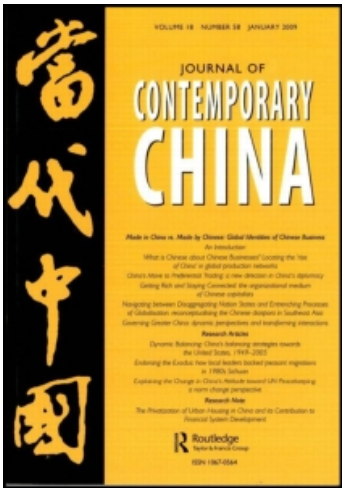
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Remaking the Chinese State and the Nature of Economic Governance? The *early* appraisal of the 2008 'super-ministry' reform

YUKYUNG YEO*

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This report explains the shifts and strains in the 2008 super-ministry government reform, focusing on the reform of government institutions of economic governance. Drawing on interviews with officials and scholars in Beijing after the reform, and on Chinese-language reports and books, this study suggests that the key to substantial progress in remaking the Chinese state into a macroeconomic regulator is the reform of the National Development and Reform Commission (NDRC), which was lacking in the 2008 scheme. Its powerful authority for investment endorsement is particularly problematic. A continued administrative malaise in the energy sector and strategically articulated state engagement in industrial development also should be noted as the salient features of China's economic governance.

Introduction

Since the early 1980s, the Chinese leadership has carried out six major government reforms; the 1998 and 2003 reforms were meant to 'make a real progress toward making the Chinese state into a regulatory state'[1] by transforming government functions and enhancing administrative efficiency.[2] Yet, despite such efforts, China still suffers from massive overlaps of bureaucratic authority and overly specific rules, policies, and ordinances, giving the government much space for micro-management of the economy. According to one report after the latest state reform, 'there are at

*Yukyung Yeo is assistant professor in the City University of Hong Kong. She holds a Ph.D. from the University of Maryland, College Park. She is currently working on a book project on regulatory politics in Chinese industrial economy. Her research areas include the patterns of state regulation in China's key strategic sectors, state–business relations, institutional reforms in the socialist market economy, and Chinese foreign policy in regional and cross-regional cooperation. Field research for this study was conducted with the support of City University of Hong Kong, Faculty Research Grant, Project No. 9610096: 'The politics of state regulation in China's strategic industries'. The author wishes to acknowledge the valuable research assistance of Ivan Fong, as well as the generous research support of Martin Painter.

1. Dali L. Yang, *Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China* (Stanford: Stanford University Press, 2004), p. 18.

2. Cheng Gang and He Chunzhong, 'To revolutionize oneself, that is excellent—the reform pushes for a service-oriented government', *Zhongguo Qingnian Bao* [*China Youth Daily*], (21 March 2008), World News Connection (WNC) online. This is the online successor to the Foreign Broadcast Information Service (FBIS) hardcopy.

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least 80 or more overlapping institutions in the State Council'.[3] Hence, the Chinese leadership's political commitment has been insufficient to bring fundamental change, and perhaps this is why the 2008 reform emphasizes greater government efficiency by integrating previously scattered departments, ministries, and commissions into super-ministries.

During the 1980s, China's administrative reforms had focused on streamlining or downsizing government agencies. The 1982 reform reduced the State Council's administrative units from 100 to 61; staff was cut from 51,000 to 30,000. The 1988 restructuring reduced the number of ministries and commissions from 45 to 41 and led to dismissals of more than 9,700 staff.[4] In the mean time, according to John Burns, since 1988 'the central theme of state reforms became changing the functions of government'.[5]

The core question, then, what was the major obstacle to such long-standing endeavors over the past three decades? To what extent can or will the 2008 'super-ministry' reform (*dabuzhi gaige*) mark a departure from the past? Drawing on interviews with officials and scholars in Beijing in the wake of the reshuffling and by consulting Chinese-language articles and reports, this study argues that the key that may bring about a substantial change is the reform of the National Development and Reform Commission (NDRC), particularly with regard to its powerful authority for investment endorsement, which largely induces state interventions in economic operations. Otherwise, internal opposition will make it difficult not only to transform the Chinese government into a macro-regulator, but also to organize a rationalized institutional structure. In addition, the 2008 reshuffling highlights a strategically articulated state engagement for further industrial development, rather than aloof market-oriented oversight.

This article consists of four sections. The first introduces the set of institutional arrangements which is emerging in China. The second section examines the NDRC and discusses its power of investment approval, especially as a key obstacle to the transformation of government functions and structure. The article then explains the results of economic governance: the continued pathologies of bureaucracy and great emphasis on industrialization by strong state support and strategies. The article will conclude with some observations regarding the prospects for the reform of government institutions.

Overview of the 2008 reform

In March 2008, the first plenary of the 11th National People's Congress (NPC), China's legislature, endorsed a State Council's proposal designed to restructure government functions and system so as to 'deepen the reform of government institutions'.[6] Since 1982, as the past five government reforms have shown, the institutional reforms of the government have been gradual but intended to establish

3. Weng Shiyou and Ouyang Xiaohong, 'State Council reform: break down, rebuild, rinse, and repeat', *The Economic Observer*, (6 March 2008).

4. '1982 nian dao 2003 nian zhongguo de wuci zhengfu jigou gaige' ['China's fifth government reform from 1982 to 2003'], *Xinhuawang*, (11 March 2008).

5. John P. Burns, 'China's administrative reform for a market economy', *Public Administration and Development* 13, (1993), p. 349.

