adopting the fuel tax system would also cause potential losses to some sectors of the economy, particularly those that use fuel products such as gasoline and diesel for purposes other than transportation. These sectors include the agricultural sector, the forestry sector, the fishery sector, the industrial sector, the power generation sector, the construction sector, and the petrochemical sector. Under the road maintenance fees system, they do not pay levies. However, under the fuel tax system, they would have to pay taxes for their fuel consumption, which undoubtedly will increase their financial burden. For example, farmers in China consume five million tons of fuel products annually for farming and irrigation and under the fuel tax system they would have to pay five billion yuan for fuel taxes per year.[27]

The road transportation sector would be another big loser. The potential losers in this sector include long-distance passenger and cargo transportation companies, taxi drivers, and public bus transportation providers because the transportation services they deliver are highly fuel intensive. Under the annual road maintenance fees program, public bus transportation providers are exempt while long-distance passenger and cargo transportation companies as well as taxi drivers only pay a fixed amount of fees regardless of their fuel consumption. Under the fuel tax system, however, the levies they would pay would vary and would be based on the fuel they consume. The more fuel they consumed, the more taxes they would have to pay. Given the amount of fuel they consume each year, the fuel taxes they would have to pay would be much higher than the annual road maintenance fees. The rising costs could erode the competitiveness of the long distance passenger and cargo companies and divert their customers to air cargo or water transportation if these sectors are exempt from fuel taxes, as they are not covered by the road maintenance fees program. In the absence of any subsidy or fare rise, public bus transportation providers would run into deep debt. Similarly, the fuel tax would reduce the already thin margin of taxi drivers' profits, possibly forcing them into bankruptcy if they did not receive subsidies or were not allowed to transfer the costs to consumers.

Similarly, the petrochemical sector would also incur some losses. If the fuel tax were collected at the production end, petrochemical enterprises would have to pay fuel taxes on behalf of consumers first and get compensated later from their sales. However, this would require petrochemical enterprises to maintain high capital turnover. Depending on how soon they can obtain sales proceeds from consumers, paying on behalf of consumers will impose capital costs of various degrees on these

26. Wang Qiang and Wang Mingming, 'Ranyoushui 10 Nian Luanxiang', p. 51.
27. Wang Wentong *et al.*, 'Kaizheng Ranyoushui De Zhengfu Xiaoying Yanjiu' ['Positive and negative effects of fuel tax'], *Lilun Yuekan* [*Theory Monthly*] no. 6, (2002), p. 76.

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enterprises. If collected at the retail end, fuel tax on top of other taxes such as resource tax and sales tax at the pump could push the tax rate on fuel products to 60%.[28] Petrochemical enterprises would therefore be forced to transfer the costs to consumers, leading to inflation and possibly less fuel consumption. If fuel prices were above the purchasing power of consumers, petrochemical enterprises may have to internalize the higher costs brought about by the fuel tax. Either case would hurt petrochemical enterprises.

Further, the fuel tax system would reinforce development gaps between the inland and the east coast and also between urban and rural areas. Inland and rural areas in China have fewer vehicles. Thus, under the fuel tax system, local governments in the inland and rural areas would collect fewer aggregate fuel tax revenues than those on the east coast and in cities, perpetuating the development gap. Moreover, 80% of the fuel consumed in urban areas is used for cars on the road and 20% for other production purposes; in contrast, 80% of fuel consumed in rural areas is used for production purposes, such as farm operations, irrigation, and power generation, and 20% for cars.[29] This means that replacing the road maintenance fees system with a fuel tax would add proportionally more taxation burden to rural residents than urban dwellers, thus increasing the income gap between them.

Finally, some special groups would also lose because of the fuel tax system. Under the annual road maintenance fees system, the military, the Chinese Communist Party (CCP), and government offices are exempt. However, under the fuel tax system, they would have to pay fuel taxes. Furthermore, the annual road maintenance fees system allows private investors of local roads and bridges to get their returns back by collecting road tolls. However, the new fuel tax system would ban the collection of road tolls, thus hurting these investors and possibly discouraging new investors from building local roads and bridges.

Making sense of the 14-year delay

On January 1st, 2009, after 14 years of debate, the Chinese government finally passed the fuel tax. Instituting a fuel tax has yielded associated benefits to some stakeholders but has also caused some collateral damage to others. Thus, the fuel tax was debated not as a national decision but as an issue that mobilizes departmental and local interests. The fuel tax debate carried on for 14 years because (1) the winners and losers associated with the tax were so vested in the issue; (2) the losers were better mobilized to have their voices heard in the central government.

Throughout the debate the perceived collateral damage was so unambiguous that it invited vehement opposition players likely to be negatively affected. Local governments, together with MOC and its local branches, were thought to have been the biggest losers and therefore were the strongest opponents of the initiation of the fuel tax. Other potentially negatively affected stakeholders, such as the agricultural, the forestry, the construction, and the transportation sectors, were not enthusiastic about the fuel tax proposal either. To protect their vested interests, they lodged their

28. *Ibid*.
29. *Ibid*., pp. 77–78.

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complaints to the Ministry of Agriculture, the State Forestry Administration, the Ministry of Construction, and the Ministry of Communications respectively. Further, the negatively affected stakeholders were not only well represented in the government but they were also well mobilized to have their voices heard at the negotiation table. Thus, the perceived collateral damage resulted in a coalition of 'veto players' in the decision-making process of the fuel tax proposal.

