



Inside and outside: The modernized hierarchy that runs China



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ARTICLE INFO

Article history:

Available online 21 December 2015

JEL Classification:

P26 Socialist Systems
 Political Economy and Property Rights P37
 Legal Institutions in Socialist and
 Transitional Systems J58
 Labor and collective bargaining, public
 policy

Keywords:

China
 Bureaucracy
 Hierarchy

ABSTRACT

Naughton, Barry—Inside and outside: The modernized hierarchy that runs China

Describes the process through which China has rebuilt and strengthened its bureaucracy since 1978 without moving toward rule of law. Internally, the bureaucracy has become more rule-governed, and new procedures have been introduced, including regular rules for promotion, credentialing, and turnover, including term limits. However, external accountability is absent. The huge difference between “inside” and “outside” may be a unique feature of the Chinese system. *Journal of Comparative Economics* **44** (2) (2016) 404–415. School of Global Policy and Strategy (GPS), University of California, San Diego, USA . © 2015 Association for Comparative Economic Studies. Published by Elsevier Inc. All rights reserved.

Since 1978, concerted efforts have been made in China to rebuild both the state bureaucracy and the national legal system. However, the dynamics of these two processes are in fact quite different, and their trajectories have diverged dramatically in contemporary China. In China, the rebuilding of the state and Communist Party bureaucratic structure has engaged the full attention of the political leadership since the very beginning of the reform era in 1978. By contrast, the commitment of that leadership to rule of law has been inconsistent at best; sporadically consequential, but more often negligent or even hostile. As a result, the administrative hierarchy has been fundamentally restructured, strengthened and modernized, while the legal and regulatory systems continue to lag. Chinese developments have thus followed a very different trajectory from what we might think of as the base case, in which the development of meritocratic bureaucracies and the creation of a universal legal order proceed in tandem as two compatible and intertwined processes.

This paper focuses on the restructuring of the Chinese hierarchical and bureaucratic system. While a large and sophisticated literature has analyzed and evaluated the Chinese legal system, the literature on the reconstruction of the Chinese hierarchical administrative order is much less well developed. Yet the hierarchical bureaucratic structure is both the basic instrument of governance and the foundation of political control by the Chinese Communist Party (CCP). A top-down effort to revamp the bureaucracy has spanned more than three decades, and produced an outcome quite different from most expectations. The dual Communist Party-government bureaucracy has been strengthened, but has been modernized and combined with education and training. The result has been a far more capable, professional, and rule-bound system, but one that is still strongly authoritarian and hierarchical. Under the Hu Jintao administration (2002–2012), the CCP, on its own terms, achieved substantial success with this project. For the sake of regime survival, a set of rules, norms, and constraints have been imposed on agents within the hierarchy, but the interpretation and enforcement of those rules still remains in the hands of the top CCP leaders. Indeed, while the bureaucracy has become more meritocratic, that should not be taken to mean that it is de-politicized, since political leaders devise institutional rules and procedures to ensure that

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<http://dx.doi.org/10.1016/j.jce.2015.12.009>

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their preferences are followed by their agents lower down the hierarchy. When policy shifts at the top, bureaucrats lower down are expected to promptly pivot and follow the new direction.

One result of these changes is a significant and persistent distinction between the “inside” and “outside” of the hierarchical political system. Chinese commentators frequently make distinctions between inside and outside in discussing their own system, and the distinction is used throughout this paper to highlight the principles on which the current Chinese system operates. “Inside,” there is a certain amount of accountability, norms and regulations, and information sharing. “Outside,” one cannot be sure of any of those things. The first section of this paper describes the changes made in the “inside,” in the core of the hierarchical political system. The Chinese Communist Party has adopted dramatic institutional changes that significantly change the operation of the system. Those changes make the system more resilient and better adapted, but do not make it less authoritarian. In order to view the system as a whole, as an interacting complex of rules and incentives, I outline five constituent characteristics of the current system: four of these are promotion and evaluation criteria which define the system of incentives, while the fifth refers to the provision of education and training in the system. I suggest that this whole complex of institutional changes can be more easily understood if we label it a “counter-reformation.” The second section describes the procedures used to manage the promotion process, and uses this to clarify the inside-outside distinction. Elaborate procedural steps are now in place to evaluate candidates according to the promotion criteria described in the previous section, which mandate consultation and accountability. However, the “designers” of this institutional system are careful never to subject the system as a whole, or its top leaders, to external accountability. Accountability is inside the system, never outside. The third section looks briefly at changes in the position of workers and labor unions in the Chinese system. I choose this as a “most difficult” example for my argument: a simple look at the data and institution seems to indicate that Chinese workers are beginning to achieve legal protection. I argue that this reflects the creation of dispute resolute procedures that bring workers into formal organizations that are better integrated with the hierarchical political system. Thus, the improved position of workers reflects the fact that workers are being brought “inside” the system. This reflects and exemplifies the dynamics analyzed elsewhere in the paper.