6. Hu Shuli, 'Political implications of the proposed super-ministries', *Caijing*, (4 March 2008).

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a socialist administration system with Chinese characteristics by 2020.[7] The former department chief in China's Ministry of Personnel, Hou Jianling, declared that 'by the time the socialist market economy is fully established, it will be possible to create a permanent government structure'.[8]

The 2008 reshuffling focuses on two issues: (1) strengthening macroeconomic regulation of key areas (i.e. energy) and promoting scientific industrial development; and (2) improving public administration and services so as to build the social security system.[9] Responsibilities of three key institutions are outlined to improve macroeconomic control. First, the National Development and Reform Commission (NDRC) reduces interventions in economic operations and instead will concentrate on 'improving the management of planning and industrial policies, as well as coordinating the overall economic restructuring'.[10] Second, the Ministry of Finance will reform the tax and budget management system designed to enhance 'the establishment of a unified, standard and transparent fiscal transfer payment system',[11] which contributes to consolidating the public financial system. Lastly, the People's Bank of China will tighten the monetary policy, 'improve the foreign exchange rate regime and strengthen the coordination with financial market regulators in order to prevent financial risks and ensure financial security'.[12]

Above all, the emphasis is on the creation of five 'super-ministries' that integrate ministries and departments with similar functions, minimizing turf wars that have stymied policy decision-making and enforcement. Among these are the ministries of industry and information technology; transport and communication; human resources and social security; environment protection; and housing and urban planning (see Table 1). The 2008 scheme involves 15 government departments and pares down the number of ministries and commissions after reform to 27 from 28. The idea of 'super-ministries' was actually put on the table by President Hu Jintao at the 17th Party Congress in October 2007. One Chinese public policy pundit claims that the newly merged ministries would make the State Council a more effective executive body, even though there might initially be some strong opposition.[13] In comparison to the previous reforms, the 2008 scheme emphasizes institutionalized state efforts to deal with a variety of social challenges, such as environment pollution, housing, and the growing urban–rural gap. These reflect the Chinese leadership's glaring recognition of the imperatives of social security. Below I will offer an overview of five 'super-ministries' (see Table 1).[14]

7. Hua Jianmei, 'Guanyu guowuyuan jigou gaige fangan de shuoming' ['Explaining the policy of the State Council structure reform'], *Renmin Ribao* [*People's Daily*], (12 March 2008).

8. Jasper Becker, *The Chinese* (London: John Murray, 2000), p. 293.

9. 'Guanyu shenhua xingzheng guanli tizhi gaige de yijian' ['Opinion regarding deepening the reform of administrative governing system'], available at: http://news.xinhuanet.com/newscenter/2008-03/04/content_7717129.htm (accessed 27 September 2008); 'Guowuyuan jigou gaige fangan' ['State Council structure reform plan'], available at: http://www.gov.cn/2008lh/content_921411.htm (accessed 30 September 2008).

10. 'Making government work better', *Beijing Review*, (27 March 2008), p. 12.

11. *Ibid*.

12. *Ibid*.

13. Mao Shoulong is one of the most influential public policy experts in China and executive deputy director of the School of Public Policy at Renmin University in Beijing. Richard McGregor, 'China to merge ministries in government revamp', *Financial Times*, (4 March 2008).

14. Since the Ministry of Industry and Information Technology is discussed later, it is not included here.

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Table 1. The 2008 government structure reform

Super-ministries	Merged or/and replaced former institutions	New bureau subordinated to ministry
Ministry of Industry and Information Technology	Commission of Science, Technology and Industry for National Defense, Ministry of Information and Industry, State Council Informatization Office, State Tobacco Monopoly Administration	Bureau of Science and Industry for National Defense
Ministry of Transportation	Ministry of Transportation, General Administration of Civil Aviation, State Post Bureau	Bureau of State Civil Aviation
Ministry of Human Resources and Social Security	Ministry of Personnel and Ministry of Labor and Social Security	State Bureau of Civil Servant
Ministry of Environment Protection	State Environment Protection Administration	
Ministry of Housing and Urban–Rural Development	Ministry of Construction	
Ministry of Health	Ministry of Health and the State Food and Drug Administration	

Sources: http://tech.sina.com.cn/focus/dbgg_xcb/ (accessed 16 June 2008).

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The Ministry of Environment, replacing the State Environmental Protection Agency reveals Beijing's consistent efforts to begin enforcing its anti-pollution regulations and demonstrate increased pressure on heavy industry to comply or close.[15] Huang Xihua, NPC Deputy and environment official of Guangdong province, comments that 'China is finally aware that pollution prevention is more important than pollution control'.[16] As a newly elevated ministry, the Ministry of Environment constitutes the State Council, is not simply subordinated to it, and may participate in making national policy decisions. So when it comes to environmental issues, its voice can now be heard.[17] The new Ministry of Human Resources and Social Security combines the former Ministry of Personnel with the Ministry of Labor and Social Security. Its set-up stresses the need for the government to provide unified policies and principles for urban and rural labor markets so that human resources can be deployed, managed, and developed in a way that is consistent with the development of the market economy. This also shows China's expanded concept of 'human resources (*rencai*)' from civil servants and cadres to various types of labor, such as high-tech engineers or retailers with rapidly diversified human resources.