In contrast, there was an absence of a dedicated and strong 'issue champion' to promote the fuel tax in the central government throughout the 14 year debate. SAT, for example, was a staunch supporter of the fuel tax system in the 1990s. This was because the growth of tax revenues was falling behind the country's economic growth rate. Beginning from 1997, however, growth of tax revenues has surpassed the of GDP growth rate in China. Indeed, growth of tax revenues reached 25.7 percent in 2004, almost three times more than GDP growth for the same year, thus compelling the SAT and its local branches to come up with explanations for why tax revenues grew so fast.[30] Given the improvement in China's tax collection, SAT found it less pressing to spearhead the fuel tax initiative. Similarly, benefits to another supporter of the fuel tax system, MOF, were not tangible. Even if SAT and MOF had been enthusiastic about the proposed fuel tax, neither of them had the bureaucratic clout to coordinate so many diversified interests among the stakeholders of the proposed decision. While the fuel tax system had the potential to boost fuel conservation, environmental protection, and traffic decongestion in the interests of the country as a whole, there were no issue champions on behalf these causes. NDRC, responsible for crafting China's energy policy and setting its fuel prices, could have probably assumed the role, but it was more concerned about combating inflation. For example, when headline inflation ran high between 2007 and early 2008, NDRC was very lukewarm on the proposed fuel tax.

In theory, the country as a whole collectively should have been the biggest winner of the fuel tax. But during the debate the Chinese government and especially its chief representative the State Council rarely provided a clear policy preference. Benefits that have accrued to the whole country include more tax revenues for the central government, restrained oil consumption, improved fuel efficiency, leaner and more competitive cars, a potential for reduced traffic congestion and less environmental pollution. However, none of these benefits were deemed essential for the survival of a particular sector, locality, or group of interests. Thus, no one ever emerged a consistent 'issue champion' during the debate. Not attentive or not knowing what it wanted, the State Council seemed content to wait until a consensus was reached on the proposed fuel tax. However, by not providing a clear policy preference, the central government willingly relinquished its control over the fuel tax decision-making process to bureaucracies that could not agree with each other and did not necessarily approach the debate with national interests in mind.

Consequently, a collective action problem arose out of the debate over the fuel tax in China between 1994 and 2008. Throughout the debate the potential winners of the proposed fuel tax were unable to crystallize their gains and therefore were

30. Xiao He, 'Ranyoushui Chutai: 2006 Nian Shifou Youxi? [Will Fuel Tax Be Launched in 2006?],' *Sinopec Monthly*, no. 1 (2006): 70.

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underrepresented and poorly mobilized at the bureaucratic negotiation table, whereas the potential losers were not only able to clearly identify their potential losses but were also able to galvanize to protect their vested interests. Therefore, for 14 years, the fuel tax was debated time and again without a breakthrough. With no clear policy preferences from the State Council or the CCP top leadership, the uneven distribution of gains and losses preordained a divisive struggle between the winners and losers and made consensus almost a nonstarter. Thus, inaction, status quo, prolonged delays, and stalemate evolved into the major characteristics of the decision-making process.

The creation of winners and losers by the fuel tax system attests to the complexity of the issue as a public policy decision. The debate juxtaposed the interests and conflicts of multiple stakeholders and exemplified a case where a taxation decision evolved in to an energy decision which when passed changed the status quo of the vested interests and redistributed potential benefits between the center and local governments as well as among bureaucracies, sectors, regions, and social groups.

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The decision-making of the WEGP—beyond a pipeline

While the fuel tax transformed from a taxation decision into an energy decision, the WEGP, inherently an energy decision, took on a larger meaning in its deliberation process. The need to connect gas-rich western China to energy-hungry eastern China was increasingly evident by the late 1990s. The Second Round National Oil and Gas Resources Evaluation in China estimated that the Tarim Basin could yield 8.39 trillion cubic meters of natural gas, accounting for 22% of the country's total reserves.[31] By the end of 1998, ten large and medium gas fields had been explored and 18 commercial gas-bearing structures had been found, yielding 282.6 billion cubic meters (bcm) of proven natural gas reserves, three-quarters of which were discovered after China National Petroleum Corporation (CNPC) established the Tarim Basin Oil Exploration Campaign Headquarters in 1989.[32] As Table 1 shows, among the ten large and medium gas fields, only two were discovered by China New Star Petroleum Corporation (CNSPC), which later merged into China Petroleum and Petrochemical Corporation (Sinopec).

The discovery of Kela-2 in 1998 laid the resource foundation for a cross-country gas pipeline. Kela-2, located in Baicheng County on the north edge of the Tarim Basin, 19 kilometers long from east to west and three kilometers wide from south to north, is the largest unsegmented gas pool yet discovered in China. Kela-2 holds 284 bcm of geological gas reserves, of which 75% are recoverable.[33] Given the reserves, Kela-2 alone is able to sustain a production rate of 12 bcm for almost 20 years while the whole Tarim Basin can sustain a production rate of 20 bcm for more than 30 years. But neither the Tarim Basin nor western China had the facilities to utilize these resources. Consequently, tons of natural gas had to be flared. CNPC, the

31. Fang Ranyou *et al.*, 'Xiqi Dongshu: Ziyuan Yu Shichang De Duijie' ['The West–East Gas Pipeline: a match between resource and market'], *Xinjiang Jinrong* [*Xinjiang Finance*] no. 3, (2004), pp. 278–280.

32. Liang Digang and Jiang Chenzao, 'Talimu Pendi Tianranqi Kantan Chengguo Yu Qianjing Yuce' ['Results and forecasts of the natural gas exploration in the Tarim Basin'], *Tianranqi Gongye* [*Natural Gas Industry*] 19(2), (1999), p. 4.