A final section of the paper provides some general discussion and asks questions about its future evolution. I view the “Chinese Counter-Reformation” as an unprecedented experiment, an attempt to remake an authoritarian system into something more institutionalized, more rational and meritocratic, and more responsive to citizen input, while remaining authoritarian. It is important to take this effort seriously, even if, inevitably, many readers will be skeptical about its pretensions and prospects. An additional motivation for this paper is the effort to understand changes in the Chinese system since the early 2000s. It was plausible, through most of the 1990s, to interpret the bundle of partially consistent institutional changes in China as harbingers of a broad movement towards institutionalization, legal order and perhaps even later democratization. But as the system evolved in the early 2000s, progress in legal liberalization stalled. Modest spaces that had apparently opened up for independent actors slammed shut. For example, “rights lawyers”—who had been tolerated while they supported excluded social groups and refrained from overtly political activities—once again became subject to overt harassment and worse. The belief that China is moving steadily towards “rule of law” is no longer tenable. Yet at the same time, the movement towards increasing institutionalization, binding regulations, and more effective checks and balances *within* the hierarchical and authoritarian system has continued.¹

1. Inside the system: a Chinese counter-reformation

The Chinese Communist Party has accomplished a dramatic re-structuring of the nation’s political institutions. It is essential that we set aside the vague but popular notion that China has carried out “economic reform without political reform.” If we accepted the idea that China had no political reform, it would follow that whatever political restructuring has occurred is essentially uninteresting, and this would be a serious mistake. A movement to strengthen, rebuild, and rationalize the hierarchy can be discerned from the very beginning of the reform era (in 1978), and has never been substantially interrupted in the subsequent thirty-five years. During that time, the priorities, orientation and content of the policies of the day have shifted and adapted as circumstances changed, and there have been advances and retreats, but the overall process has retained substantial coherence. Outside observers, however, rarely discuss this process of political change as a coherent whole. It is commonplace for observers to talk about the “economic reform process,” since there is a fair amount of common understanding of what the process includes. However, one almost never hears talk of the “political restructuring process,” because there is no common agreement about what that involves.

In the broadest possible sense, the political changes the Chinese Communist Party has adopted can be viewed as the adaptation of their authoritarian structure to the needs of a market economy. The Party was profoundly challenged early in the reform era by the erosion of its earlier organization model; by deep splits among Party leaders about the direction of

¹ This paper was written for the Florence conference in October 2011, then edited and partially updated at the end of 2013. It describes China at the end of the Hu Jintao era (2002–2012). After Xi Jinping came to power in late 2012, he took steps that have the potential to significantly change the rules that apply inside the system. Xi Jinping has consolidated power and stressed personal leadership. Xi has also cracked down on corruption and greatly reduced the material perquisites of political position, and is implicitly engaged in changing the criteria for career advancement. In retrospect, the argument in this paper that the system is experienced as stable and predictable by those inside the system may need to be restricted to the Hu Jintao era. Nevertheless, all the institutional features described in this article remain valid. Moreover, if anything, the huge gap between inside and outside is even larger: The institutions and procedures within the system are real and binding but subject to change from the top, while the lack of accountability from the outside is even more absolute under Xi than it was under Hu.

reform; and by the new and dramatically different needs of a market economy. The response to those challenges involved an obvious and dramatic recasting of the Party's doctrine and "message." However, precisely because the transition from Maoism to Deng-ism (and then to Jiang Zemin and Hu Jintao-sponsored thought packages) is so obvious, there is a danger in concluding that the Communist Party has become less relevant or important because it is "no longer communist." While it is true that traditional Communist ideology is fundamentally irrelevant in today's China, this does not mean that the Communist Party *organization* is becoming less central, or less in command, or that it might "wither away" in the future. Nothing could be further from the truth. This paper focuses primarily on the shift in organizational principles and procedures that are designed to insure precisely that such a withering away does not occur.