The Ministry of Communications, civil aviation authorities and the postal services are folded under the Ministry of Transportation, so that the transport system comes to have integrated rules, policies, and standards. This is in line with the global trends

15. McGregor, 'China to merge ministries in government revamp'.
16. 'First reactions to China's government reshuffle', *Xinhua*, (11 March 2008).
17. 'Baixing zhufang chengwei guojia dashi' ['Public housing becomes the national big task'], *Beijing Qingnian Bao* [*Beijing Youth Daily*], (12 March 2008).

of the international transport industry that lead to a comprehensive and modernized transportation system. China's transportation administration, because of its overlapping and fragmented authorities, has been inconvenient for users and inefficient for freight business where conveyance speed is critical.[18] Rapid urbanization that has brought the largest flow of population from the country to cities in world history[19] has made housing and the soaring urban–rural gap a central task for the Chinese leadership if it is to achieve its objective of a stable and harmonious society (*xiaokang shehui*) by 2010. The creation of the Ministry of Housing and Urban–Rural Development showcases the government's staunch commitment to reform housing management and to establish the housing security net. As the Ministry of Health takes over the jurisdiction for the State Food and Drug Administration, it is highly expected to improve accountability and consistency for food and drug safety. One Chinese People's Political Consultative Conference (CPPCC) member, Sun Fengyuan, states that 'health and medicine is like the relationship between warrior and weapon, so they must coordinate well in order to win a battle'.[20] Nevertheless, there remains much to be done. State Councilor Hua Jianmei during the annual NPC–CPPC[21] 2008 acknowledges that the transformation of government functions has not been completed yet; the structure of government institutions is not rational enough, so that powers in some regards are too concentrated and lack due oversight and checks.[22]

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The crux of the government reform: the NDRC

Although the previous government reforms had different goals, they shared clear common threads: the transformation of government functions into macroeconomic regulators.[23] In spite of such long efforts, why has this not been achieved? What has been preventing the remaking of the Chinese state through the post-Mao reform? This study suggests that the answer is the reform of the National Development and Reform Commission (NDRC) and particularly its powerful authority to record (备案 *beian*), verify (核准 *hezhun*), and approve (批准 *pizhun*) a variety of investment projects. This allows the NDRC to dominate the right to review, approve, and finance grandiose infrastructure investment projects.[24] Investment controls in China have been explored

18. 'Jigou gaige shi tigao zhengfu xiaoneng' ['Structure reform enhances the government efficiency'], *Beijing Qingnian Bao* [*Beijing Youth Daily*], (12 March 2008).
19. 'Baixing zhufang chengwei guojia dashi'.
20. 'First reactions to China's government reshuffle'.
21. This refers to the National People's Congress and National Committee of the Chinese People's Political Consultative Conference.
22. Cheng Zhiliang, 'China to set up five new super ministries', *Xinhua*, (11 March 2008).
23. You Ji, 'China's administrative reform: constructing a new model for a market economy', *Issues and Studies* 34(2), (February 1998), p. 70; Che-po Chan and Gavin Drewry, 'The 1998 State Council organizational streamlining: personnel reduction and change of government function', *Journal of Contemporary China* 10(29), (2001), p. 562; Dali L. Yang, 'Rationalizing the Chinese state: the political economy of government reform', in Chien-min Chao and Bruce J. Dickson, eds, *Remaking the Chinese State: Strategies, Society, and Security* (London and New York: Routledge, 2001); Zhiyong Lan, 'The 1998 administrative reform in China: issues, challenges, and prospects', *Asian Journal of Public Administration* 21(1), (June 1999).
24. Sun Rongfei, 'Fagaiwei kaishi "shoushen" zhilr', ['NDRC kicks off the diet'], *Dongfangwang* [*Eastern Online*], (19 March 2008), available at: http://news.163.com/08/0319/02/47C5S2L80001124J.html (accessed 22 October 2008).

as a window of central–local government dynamics,[25] but oddly neglected as a major obstacle to the reform of government institutions. Streamlining and downsizing are helpful but insufficient to transform government functions and ease the administrative malaise. In other words, the creation of super-ministries may reshape government institutions, but this neither remakes the Chinese state macroeconomic regulator, nor improves the efficiency and services of public administration.

The NDRC has evolved from the State Planning Commission (SPC), which has been a stronghold of the planned economy. Since the 1988 government reform which restructured SPC by merging the former SPC and State Economy and Trade Commission, the leadership has consistently attempted to make the SPC focus on the macro-level mandate.[26] The SPC after the 1998 reform was then reorganized into the State Development and Planning Commission; the 2003 scheme eliminated 'Planning' and renamed it the National Development and Reform Commission. Such institutional evolution of the NDRC unveils its deeply integrated attributes of planned economy. With 26 departments and bureaus, however, the NDRC *still* decides and implements a number of state development programs, such as the West Development Program or Northeast Development Program and investment approval to industrial policies in macroeconomic regulation.

The NDRC, according to the 1998 plan, was supposed to concentrate on 'maintaining an overall economic balance, curing inflation, and optimizing economic structure'.[27] Yet its mismanagement of inflation and energy policies prove that the 1998 reform failed to transform the government into a macroeconomic supervisor; the NDRC has been blamed for not only its continued micro-control, but also the reluctance to undertake root-and-branch market reforms in many sectors of the economy.[28] According to one senior official in the Development Research Centre (DRC) of the State Council, there is often disagreement between the NDRC and DRC. While DRC insists upon the need for a more market-oriented approach to the reforms, the NDRC has kept its planned economy mentality.[29]

In Beijing, the NDRC is known as 'the small State Council' (*xiao guowuyuan*)[30] because of its intense engagement in public policies. For example, the NDRC's jurisdiction ranges from 'financial and monetary issues, seminal infrastructure projects, industrial and agriculture development, foreign economic relations to energy and environment'.[31] It is even said that there is no place that the NDRC cannot reach. The NDRC's political clout derives from its close working relationship with

25. Yasheng Huang, *Inflation and Investment Controls in China: The Political Economy of Central–Local Relations during the Reform Era* (Cambridge: Cambridge University Press, 1996); Linda C. Li, *Centre and Provinces: China 1978–1993* (Oxford: Oxford University Press, 1998); Jae Ho Chung, 'Reappraising central–local relations in Deng's China', in Chao and Dickson, eds, *Remaking the Chinese State*.