33. Winnie Lee, 'Petrochina makes 4.6 Tcf gas find in Xinjiang', *Platts Oligram News*, (11 October 2007), p. 3.

Table 1. Large and medium gas fields found by CNPC by 1998

Gas field	Gas bearing area (square kilometer)	Gas reservoir thickness (meter)	Proven natural gas reserves (bcm)
Yaha	48.9	37.9	39.292
Yingmaili-7	45.2	18	30.975
Yangtake	18.3	7.8–33.5	27.429
Yudong-2	10.2	18.3	7.332
Jilake	40	21.9	13.68
Tazhong-6	58	8.1	8.528
Hetianhe	173.2	115.4	62
Kekeya	27.5	88	36.525
Dalaoba (CNSPC)	8.4	12.0	5.384
Yakela (CNSPC)	28	25	19.628
Total	457.7		250.773
Total CNPC discoveries	421.3		225.761

Source: Liang Digang and Jiang Chenzao, 'Talimu Pendi Tianranqi Kantan Chengguo Yu Qianjing Yuce' ['Results and forecasts of the natural gas exploration in the Tarim Basin'], *Tianranqi Gongye* [*Natural Gas Industry*] 19(2), (1999).

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investor and developer of these major gas discoveries, turned to the country's energy-hungry east coast.

Meanwhile, the Yangtze River Delta area, one of the fastest growing regions in China, is heavily dependent upon energy from other parts of the country. For example, 15,982 tons of the total 18,143 tons of standard coal consumed in the delta region in 1998 came from outside the region, accounting for 88% of its total energy consumption.[34] Moreover, most of its energy came in the form of coal, threatening the environment, with acid rain plaguing Shanghai for 11%, Jiangsu for 21%, and Hangzhou and other cities in Zhejiang for more than 50% of the time of the year.[35] By the late 1990s, authorities in the Yangtze River Delta area had begun looking for alternatives to coal to grow its economy while reducing pollution. Because of its low emissions, natural gas became a favorable choice. Estimates show that if the Yangtze River Delta area receives 10 bcm of the 12 bcm natural gas from western China it will be able to substitute nine million tons of standard coal and reduce emissions by 270,000 tons annually.[36] The major gas discoveries in western China thus afforded the region possibilities for clean energy. When Shanghai Mayor Xu Kuangdi met CNPC President Zhong Yongkang in 1997, he expressed great interest in substituting coal with natural gas from western China. He asked Zhong Yongkang:

> When can you transmit 30 bcm of natural gas to Shanghai [from west China]? We look forward to natural gas the same way we look forward to the moon and stars. Currently,

34. Fang Ranyou *et al.*, 'Xiqi Dongshu: Ziyuan Yu Shichang De Duijie', p. 45.
35. *Ibid*.
36. Xiao Huijun and Qin Fenghua, 'Xiqi Dongshu Teda Gongcheng Xiangmu Duiwai Kaifang De Lichengbei: Fang Guojia Jiwei Fuzhuren Xiqi Dongshu Gongcheng Lingdao Xiaozu Zuzhang Zhang Guobao' ['West–East Gas Pipeline project is a milestone in China's opening up: an interview with Deputy Director of the State Planning Commission and Director of West–East Gas Pipeline Project Leading Group Zhang Guobao]', *Zhongguo Touzi* [*China Investment*] no. 1, (2003), p. 34.

> Shanghai is severely polluted. If piped to the Shanghai area and used to generate power, the 30 bcm of natural gas can produce 12 million kilowatts of electricity; if allocated for household use, it is enough to meet residential consumption for 30–40 million people; if used to produce fertilizers, it is enough to manufacture 40 million tons. This is an issue of great consequence for Shanghai and the Yangtze River Delta area. I hope CNPC can provide us with the natural gas soon. If you provide me with 30 bcm of natural gas, I will turn the skies of Shanghai blue again. However, if you make the move late, *Shanghai will consider liquefied natural gas (LNG) from the Southeast Asia*.[37]

When Zhou Yongkang reported his conversation with the Shanghai Mayor to Premier Zhu Rongji, the Premier and former Shanghai Mayor offered his support by saying the following:

> You should study this as soon as possible, and compare [the costs of piping natural gas to Shanghai with those of importing LNG from the Southeast Asia]. If piped natural gas is competitive, *Shanghai will never import LNG from the Southeast Asia*.[38]

However, building such a cross-country natural gas pipeline is not just an energy decision. The pipeline, with a diameter of 1.02 meters, would traverse 4,200 kilometers and pipe 12 bcm of natural gas annually from western China to consumers in Henan, Anhui, Jiangsu, Zhejiang, and Shanghai. Its total costs would exceed 140 billion yuan (US$16.9 billion), of which over two-thirds would be used for natural gas exploration and pipeline construction in the west. But up to now western China had rarely occupied the country's development focus since Deng Xiaoping inaugurated the country's reform and opening up in 1978. For example, between 1981 and 1989, 50.1% of the country's total capital was invested in Eastern China, while western China only captured 16.3%.[39] Therefore, initiating such a large scale project tilted to western China would entail a major shift in the focus of development from the east to the west. For this shift to happen, the country's top leadership would have to change their thinking on both the country's regional development focus and its development strategy.

The completion of the leadership transfer in China contributed to the shifts. While the transfer of power from Deng Xiaoping to Jiang Zemin started in 1989, Jiang's emergence as the core of the third generation leadership in 1994 marked the final conclusion of the leadership transfer in China.[40] At the fifth plenum of the 14th Party Congress in September 1995, he discussed 'the 12 great relationships' of modern economic policy, seeking to contain the negative fallout from Deng's fast growth policies. These included the relationship between the inland and coastal regions, which later evolved into one of the centerpieces of his economic policy. He made narrowing the gap between the inland and coastal regions a strategic task for the country's further opening up and development, pledging to 'bring prosperity to central and western China' by placing more emphasis on these regions in the

37. Sun Jingyan, *Zhongguo Dongmai* [*China's Artery*] (Beijing: People's Literature Press, 2005), p. 12.
38. *Ibid*.
39. Zhang Kang, Zhou Zongying and Zhou Qingfan, *Zhongguo Youqi Fazhan Zhanlue* [*China's Oil and Natural Gas Development Strategy*] (Beijing: Shiyou Gongye Chubanshe [Petroleum Industry Press], 2002), p. 568.
40. Bruce Gilley, *Tiger on the Brink: Jiang Zemin and China's New Elite* (Berkeley, Los Angeles and London: University of California Press, 1998).