1.1. Constituent elements of the new Chinese system

The Chinese Communist Party has taken a realistic look at the challenges facing it, and has adopted a series of difficult steps that address some of the most glaring shortcomings that made that political system vulnerable to an existential threat. This means that the interests of the system as a whole were raised above those of any individual leader, and that individual communist party leaders have had to accept a level of institutionalized constraint on their actions. What is most important is the entire complex of changes that have been made to make the system "incentive compatible" and internally coherent.

This series of changes began in the early 1980s with the effort to repair and normalize the Communist Party's personnel system. This effort was led by Deng Xiaoping, as only Deng possessed the combination of unmatched authority and long experience with the system needed to initiate such a fundamental transformation. The onset of reform had led to the firing of thousands of young officials who had risen to power during the radical political phases of the Cultural Revolution. They were temporarily replaced with thousands of elderly Cultural Revolution victims. Realizing that this was unsustainable, Deng began a push to locate and promote a new group of young leaders (successors), arrange the retirement of the elderly leaders, and begin to build a new system based on coherent principles and procedures. This initial phase was long and complex, but culminated in the arrangements of 1992, when the elders retired, and a new leadership group under Jiang Zemin was installed (Manion 1993; Naughton 2008b). During the first decade of the 2000s, a new wave of rule-making took place, formalizing and making explicit the rules that governed career advancement at each stage (See Handbook 2010 for a compilation). Rather than recounting the story, it may be better to look at the components of what turned out to be—after decades of search and refinement—a coherent story of institutional re-creation.

The single change that is logically most essential is the institutionalization of leadership turnover at the top. In 2012, a new top leader assumed power after the existing leader was "termed out," completing his maximum two five-year terms. This new leader, Xi Jinping, was for the first time not anointed in advance by an earlier top leader.² Instead, he emerged from a quasi-institutionalized selection process. It must immediately be conceded that this part of the system is not consolidated, and cannot be regarded as truly institutionalized until after several successive power transitions. Moreover, this part of the political system must also be vulnerable to disruption by ambitious politicians, since so much is at stake.³ But this is the keystone of the arch. By provisionally resolving the leadership transition problem—very unusual in autocracies—the CPC was able to complete a coherent system of personnel and career management. Turnover of the top leadership created systematic "space" for regular promotion throughout the system. Combined with ongoing reforms in the procedures for lower-level evaluation and promotion, this means a coherent system overall has settled into place.

The basic structure of that system is that of a traditional Communist Party-run system. It is based on a dual hierarchy. The Communist Party hierarchy stands beside a government hierarchy which it "supervises" and with which it is intertwined. As is well known, the core of Communist Party power is the personnel system. At each level—there are five important governmental levels in China—Communist Party committees manage the appointment process to all important government positions, and virtually all key positions in state-owned finance and enterprise. Party committees manage a designated list of positions, which leads to the system being called a *nomenklatura* system, after the Russian term for this designated list (Bo 2004; Burns 2006). The CCP has changed the rules and evaluation criteria for this system, as well as the procedures for personnel decision-making. This has made the system more compatible with the needs of a new era of modern technology and market economy, while retaining authority in the hands of the CCP. There are five essential components of the CCP's restructuring of the personnel system.

1. Regular turnover rules—specifically age limits and term limits—that create reasonably predictable career paths.
2. Explicit evaluation criteria with financial rewards that are applied to most jobs, sometimes called "target responsibility systems."
3. High-powered incentives applied to government officials.
4. Educational and experience credentials are required for promotion.
5. The system provides abundant continuing education opportunities, which serve multiple selection, reward, and indoctrination functions.