26. Wu Peilun, *Woguo de Zhengfu Jigou Gaige* [*Reform of Government Structure of Our Country*] (Beijing: Economic Daily Press, 1990).

27. Yang, *Remaking the Chinese Leviathan*, p. 40.

28. Richard McGregor and Mure Dickie, 'Beijing to create five super-ministries', *Financial Times*, (11 March 2008).

29. Author's interview in the Development and Research Centre of the State Council, Beijing, 2 May 2008.

30. Sun Hengchao, CPPCC member and member of standing committee of the All-China Federation of Industry and Commerce, 'criticized the power of the NDRC at a NPC–CPPC meeting and complained that the NDRC had become a "small state council"'. See, 'Zhengxieweiyuan chenyingche fagaiwei' ['Member of the National Committee of CPPCC should break-up NDRC'], *Nanfang Dushi Bao* [*Southern China Times*], (13 March 2008).

31. Willy Lam, 'Beijing unveils plan for super ministries', *China Brief* 8(1), (January 2008).

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the premier's office and the State Council secretariat.[32] In March 2008, the appointment of former minister of NDRC, Ma Kai, to the State Councilor and Secretary-General of the State Council supports these arguments. In part, because the State Council lacks professional economic expertise, it has tended to rely on the NDRC's ideas and proposals, which has significantly contributed to the empowerment of the NDRC.[33] Moreover, as environment pollution, housing, and the urban–rural gap are drawing the State Council's attention, the NDRC has assumed greater responsibility for dealing with the national economy.[34]

Specifically, the power of the NDRC originates in its right to examine and endorse a variety of investment projects.[35] As Dali Yang aptly noted, 'as long as the government remains heavily implicated in the economy by virtue of its ownership and investments, the pathologies of government reforms would persist'.[36] In the March 1997 NPC meeting, for instance, delegates pointed to the problem of the investment decision-making mechanism, accusing it of lagging behind changes in the market[37] compared with a massive downsizing of ministries and their staff. Yet one may argue that a much reduced share of state-budgetary investment in the post-Mao era demonstrates the increased leverage of local governments and the declining discretion of the central planning agency NDRC in investment decisions.[38] In 1985, the share of state-budget investments in total investment amounted to 16%, while those of domestic bank loans, foreign investment, and self-raised and others were 20.1, 3.6, and 60.3%, respectively (see Table 2). As of 2006, of all investment sources, only 3.9% were financed by the state budget, and under the most stringent government scrutiny.[39]

However, a remarkably decreased share of state-budget investment is insufficient to show either much leeway for local authorities or less micro-management from the central planning agency. Because any investment project valued at more than RMB 30 million, no matter what the sources of funds, is required by law to go to the NDRC for review and approval,[40] the NDRC carefully reviews their potential contribution to the national economy, relevance, and compliance with the national development plans and policies. It is often observed that 'to avoid such red tape, local authorities began splitting up projects into smaller ones that fell below this threshold in order to avoid such red tape'.[41] For example, because of the NDRC's powerful authority for investment endorsement, every morning by 8 am its main gate is already crowded

32. *Ibid*.

33. Author's interview in the Institute of Political Science of the Chinese Academy of Social Science (CASS), Beijing, 29 April 2008.

34. Author's interview with a senior official of the National Development and Reform Commission (NDRC), Beijing, 9 May 2008.

35. Author's interview with the director of the Center for Public Sector Performance Management of Beijing University, Beijing, 29 April 2008.

36. Yang, *Remaking the Chinese Leviathan*, p. 23.

37. *Ibid*., p. 38.

38. Chung, 'Reappraising central–local relations in Deng's China', p. 57.

39. The National Bureau of Statistics of China, 'Sources of funds of total investment in fixed assets in the whole country and composition of funds of investment in fixed assets', available at: http://www.stats.gov.cn/tjsj/ndsj/2007/html/F0604E.HTM (accessed 17 October 2008).

40. Weng Shiyou, Yuan Zhaohui and Cheng Zhiyun, 'China's Congress revitalizes NDRC', *The Economic Observer*, (21 March 2008). Available at: http://www.eeo.com.cn/ens/Politics/2008/03/21/94671.html (accessed 17 September 2008).

41. *Ibid*.

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Table 2. Share of sources of funds in total investment (%), 1981–2006

Year	Sources			
	State budget	Domestic loans	Foreign investment	Self-raising and others
1981	28.1	12.7	3.8	55.4
1985	16.0	20.1	3.6	60.3
1990	8.7	19.6	6.3	65.4
1995	3.0	20.5	11.2	65.3
2000	6.4	20.3	5.1	68.2
2006	3.9	16.5	3.6	76.0

Sources: National Bureau of Statistics of China, http://www.stats.gov.cn.