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country's ninth five-year plan (1995–2000).[41] Similarly, in the report delivered to the 15th Party Congress in September 1997, Jiang reiterated the central government's support for development of the inland regions and focused on utilization of natural resources. The 'Western Development Campaign' was identified as a core component of China's national development strategy at the end of 1999.[42]

Jiang, who was also former Shanghai mayor, solidified the connections on a visit to the Tarim Basin on 5 July 1998. Ma Fucai, then president of CNPC, briefed the general secretary about the company's progress in exploring and developing natural gas in Xinjiang, Sichuan, Shaanxi, and Qinghai. But he also noted the problems facing the company:

> Albeit rich in natural gas reserves, the Tarim Oilfield lacks facilities to utilize natural gas. Consequently, natural gas is burnt for nothing. Each year, we flare 700 million cubic meters of natural gas for free.[43]

Shocked by the scale of the resource waste, the general secretary held some detailed discussions with Zeng Peiyan, director of the State Planning Commission (SPC), predecessor of the National Development and Reform Commission (NDRC), and Ma Fucai about how to utilize natural gas in the Tarim Basin. Later, the WEGP Project, together with the West–East Electricity Diversion Project, and the Tibet Railway Project, later became the three flagship projects under Jiang Zemin's 'Western Development Campaign' for the tenth five-year plan.[44]

A sharp deterioration of China's external trading environment also prompted these shifts in development strategy. Since its economic reforms and opening up in 1978, the contribution of exports to China's GDP has been rising, exceeding 20% as early as 1991.[45] However, the Asian Financial Crisis of 1997 plunged some of China's primary export markets into severe recession. Furthermore, the decisions made by these economies to devalue their currencies further undercut Chinese exports worldwide. Consequently, the growth of China's total exports plummeted from 22.9% in 1997 to only 7.2% in 1998, which in turn reduced its growth rate from 9.3 to 7.8% in 1998.[46] Premier Zhu Rongji therefore sought to stimulate growth by expanding domestic expenditures and the WEGP project could provide a shot in the arm for the economy.

41. *Ibid*., pp. 278–280. Also based on The Office of the State Council Leading Group for Western China Development, 'Xibu Dakaifa Ji Guowuyuan Xibu Dakaifaban Gongzuo Dashiji (1956–1998)' ['Memorabilia of western China development and the major work of the Office of the State Council Leading Group for Western China Development between 1956 and 1998]', from the official website of the Office of the State Council Leading Group for Western China Development, available at: http://www.chinawest.gov.cn/web/Column.asp?ColumnId=36.

42. For a chronological account of Jiang Zemin's important speeches on developing China's west, please refer to The Office of the State Council Leading Group for Western China Development, 'Xibu Dakaifa Ji Guowuyuan Xibu Dakaifaban Gongzuo Dashiji (1956–1998)'; and The Office of the State Council Leading Group for Western China Development, 'Xibu Dakaifa Ji Guowuyuan Xibu Dakaifaban Gongzuo Dashiji (1999)' ['Memorabilia of Western China development and the major work of the Office of the State Council Leading Group for Western China Development in 1999'], from the official website of the Office of the State Council Leading Group for Western China Development, available at: http://www.chinawest.gov.cn/web/Column.asp?ColumnId=35.

43. Sun Jingyan, *Zhongguo Dongmai*, p. 9; Fang Ranyou *et al.*, 'Xiqi Dongshu: Ziyuan Yu Shichang De Duijie', p. 48.

44. Cao Qianfa, 'Jiang Zemin Yu Shiwu Qijian Sida Biaozhixing Gongcheng' ['Jiang Zemin and the four flagship projects over the 10th five year plan'], *Dangde Wenxian* [*Party Literature*] no. 1, (2003), p. 26.

45. Based on statistics from the World Development Indicators database.

46. *Ibid*.

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Placing the WEGP proposal on the top leadership's radar screen

Zhou Yongkang became a major advocate of the WEGP. Zhou served as leader of the Tarim Basin Oil Exploration Campaign Headquarters during 1989 and 1990, and he was subsequently promoted to vice president of CNPC, president of CNPC, and then head of Ministry of Land and Natural Resources. On 16 July 1998, he wrote directly to Premier Zhu Rongji, recommending that the WEGP project be included on the list of national primary infrastructure projects:

> Based on recent progress in China's natural gas exploration and development, I recommend including the WEGP and gas networks in some areas [of western China] on the list of national primary infrastructure projects for the following reasons: first, resources are available. Three national-scale gas fields—Sichuan, Shanxi–Gansu–Ningxia, and Xinjiang (including Qaidam Basin) are taking shape in China, with proven reserves of 500 bcm. Second, the developed area along the east coastal region is badly in need of clean energy. Its need includes building variable load power plants and meeting urban usage as well as farmers' consumption in some developed rural areas. Third, investing in pipelines [to transmit natural gas] carries lower risks, receives higher economic benefits, and occupies less land than building railways [to carry natural gas]. Fourth, almost all developed countries have gone through such a development history [of expanding gas pipelines] and have all constructed interconnected oil and gas pipeline network.[47]

This letter immediately kindled the Premier's serious interest. Zhou's letter was circulated to Vice Premier Wu Bangguo, who was former Secretary of the Communist Party of China (CPC) Shanghai Municipal Committee, and Vice Premier Wen Jiabao and then distributed among various ministries.[48] When reflecting upon on the WEGP project, Ma Fucai, president of CNPC between 1998 and 2004, attributed Zhou Yongkang's letter as one of the two key factors contributing to the initiation of the project.[49]