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with people applying for support from the NDRC.[42] At the same time, the 2004 Decision on Investment System Reform from the State Council (the Decision) encourages more discretion for local governments and industrial departments in dealing with investment management. What is actually happening, however, is that the NDRC even rejects some projects that are endorsed by the local governments. In this connection, local governments sometimes have the power of approval, such as when the total foreign investment is less than US$100 million, but they still have to file the report with the NDRC.[43] This is 'effectively equivalent to NDRC approval, because without a filing confirmation letter from the NDRC, projects could not be started'.[44]

The 2004 state regulations on investment from both the State Council and NDRC categorize the rules by 13 sectors and specify the conditions under which firms and the local authorities need NDRC approval.[45] For example, state investment projects that utilize foreign loans over the amount of 500 million RMB require permission from the NDRC.[46] All these tighten macroeconomic regulation by preventing reckless domestic and overseas investments. Even though the goal is to enhance macroeconomic supervision, the top planning commission of the NDRC seems to have become used to relying on micro-types of administrative instruments such as investment endorsement. One Party secretary of Hainan province contends that in order to achieve substantial change of government functions, the NDRC needs to clarify how to minimize such measures of micromanagement.[47]

After the 2003 reform, the mounting number of approved investment decisions reveals the tendency of NDRC's resilient interventionist economic governance even though the share of state budget investment has been shrinking. As Table 3 shows,

42. Sun, 'Fagaiwei kaishi "shoushen" zhilr'.
43. *Ibid*.
44. Weng Shiyou *et al.*, 'Fagaiwei zaidingwei' ['NDRC re-vitalizing'], *Jingji Guancha Bao* [*Economic Observer*], (21 March 2008).
45. See, 'Guanyu yinfa guojia fazhan gaigewei hebao guowuyuan hezhun huo shenpi de guiding zichan touzi xiangmu mulu de tongzhi' ['Notice regarding the category of investment projects in the fixed assets that the National Development Reform Commission needs the State Council's approval'], *Fagai Touzi* [*Development and Reform*] no. 1927, (2004); The State Council, 'Guowuyuan guanyu touzitizhi gaige de jueding' ['The State Council's decision on reforming the system of investment'], (25 July 2004).
46. *Ibid*.
47. Sun, 'Fagaiwei kaishi "shoushen" zhilr'.

Table 3. NDRC's approval of investment projects, 2005–2008

Sources	Year			
	2005[a]	2006	2007	2008[b]
Foreign investment	4	10	3	16
Local level investment	50	52	105	127
State level investment	26	12	19	17
Not specified	11	57	65	108
Total	91 (5)	131 (9)	192 (3)	268 (3)

Notes: [a]From 31 March; [b]to October 6; '()' denotes projects using multiple sources among the total number; the data from the NDRC's official announcement is only available from 2005.
Sources: Compiled from the NDRC's Announcement on Project Examination and Approval (项目审批与核准), available at: http://www.ndrc.gov.cn/xmsphz/default.htm.

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the total number of investment projects endorsed by the NDRC rose from 91 in 2005 to 268 by October 2008.

More importantly, as some projects are funded by multiple sources, it is becoming even more difficult to discern the nature of investment. It is, moreover, not clear 'whether a project with state budget and foreign investment will be treated as a state investment project or a foreign investment project'.[48] Given that, a reduced share of state budget investment is certainly not enough to determine the extent of government involvement. Such an empowered NDRC is an impediment to the establishment of the Ministry of Energy,[49] which has been strongly demanded for efficient energy policy-making and enforcement.

A continuation of administrative malaise

The improvement of public administration and services is another purpose of the 2008 reform, but overlapping areas of responsibility are far more likely to continue, due to the serious conflicts of entrenched interests among the agencies involved.[50] This seems nowhere truer than in the areas of energy. In effect, the recent surge in energy demand and imports, rising global energy prices, and the domestic energy shortage, call for restructuring the system of policy-making and coordination and enhancing institutional capacity that has been paralyzed because so many administrative agencies have been involved. Some contend that 'one reason why Beijing has lagged behind oil-importing countries such as Japan in developing oil reserve is that energy policy is being devised by a host of party and government departments'.[51]

48. Michael Han, 'Reforming China's approval system for investment projects', *China Law & Practice*, (September 2004).
49. Jim Yardley, 'China retools its government in efficiency push', *The New York Times*, (12 March 2008).
50. Arthur Kroeber, managing director of Dragonmics, which is an economic research consultancy in Beijing, comments that the 2008 reform is not likely to bring about 'advances in any substantial way the coordination between different agencies'. Yardley, 'China retools its government in efficiency push'.
51. Lam, 'Beijing unveils plan for super ministries'.

A new institutional design for the energy sector has been under consideration, and Chinese professionals have strongly proposed 'a super energy ministry' so that energy policies can be rationally designed and carried out independently of powerful state agencies and firms.[52] The Investment Association of China (*zhongguo touzi xiehui*) was the first to come up with this idea early in 2005.[53] According to its vice-president Chen Wangxiang, the Association submitted the report to the State Council and explained the need for a functionally and structurally unified energy ministry. The proposed Ministry of Energy would take over energy-related responsibilities from the NDRC and strengthen the management, development, and securing of energy resources. The report noted that China's economic development faced a bottle-neck in energy management, one that would only worsen without comprehensive and long-term planning.[54] Given that China's energy acquisition needs the full use of both domestic and international markets, it is crucial not only to manage and coordinate sectoral interests, but also to participate in international channels for energy cooperation. The proposed super energy ministry would formulate national energy policy, adjust the energy consumption structure, enact the laws, and supervise energy firms.