Turning the WEGP proposal into a decision

In addition to a strong issue champion, the WEGP also received support from bureaucracies, local governments, and industry groups. On 22 July, Premier Zhu assigned the SPC, which then asked CNPC, to conduct the preliminary feasibility study. Additionally, the SPC entrusted China International Engineering Consulting Corporation (CIECC), a state-owned large-scale project consulting company, to evaluate the resource availability for the project. At the end of its two-day field inspection and evaluation in the Tarim Basin on 23 August 1999, CIECC submitted its report confirming that the Tarim Basin had sufficient natural gas reserves to become the supply source for the WEGP.[50] Separately, the Premier tasked Sheng Huaren, director of the State Economic and Trade Commission (SETC), to inspect

47. Sun Jingyan, *Zhongguo Dongmai*, p. 9.
48. *Ibid*.
49. *Ibid*., p. 19.
50. Anonymous, 'Xiqi Dongshu Gongcheng Dashiji' ['Memorabilia of the West–East Gas Pipeline project'], *Zhongyouwang* [www.oilnews.com.cn], available at: http://www.oilnews.com.cn/gb/zhuanti/2005-01/04/content_599442.htm.

natural gas resources in the Tarim Basin. Following a December 1999 trip to the basin, Sheng Huaren submitted to the State Council *An Investigative Report on Natural Gas Resources in Xinjiang*. Sheng verified that the Tarim Basin had a solid resource base and recommended finalizing decisions on the WEGP as soon as possible.[51] His report further accelerated the decision-making process and helped sketch out the contours of the pipeline.

The support of local governments and various branches of the central government also facilitated the decision-making process. On 19 October 1999, the Premier convened a meeting to hear reports from Wang Lequan, the CPC secretary of the Xinjiang Uighur Autonomous Region on the WEGP project. The spillover effect on the local economy was estimated to increase its fiscal revenue by at least a billion yuan and to contribute to the upgrading of its petrochemical industries.[52] The local government also proposed to link the WEGP pipeline to possible natural gas pipelines from neighboring Central Asia, arguing that the natural gas reserves of the countries neighboring Xinjiang should also be a factor in building the gas pipeline from the Tarim Basin to Shanghai.[53] The local government of Xinjiang, in its government work report to the State Council at the end of October 1999, recommended including the WEGP project on the list of national infrastructure projects. In turn, the State Council placed the proposed pipeline project on a fast track for decision making by subjecting it to the national project administrative procedures.[54]

The proposed pipeline would travel across eight other provinces and one municipality. Moreover, building the pipeline would entail land use, environmental impact assessment, financing, foreign investment, and so on. Hence, it would require cooperation from a wide array of central government ministries. To incorporate their input into the proposed project, the State Council established the Leading Group for the WEGP Project Construction on 25 March 2000, assigning deputy director of the SPC Zhang Guobao as director of the group and CNPC president Ma Fucai as deputy director. Other members of the leading group included leading officials from the Ministry of Finance, the Ministry of Land and Natural Resources, the Ministry of Foreign Trade and Economic Cooperation, and the State Environmental Protection Administration, together with one deputy governor from each of the eight provinces and one deputy mayor from Shanghai.[55]

The CNPC played a major role in ascertaining engineering and construction feasibility. Only four days after Minister Zhou Yongkang wrote to Premier Zhu Rongji and before the letter was even passed on to the SPC, CNPC convened a special meeting to study the WEGP project and to accelerate the initiation of the project. At the year's first State Council work meeting on 14 February 2000, Ma Fucai, together with officials from the SPC, briefed the Premier about the proposed WEGP project from resource, market, and economic feasibility perspectives. The State Council

51. Sun Jingyan, *Zhongguo Dongmai*, p. 19.
52. Fang Ranyou *et al.*, 'Xiqi Dongshu: Ziyuan Yu Shichang De Duijie', pp. 48–49.
53. Sun Jingyan, *Zhongguo Dongmai*, ch. 1, section 5.
54. Anonymous, 'Xiqi Dongshu Juece Guocheng' ['The decision making process of the West–East Gas Pipeline'], *Xinhua Net*, available at: http://news.xinhuanet.com/zonghe/2002-07/05/content_470749.htm.
55. Sun Jingyan, *Zhongguo Dongmai*, p. 11.

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approved the pipeline project in principle and at the same time requested that all preparation work and feasibility studies be completed as soon as possible.[56] On 2 March 2000, CNPC established its Leading Group for the WEGP project, with Huang Yan, the general manager of CNPC's holding company PetroChina as head. Six days after, PetroChina established the WEGP Project Management Department. To strengthen its engineering capability, CNPC pooled resources from its three subsidiaries—China Petroleum and Petrochemical Engineering Institute (CPPEI), China Petroleum Pipeline Engineering Corporation, and Sichuan Petroleum Survey, Design & Research Institute—to form a consortium responsible for the engineering design of the WEGP project. On 30 June 2000, CNPC finished its study of the proposed pipeline project and submitted its letter of recommendation to the SPC, asking for project approval.

With all tasks performed simultaneously, reports from various groups converged in the fall of 2000 to push the central government to a final decision. On 23 August 2000, Premier Zhu convened a State Council Work Conference to hear reports from Zhang Guobao, director of the State Council Leading Group for the WEGP Project, and agreed in principle to its letter of recommendation on the engineering planning of the pipeline construction. The Premier then made a trip to the Tarim Basin on 7 September 2000, to inspect the gas fields. After witnessing the flaring of a gas well, the premier declared:

> Based on this inspection tour and the discussions at the State Council, I am convinced that the resource base for the WEGP is solid. We should not only launch the project right away, but also build it without delay to bring into full play its benefits … The State Council has approved the project. Once approved, we should build the pipeline as soon as possible.[57]

Only seven days after the Premier's trip to the Tarim Basin, the SPC approved the letter of recommendation on the WEGP Project.

Reflections on the decision-making process of the WEGP project

The decision-making process of 140-billion-yuan WEGP Project exhibits a number of distinct features. First, it was a 'middle-up' process initiated by CNPC.[58] Throughout the decision-making process, CNPC was an institutional player that accelerated the decision-making process. CNPC as an institution constituted the repository of knowledge and expertise on energy governance, energy economics, and energy engineering. CNPC was actively involved in preparing for the economic and engineering feasibility studies of the proposed project and also led the efforts to coordinate interests among different stakeholders. For example, Ma Fucai, CNPC's president, was designated as deputy director of the State Council Leading Group for the WEGP Project.

56. *Ibid*.
57. *Ibid*., p. 12.
58. The process is categorized as 'middle-up' rather than 'bottom-up' because CNPC is a very large state-owned entity that employs over 1.6 million people.

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Second, the WEGP had a strong high-level issue champion on its behalf. Zhou Yongkang, then Minister of Land and Natural Resources and former CNPC president and commander of the Tarim Basin Oil Exploration Campaign Headquarters (which discovered all the major gas fields of the Tarim Basin in the 1990s), offered his direct support for the WEGP proposal. He advocated the pipeline twice directly to the Premier as CNPC president and as a top government bureaucrat. His persistent advocacy was the key factor in elevating the proposed WEGP to the central government's top agenda.

Third, in addition to its contribution to local revenues in Xinjiang and clean energy consumption in Shanghai, the proposed WEGP project would benefit the development of a variety of sectors in locations it would traverse. The power generation and heating industries would benefit. With access to natural gas, the Yangtze River Delta area would see a rapid development of gas-fired power plants and gas-powered heating industry. The provision of abundant natural gas to the region would stimulate the development of the petrochemical industry that uses natural gas feedstock. As natural gas replaced coal for millions of residents, there would emerge a vast demand for kitchen appliances that consume natural gas. Building the 4,200 kilometer-long and 1.02 meter-wide pipeline would require billions of tons of quality steel, thus boosting the upgrading of the country's steel industry. Based on a study by the Urumqi Branch of People's Bank of China, the WEGP project would consume 2.07 million tons of steel, with its economic benefits to the steel industry estimated to reach a billion yuan.[59] Similarly, the pipeline project would also provide great impetus to the development of the country's construction and construction material industry. Based on the same study, the pipeline would consume 30 million tons of earthworks, and possibly 50 million if the construction of gas-pressure stations were included, bringing an estimated trillion yuan in economic benefit to the construction and construction material industries.[60] Consequently, all stakeholders had vested interests in seeing the transformation of the WEGP proposal into a national decision and this sectoral support in turn translated into broad bureaucratic support at the central and local level. Thus, there were virtually no 'veto players' in the WEGP decision-making process.

Finally, the proposed project not only attracted the attention of the country's top leadership but also won their unambiguous endorsement. In addition to benefits on the energy front, the proposed WEGP also would yield other important associated policy benefits for the country's development policy challenges. To be specific, the WEGP proposal fit into the 'Western Development Campaign' that President Jiang championed to charter a different development course for China after he consolidated his power. Meanwhile, the proposed WEGP project offered a great stimulus package for Premier Zhu Rongji who was concerned about staving off China's economic recession in the aftermath of the Asian Financial Crisis. Thus, the WEGP proposal went beyond its scope as an energy decision in its deliberation process and was perceived as a boost to the country's overall development. Consequently, unlike the

59. Fang Ranyou *et al.*, 'Xiqi Dongshu: Ziyuan Yu Shichang De Duijie', p. 49.
60. *Ibid*.

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fuel tax case, the top leadership was not only attentive but also supportive throughout the decision-making process.

What are the policy implications?

Both decision-making processes—the WEGP project and the proposed fuel tax—are 'middle up'. However, their diametrically different outcomes indicate that the middle-up energy decision-making process works well for some decisions but not for others. All four factors—associated policy benefits, an issue champion, vertical and horizontal support, and a clear preference from the central top leadership—were present and harmonized in the decision-making process of the WEGP. The positive interactions of the WEGP project with President Jiang Zemin's search for a shift in the country's development focus and Premier Zhu Rongji's search for ways to stimulate the country's economic growth in the aftermath of the Asian Financial Crisis provided propitious timing for the WEGP proposal. The consistent support and follow-up from Zhou Youkang, who acted as an issue champion for the WEGP project, played a critical role in placing the WEGP proposal on the top leadership's radar screen. Once on the agenda, the potential associated benefits of the WEGP project for its stakeholders encouraged them to transform the WEGP proposal into a decision. Hence, the WEGP proposal encountered no opposition from 'veto players' and secured support from both vertical and horizontal bureaucracies with little difficulty, enabling it to clear the standard bureaucratic approval procedure in a timely fashion. Finally, the top leadership's early embrace of the proposed pipeline project catalyzed and precipitated its initiation.

By contrast, in the case of the decision-making process on the fuel tax, not all four factors were present and those factors that did exist worked in different directions. Unlike the WEGP, the interactions of the fuel tax proposal with other policy problems undercut the proposal in its deliberation process. For example, concerns about rising oil prices and their impact on headline inflation trumped the consideration of potential benefits the fuel tax could generate. Furthermore, while the fuel tax would yield some associated policy benefits, it would also cause collateral policy damage to some parts of the economy. Hence, once the fuel tax was proposed, a struggle among the potential winners and losers immediately followed. Although at the outset the SAT and the MOF were the de facto issue champions for the proposed fuel tax, their enthusiasm and support originated from their departmental interests and they were never more than half-hearted issue champions. As explained earlier, the SAT lost its enthusiasm as the country's taxation collective capacity improved. Hence, the fuel tax never secured both horizontal and vertical support from its stakeholders. While potential winners perceived their gains, each of them approached the proposed fuel tax along their geographic, organizational, or sectoral lines whereas potential losers, alarmed by the potential harm to them, became mobilized, organized, and united. Thus, the fuel tax proposal encountered vehement opposition from 'veto players' and they far outmaneuvered its early issue champions. Although the initiation of the fuel tax would correct fuel prices which are subsidized in China, encourage small and efficient cars, alleviate traffic congestion, reduce oil consumption at a time when the country is increasingly dependent upon foreign

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imports, and improve environmental quality, the intense bureaucratic wrangling constituted the primary barrier to its birth. Consequently, consensus building was largely proven a mirage, in the absence of a clear policy preference from the central top leadership.