However, this proposal remained a proposal. Despite the shared recognition of problems and strong demand for the improvement of the energy policy system, the 2008 reform failed to inaugurate a super energy ministry due to strong opposition and lobbying from both the NDRC and energy firms.[55] Instead, the 2008 plan sets up the State Energy Commission (*guojia nengyuan weiyuanhui*, SEC) subordinated to the State Council, and the National Energy Administration (*guojia nengyuan ju*, NEA)[56] under the NDRC's jurisdiction. One senior official from the NDRC acknowledges that the NDRC was the main impediment to the creation of the Ministry of Energy. Not surprisingly, he contends that the energy ministry was not essential for China's energy policy at home and abroad because we already have an energy bureau under the NDRC, and creating another administrative body for energy would be incompatible with the idea of 'small government' that the Chinese leadership has been pursuing.[57] Given the past rise and fall of the energy commission and ministry because of fierce rival interests with the top planning agency over more than two decades, the failure of the creation of the energy ministry is hardly unexpected. If we look at the institutional evolution of the energy sector, the first State Energy

52. 'Zhongguo nengyuan zhuanjia huyu sheli xinde nengyuanbu' ['Chinese energy experts call for the creation of new energy ministry'], *Xinhuashi* [*Xinhua Times*], (14 November 2007), available at: http://stock.hexun.com/2007-11-14/101094822.html (accessed 31 October 2008); You Ran, 'Huyu sheli nengyuanbu' ['Call for establishing the Ministry of Energy'], *Zhongguo Shiyou Qiye* [*China Oil Enterprises*] no. 9, (2007).

53. Ye Yijian, 'Zhongguo nengyuanjie yuanlao: meiyou nengyuanbu' ['China's energy field seniors: no energy ministry'], *21 Shiji Jingji Baodao* [*21st Century Business Herald*], (12 March 2008).

54. McGregor and Dickie, 'Beijing to create five super-ministries'.

55. Erica Downs, 'China's energy policies and their environmental impacts', *US–China Economic & Security Review Commission*, (13 August 2008); McGregor, 'China to merge ministries in government revamp'.

56. The National Energy Administration is officially recognized as an English name on *Guojia Nengyuan Ju* (国家能源句) from the 2008 reform. Zhou Yingfeng, 'Guojia fazhan gaigewei: zhongguo guojia nengyuanju zhengshi kaishi yunxing' ['NDRC: China's National Energy Administration begins official performance'], *Xinhuawang* [*Xinhua Online*], (29 July 2008), available at: http://news.xinhuanet.com/fortune/2008-07/29/content_8836597.htm (accessed 12 September 2008).

57. Author's interview with one senior official of the National Development and Reform Commission (NDRC), Beijing, 12 May 2008.

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Commission (*guojia nengyuan weiyuanhui*, SEC) was set up in 1980, and partly, its smooth performance was associated with its director Yu Qiuli[58] who was a highly influential figure in the area of energy since most ministers of oil, coal, and water resources and electric power had happened to serve as his assistant. This immensely helped the first SEC realize cooperation among different energy agencies.[59] Nevertheless, the tension with the SPC led to the abolition of the SEC in 1984.[60]

For the first and last time, the Ministry of Energy (*nengyuanbu*) was established by the 1988 government reform. Under the leadership of the Ministry of Energy, the ministries of coal, petroleum, chemical-industry, water resources and electric power were modified as the head offices of petroleum, coal, chemical corporations, and China Power Corporation Association (*zhongguo dianli qiye lianhehui*).[61] Yet because the SPC held the authority to ratify petroleum, coal, and electric power provisions, the Ministry of Energy, like the current National Energy Administration, had no substantial decision-making power and autonomy. As such, in March 1993, the eighth NPC meeting abolished the Ministry of Energy and re-established the Ministries of Electric Power Industry and Coal Industry.

Under the Zhu Rongji administration's 1998 reform that preferred a market-oriented approach to the energy areas, the Ministry of Electrical Power Industry (*dianli gongye bu*) was abolished, and its functions were merged into the State Economy and Trade Commission; the China Petroleum–Chemical Corporation (Sinopec) and the Sinochem Corporation then emerged. From the end of 2002 to early 2003, 11 power companies were established, and the State Electricity and Regulatory Commission (SERC) was introduced to oversee the power sector. Such a fragmented institutional energy sector required a comprehensive energy ministry to better coordinate competing bureaucratic and corporate interests at home, and to orchestrate overseas investments and secure the supply of petroleum while coping with the global energy security.[62]

As a high-level coordinating body, the newly organized SEC is responsible for developing the national energy strategies in collaboration with the NEA which is charged with administration and regulation of the sector.[63] The NEA merges the previously scattered functions from energy departments of the NDRC, State Energy

58. During the 1950s and 1960s, he served the Ministry of Petroleum and led projects at Daqing field. For more on his personal and political background, see Kenneth Lieberthal and Michael Oksenberg, *Policy Making in China: Leaders, Structures, and Processes* (Princeton: Princeton University Press, 1988), pp. 84–85.

59. Ye Yijian, 'Zhongguo nengyuanjie yuanlao'.

60. *Ibid*.

61. *Ibid*.