The two comparative cases illustrate the changing characteristics of decision-making in China. Energy decisions, as with many other decisions in China, are increasingly becoming public policy decisions, which are inherently political because they touch on the essence of politics, namely who gets what, when, where, and how.[61] Invariably, the decision-making process involves making tough choices. Indeed, making these decisions requires aligning and coordinating a wide distribution of winners and losers generated by the decisions to be made. Frequently, this proves almost impossible for any single bureaucracy because its designated authority often pales in comparison with such a wide range of interests that are intertwined together. It also requires building coalitions within and outside the government and securing both vertical and horizontal support from various stakeholders. Above all, it requires an attentive and unified central leadership that sends clear policy preference signals in the event of an elusive consensus. However, the track record of the energy decision making in China offers little ground for optimism. The absence of the national interest watchdog at the fuel tax bargaining table and the inability of the government to initiate the well-grounded fuel tax certainly defeats speculation between 1994 and 2008 that the Chinese state is very strategic in its approach. Above all, it also attests to the limited capacity of the Chinese government to identify problems, allocate resources, set priorities, align interests, formulate solutions, and craft decisions to tackle the country's mounting challenges in the era of globalization.

However, this study also offers ground for optimism about the ability of the Chinese system to handle external shocks, such as the current global financial crisis.[62] As illustrated in the WEGP case, the Chinese leadership successfully handled the 1997 Asian Financial Crisis by shifting the country's developmental focus from the east to the west and reducing dependence on external markets. The current global financial crisis, although more widespread in regional scope and more disruptive in the havoc it wreaks, poses similar challenges to the Chinese economy, which is highly dependent upon exports. However, if history is any guide, the Chinese leadership will handle the current global financial crisis relatively well and it will resort to tools that were known to them, such as infrastructure expansion, expending stimulus, and shift in its development focus. In fact, the Chinese government is already employing those tools to engineer another round of development shift in which the rural area will be the emphasis. If successful, the Chinese economy could sharply reduce its dependence on export markets and become a self-sustained economy driven by its domestic consumption. This should not be viewed as an unfulfillable ambition because that was what China was like in the pre-Opium War era.

61. Harold Dwight Lasswell, *Politics: Who Gets What, When, How* (New York: Meridian Books, 1956).
62. The author thanks Professor David Lampton for this point.

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What are the theoretical implications?

Theoretically, the two comparative cases provide some fresh perspectives on the capacity of the Chinese state to tackle complex policy problems in the era of reform and globalization. Broadly, students of China fall into two camps on this issue, with one camp arguing that reform and globalization has seriously weakened the capacity of the Chinese state and the other arguing that the capacity of the Chinese state has not changed much.[63] However, findings from this study indicate that the nature of policies carries profound implications for the capacity of the Chinese state. Specifically, the decision-making process functioned fairly smoothly in the case of the WEGP decision but was paralyzed and deadlocked in the case of the fuel tax debate. The WEGP decision differs from the fuel tax proposal in that the former is distributive whereas the latter is redistributive in nature because the former largely entails disposal of benefits to all stakeholders from the central government whereas the latter entails reallocating benefits and losses among stakeholders. Put differently, this study illustrates that reform and globalization have only slightly changed the capacity of the Chinese state to make and implement distributive decisions but they have weakened its capacity to make and implement redistributive decisions.

This variation occurs largely because reform and globalization introduce new dynamics into the Chinese political system that test the old 'rules of the game' of the system. While consensus still prevails over the decision-making process in China, the number of players in the process has proliferated due to the increased pluralization as manifested in both the WEGP and the fuel tax case. As such, the decision-making process has become more consultative, iterative, and participatory, but it is also more prone to delays, deadlock, and paralysis when dealing with decisions of a redistributive nature because their juxtaposition of potential winners and losers is not conducive to consensus building. However, despite the deepening the pluralization, the Chinese political system does not allow open lobbying and formation of watchdogs of every social group. Lobbying occurs within the system along departmental, geographic, and sectoral lines. Consequently, those that lack representation at the bargaining table, such as the disadvantageous groups or public goods, often find their interests unrepresented. Thus, pluralization has strengthened the built-in propensity of the Chinese political system toward protecting vested interests and maintaining the status quo.

However, this new finding does not mean that the insights generated from the existing literature are no longer valid. Instead, the fragmented authoritarian model

63. For example, Wang Shaoguang argues that the capacity of the Chinese state has been seriously weakened by the country's economic reforms and opening up and that China is experiencing a governance crisis. For more see, Wang Shaoguang and Hu Angang, *The Chinese Economy in Crisis: State Capacity and Tax Reform* (Armonk, NY: M.E. Sharpe, 2001), p. 25; Wang Shaoguang, 'The problem of state of weakness', *Journal of Democracy* 14(1), (2003), pp. 36–42. By contrast, other scholars are of the view that the capacity of the Chinese state to control local agents remains intact: see Maria Edin, 'State capacity and local agent control in China: CCP cadre management from a township perspective', *The China Quarterly* 173, (2003), pp. 35–52. Similarly, Huang finds that the central government of China has increased its political and administrative control over provincial government leaders and that the capacity of the Chinese state to manage the economy is also robust; see Huang Yasheng, 'Central–local relations in China during the reform era: the economic and institutional dimensions', *World Development* 24(4), (1996); and Huang Yasheng, *Inflation and Investment Controls in China: The Political Economy of Central–Local Relations During the Reform Era* (Cambridge: Cambridge University Press, 1996).