62. Cao Kui and Zou Peng, 'Lun zhongguo shiyou he nengyuan anquan' ['Discussion of China's oil and energy security'], *Jiaoxue Yuekan* [*The Teaching of Politics*], (November 2005), p. 8; Li Guoren, '21 Shiji zhongguo shiyou anquan de zanlue duice' ['China's 21st century policy for oil security'], *Nengyuan Yanjiu he Liyong* [*Energy Research and Utilization*], (May 2005), pp. 14–15; Xia Yishan, 'Zhongguo nengyuan anquan wenti lijie qianjing' ['China's energy resources security and the ways of its solution'], *Heping yu Fazhan* [*Peace and Development*], (April 2003), pp. 21–24; Shi Hechen, 'Nengyuan anquan wenti yanjiu' ['Research of energy security problem'], *Zhongguo Shehui Kexueyuan Yuanbao* [*Chinese Academy of Social Science Report*], (5 December 2007), available at: http://www.cass.net.cn/file/20071205106095.html (accessed 1 November 2008); International Crisis Group, 'China's thirst for oil', *Asia Report*, (9 June 2008), p. 1.

63. 'Zhongguo jiang chengli guojia nengyuan weiyuanhui' ['China will establish the State Energy Commission'], *Lianhe Zaobao* [*United Morning News*], (12 March 2008), available at: http://www.zaobao.com/special/npc/pages3/npc080312b.shtml (accessed 8 September 2008).

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Leading Small Group, and nuclear-energy management departments of the National Defense of Science and Technology Industry Commission. Prior to the 2008 reform, the sector had been administered by the State Energy Leading Small Group Office (*guojia nengyuan lingdao xiaozu bangongshi*) and the Energy Bureau (*nengyuanju*) under the NDRC. The former was an advisory group directed by Premier Wen Jiabao, while the latter assumed oversight of the energy business. Despite the current imperatives of energy security, however, newly restructured energy agencies appear to *simply modify their 'badges'*, and nothing actually improved: the new SEC replaced the State Energy Leading Small Group; the NEA under the sway of the NDRC took over the former Energy Bureau. One may argue that the NEA, when compared to the Energy Bureau of the past, retains more comprehensive responsibilities for managing the sector. Yet its authority is still constrained in two respects. First, it remains an open question regarding how much the NEA under the rein of the NDRC is able to coordinate disparate interests from different departments in the arena of energy. Second, given that the bureaucratic rank of the NEA is more likely to remain only vice-director of a department, it would be difficult for the NEA to effectively administer and regulate China's powerful energy state firms (i.e. oil, coal, and electric power) whose presidents are 'full or vice ministerial ranks or the membership of some top executives in the Central Committee of the Communist Party'.[64] Therefore it should be noted that little improvement in the governing structure of the sector is likely; the authorities are still fragmented and overlapping, so that policy-making and enforcement cannot but be inefficient.

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Back to the industrial policy?

The creation of the Ministry of Industry and Information Technology (MIIT) is not anticipated, even among political insiders.[65] What is expected is the abolition of the former Ministry of Information Industry (MII) and the establishment of the Telecoms Regulatory Commission that is directly subject to the State Council as has been done with Banking, Insurance, and Securities Regulatory Commissions.[66] Some even envision that in the distant future, 'super-ministries will eventually lay ground for further reforms to separate policy-making and regulatory functions, and also force government agencies out of business';[67] but this is not likely to be soon. China's top leadership insists on further state-led industrial innovation and on 'scientific' development which may constrain the application of market-oriented principles. In doing so, it is important too for the leadership to establish a comprehensive state institution that takes responsibility for generating strategically coordinated policies. The MIIT is thus designed to facilitate industrial development

64. Erica Downs, 'China's energy policies and their environmental impacts', *Brookings Report*, (13 August 2008).

65. Author's interviews in China Academy of Telecommunication Research of the Ministry of Information Industry, Beijing, 15 and 17 May 2008; interview with a senior official of the National Development and Reform Commission (NDRC), Beijing, 12 May 2008.

66. Ouyang Chengzheng, 'Gongye he xinxihua bu chengli lujing jiemi' ['Unveil the procedures of creating the Ministry of Industry and Information Technology'], *Caijing*, (13 March 2008).

67. McGregor and Dickie, 'Beijing to create five super-ministries'.

by making the best use of highly advanced information technology.[68] The Chinese leadership forecasts that MIIT would effectively push forward with both industrialization (*gongyehua*) and informatization (*xinxihua*), compared with before the reform, when the authorities were scattered into several bodies, such as the Commission of Science, Technology, and Industry for National Defense, the MII, and the NDRC's industry and trade management departments. The director of the department of industrial economy in the DRC, Feng Fei, asserts that while Chinese industrial economy has grown steadily over the last two decades, comprehensive industrial governance across sectors is missing. The adverse effects of this lack of a unified management system are apparent and might explode in the near future. Effective coordination, he argues, is urgent.[69] Some praise the MIIT as the most significant achievement of the super-ministries reform,[70] while other skeptics view such a (re)rise of an industry-focused institution, MIIT, as a move back to the industrial policy, and claim that this is likely to bring about more use of direct and micro-levers of state control to boost industrial development. According to the officials and scholars that I interviewed in Beijing after the reform, most of them look at the creation of MIIT as the least convincing among newly organized super-ministries.[71] The 1998 restructuring had dismantled or transformed most of the industry-specialized ministries into industrial bureaus or state holding companies.[72] The reconstitution of the industry ministry as a more general body reflects that the Chinese state will not loosen its grip but will rather strategically formulate and implement industrial policies.