still conveys important characteristics of the Chinese political system and the bargaining feature portrayed by the bureaucratic politics model largely remains intact. Nevertheless, this study compliments these findings and demonstrates how reform and globalization have added new dynamics to the Chinese political system. For example, the two comparative case studies presented here illustrate how localities, businesses, and sectors participate in the Chinese decision-making process in a consultative and iterative fashion. The collective action phenomenon exemplified in the fuel tax decision process and the company-driven decision making in the WEGP case share a great deal of similarities with the way in which many public policy decisions are made in the United States. The interactions between the central government and local governments in China have much in common with the dynamics between the federal and local governments in the United States. The way bureaucracies, localities, businesses, and different groups promote and protect their interests in the Chinese decision-making process goes beyond political ideologies and is not different from how their counterparts pursue these interests in the United States. After 30 years of reform and integration into the global economy, while political reforms in China have moved at a slow pace, sometimes three steps forward, two steps back, the way decisions are made in China have undergone noticeable transformations. In fact, the decision-making process in China is increasingly similar to that in the United States.

Finally, findings of this study cast doubt on the applicability to China of the developmental state model,[64] which is often associated with Japan between the 1960s and 1980s. Neither the WEGP nor the fuel tax case reveals a 'knows what it wants' and 'gets what it wants' state in the reformed and globalized China. In the WEGP case, it was CNPC rather than the Chinese state that initiated the decision-making process. Contrary to some analysts,[65] the Chinese state did not form a plan to build the plan until CNPC put forward the proposal. Similarly, the Chinese state has demonstrated that it does not know what it really wants in the case of the fuel tax debate. CNPC worked closely with the Chinese government on the WEGP project because it served the company's interests whereas little of the same enthusiasm has been exhibited in the case of the fuel tax debate when the proposal is perceived to harm the company's interests. There is no evidence that Chinese national oil companies (NOCs) are the Chinese government's puppets. Extending this finding to Chinese NOCs' overseas investments, this means the conventional fear that these investments are driven by the Chinese government's political decisions is misplaced. Instead, reform and globalization have unleashed the commercial impulses of Chinese state-owned enterprises (SOEs), including Chinese NOCs, which often prompt them to pursue their 'mercantilist' interests regardless of what the state does or does not do. Regulating the behavior of these increasingly powerful and autonomous state-owned entities that are driven by their commercial impulses and bringing it in line with the image of China's national interests and the image China wants to present on the international stage will be a litmus test of China's governance capacity in the era of reform and globalization.

64. The author thanks Carla Freeman for this point.

65. For example, Philip Andrews-Speed, Xuanli Liao and Roland Dannreuther, *The Strategic Implications of China's Energy Needs* (New York: Oxford University Press, 2002).

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Appendix

Table A1. Winners and losers from the fuel tax in China

	Stakeholders affected	Benefits/losses after fuel tax
Winners	The central government	Would increase tax revenues, reduce localism, ease corruption and popular discontent generated by too many fees
	Developed regions and cities	Would generate high revenues because there were many cars
	General taxation bureau	Would increase the central government's tax revenues by turning fees into taxes, strengthen the country's taxation system; transfer collection power from Ministry of Communications
	Local taxation bureaus	Would increase tax revenues by transferring collection power from local transportation administrative agencies
	Ministry of Finance	Would strengthen the country's financial system, and streamline the budget by 300,000 fee collectors
	Auto industry	Consumers would buy smaller and more energy-efficient cars, forcing the industry to be more cost competitive, more fuel-efficient, and more technologically innovative. Old energy-inefficient cars would lose market share, thus forcing the auto industry to upgrade its product and enhance competitiveness
	Consumers	The more car use, the more fuel tax paid
	Smugglers	
	Traffic	The less car use, the less fuel tax paid
	Environment	Fuel tax is conducive to less fuel consumption
	Fuel conservation	The more fuel used, the more tax paid
Losers	Local governments	Would lose their off-budget revenues from road tolls, but only get a small share of the fuel tax
	Ministry of Communications and its local branches	Would lose power to collect road tolls and retain some revenues; lose financial power to have off-budget revenues; budget would be approved by the Ministry of Finance; decrease workforce by 270,000–300,000 people
	Customs Bureaus	The fuel tax would encourage fuel smuggling, thus reducing revenues collected by customs
	Less developed regions and rural areas	Would collect fewer fuel tax revenues, leading to a wider regional development gap
	The agricultural sector and farmers	Do not pay road tolls for fuel consumption, but would pay fuel tax
	The forestry sector	Does not pay road tolls for its fuel consumption, but would pay fuel tax
	The fishery sector	Does not pay road tolls for its fuel consumption, but would pay fuel tax
	The industrial sector	Does not pay road tolls for its fuel consumption, but would pay fuel tax
	Power plants	Do not pay road tolls for fuel consumption, but would pay fuel tax

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Table A1 (*continued*)

Stakeholders affected	Benefits/losses after fuel tax
The construction industry	Does not pay road tolls for its fuel consumption, but would pay fuel tax
The petrochemical industry	Tax on fuel product would increase by 60%; if collected at the production end, fuel tax would raise pressure on petrochemical enterprises to maintain high capital turnover
Long-distance passenger and cargo transportation sector	Would pay more fuel tax than road tolls because of mileage of car use; would lose competitiveness to railway and air cargo transportation if they are exempt from fuel tax
Military	Exempt from road tolls, but would pay fuel tax
CPC and government offices	Exempt from road tolls, but would pay fuel tax
Taxi drivers	Would pay more fuel tax than road tolls because mileage of car use (up to three times more)
Public transportation (buses)	Would pay more fuel tax than road tolls because mileage of car use
Investors of local roads and bridges	Fuel tax would replace road tolls. Investors would lose incentive to invest in roads and bridges