Anxiety is apparent among the telecoms professionals as the former telecoms-specialized regulatory body, MII, is dismantled. Zhang Xinzhu, who has been encouraging regulatory policies in infrastructure sectors, asserts that the creation of MIIT is a serious setback to the consolidation of market-oriented regulatory governance.[73] Zhang cites top leadership's inability to appreciate the importance of regulatory institutions from a long-term development vision. Another telecoms pundit, Kan Kaili, maintains that telecoms regulation would be significantly weakened because the telecom regulatory body has been degraded to a 'bureau' under the MIIT that stresses industrial production and allocation rather than market oversight.[74]

At the same time, others raise the 'myth of a telecoms independent regulator'. To what extent is there a need for an independent telecoms regulatory commission?

68. Author's interview in the Institute of Informatization Study of the Chinese Academy of Social Science, Beijing, 19 April 2008.

69. 'Dabumenzhi jianzhi "jiulong" zhishui' ['Super-ministry system determines "nine dragon" for governing water'], *Beijing Qingnian Bao* [*Beijing Youth Daily*], (12 March 2008).

70. Wang Lu, 'Zheng xinli: xinjieduan zuzi xingshi tiaozheng shi gaige fazhan xuyao', *21 Shiji Jingji Baodao* [*21st Century Business Herald*], (12 March 2008).

71. Author's interviews in China Academy of Telecommunication Research of the Ministry of Information Industry, Beijing, 15 May 2008; in Remin University, Beijing, 12 May 2008; in the Institute of Informatization Study of the Chinese Academy of Social Science, Beijing, 25 April 2008.

72. Chan and Drewry, 'The 1998 State Council organizational streamlining', p. 563.

73. Author's interview in the Research Center for Regulation and Competition of the Chinese Academy of Social Science, Beijing, 8 May 2008.

74. Hu Yaqing, 'Dabuzhi gaige zhihou sheilai jianguan dianxinye?' ['After the super-ministries reform, who will regulate the telecoms industry?'], *Zhongguo Jingying Bao* [*China Business Daily*], (17 March 2008).

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For example, Zeng Jianqiu[75] argues that the establishment of an independent regulatory commission is not a must for the sound development of the sector because the details of regulation are well specified through the departments or bureau under the new MIIT.[76] One senior official in the DRC of the State Council points out that even though China is now the number one holder of foreign exchange reserves and the second largest economy in terms of purchasing power parity, China is still a developing country with many poverty-stricken regions. What China now needs is further industrialization with a strong government support and plan, not market-oriented rules and institutions.[77]

Conclusion

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Certainly, the Hu-Wen administration's recent super-ministry scheme is likely to help establish a social security system and raise the people's standard of living. However, there is still a question as to whether economic governance would substantially reform the functions and structure of government institutions. This study argues that, first, without the reform of the NDRC itself, the remaking of the Chinese state into a macroeconomic regulator is not likely because the NDRC continues to use the powerful levers of micro-management, such as investment endorsement. Even Li Jinhua, CPPCC member and general-auditor of the National Audit Office, admits that 'it is not suitable for NDRC to lead the reform. Given the urgent priority to reform NDRC, how is it possible to let NDRC head the reform?'[78]

Second, it seems clear that the 2008 reform is failing to eliminate both ambiguous responsibilities and overlapping authorities in the areas of energy. While the demand for a comprehensive and unified energy ministry was strong as a result of the mounting significance of energy security and the recent failure of energy policy, it could not trump strong opposition from both NDRC and energy conglomerates. New energy agencies, such as the State Energy Commission or the National Energy Administration, appear to be simply a new name for old agencies with similar responsibilities. Other than that, little has changed. Moreover, both the rebirth of the industrial ministry, MIIT, and the dismantling of regulatory agencies[79] show that the Chinese government puts the emphasis on state-led 'scientific' industrial development and growth, not on market supervision.

All in all, the leadership has realized the imperatives of the reform of government institutions, which is ultimately key to the reform of political institutions in order to

75. Telecoms professional and scholar in Beijing University of Post and Telecommunications.
76. Yaqing, 'Dabuzhi gaige zhihou sheilai jianguan dianxinye?'.
77. Author's interview in the Development Research Centre of the State Council, Beijing, 5 May 2008.
78. Weng *et al.*, 'Fagaiwei zaidingwei' ['NDRC re-vitalizing'].
79. For the purpose of improving macro-management of finance, the National Finance Work Commission (NFWC) was actually proposed but delayed indefinitely. The NFWC was designed to combine the previously scattered authorities in the NDRC, the Ministry of Finance, People's Bank of China, the China Banking Regulatory Commission, and the Chinese Securities Regulatory Commission. The vice-premier Wang Qishan was originally supposed to head the NFWC. Author's interview in the Chinese Public Administration Society [*Zhongguo Xingzheng Guanli Xiehui*], Beijing, 5 May 2008.

maintain economic growth and restructuring in a sustainable way.[80] Both to ensure progress of the reform and to prevent any potential social unrest, the Chinese state is likely to strengthen its central grip on the market. Therefore, it would be a crucial task for the leadership to change the way the government operates while maintaining the comprehensive supervision at the core.

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80. Zhou Tianyong, Wang Changjiang and Wang Anling, *Gongjian: Shiqi Dahou Zhongguo Zhengzhi Tizhi Gaige Yanjiu Baogao* [*Storming the Fortress: A Research Report on the Reform of China's Political Institutions after the 17th Party Congress*] (Xinjiang: Xinjiang Production and Construction Corporation, 2007).