² The 1992 retirement of the elders had also seen Hu Jintao installed as by far the youngest member of the Standing Committee of the Politburo. In overseeing this arrangement, Deng Xiaoping had implicitly designated Hu Jintao to be Jiang Zemin's successor, though no formal document or directive stating this has ever surfaced.

³ In addition, we are ignorant about many of the most fundamental characteristics of the succession process. We do not know whether there is a formal vote, or at what level the decisive vote takes place.

I discuss these in order, illustrating each point with a few selected examples.

- (1) Turnover rules have gradually come together into an increasingly explicit set of age limits and term limits. Ordinary civil servants should retire at 60 (if male or 55 if female). However, central government ministers and provincial leaders should retire at 65. National leaders (those above ministerial level in the Party, government, or Political Consultative Conference) can begin a five year term if they are 67, but not if they are 68 (Miller 2010). As discussed below, age limits affect career paths all through the system, but are only fully binding at top levels, where officials are older. Term limits are even more formalized and are binding from top to bottom. A 2006 regulation specifies that all jobs can be held for a maximum of two five-year terms (Handbook 2010: 128). Officials are expected to serve out their 5-year term, unless special circumstances arise. At most, there should be one job change within a term, and terms are increasingly synchronized with the 5-year cycle of Party congresses. As top leaders Hu Jintao and Wen Jiabao finished their ten-year, two-term administration in the fall of 2012, they made systematic preparations and then handed over power to a new leadership group. Regular retirement opens up space for regular advancement. These rules rely on a relatively clumsy inflexible age rule to “naturally” drive leadership turnover, obviously because the political system could not produce agreement among current power-holders on any other principle of succession. While age is much better than no turnover rule, the rigid application of the age principle is already producing anomalies. The political system is fully hierarchical: we can distinguish five major levels: national leaders; ministry/province; municipality/district; county; township.⁴ There are also half-steps and intermediate positions. According to one calculation, there are 18 discernible steps between the bottom township level and the national ministry level. Officials are required to have 2–3 years’ experience at a given level before promotion, and should normally only be given an accelerated promotion—i.e., skip a step—once in their career. This means that officials are under a lot of career pressure to advance quickly and inexorably. An official who has not reached vice-minister (vice-governor) rank by age 50 will be worrying that he has hit the ceiling. Provincial leaders under the age of 60 are close to being heirs presumptive to current top leaders. Conversely, in assembling leadership teams at the province level, a lot of attention has to be paid to age, making sure that 2 or 3 members of the 18–20 member leadership group are under 50, in order to ensure an adequate pool for the subsequent round of promotions. The relatively rigid ladder and funnel to an ever smaller number of top posts creates intense competition among the ambitious (Rongfei Sun 2011a).
- (2) Explicit evaluation criteria for most government and party officials have been in place since the 1980s. These have been well studied at the local government level (Edin 2000; Whiting 2001, 2004; Chan and Gao 2008). Perhaps best labeled “target responsibility systems,” these establish a set of targets or success indicators, and give them explicit weight in an evaluation function. Most commonly, officials sign performance contracts with 100 point evaluations, and annual bonuses linked to evaluation score. Most studies find that economic growth dominates the weighting system, with 60 to 70 points given to targets closely linked to overall GDP growth (including growth of tax revenues, investment outlays, etc.). Moreover, Li and Zhou (2005) show that actual promotion patterns *ex post* also reflect the importance given to economic growth, as leaders of more rapidly growing provinces are significantly more likely to be promoted.⁵ While there have been discussions about introducing more diverse targets into these systems, changes have had no discernible impact on local government behavior. Target responsibility systems exist in many other parts of the system: judges have targets for the number of cases they should move into mediation (Minzner 2011); central state-owned enterprise managers have targets for profit and long-range asset growth (Naughton 2010). Meeting your targets increases your income substantially: although the issue has not been well studied, performance-linked bonuses seem to be around 50% of total compensation.
- (3) High-powered incentives. When career incentives are combined with target responsibility systems, Chinese government officials face surprisingly high-powered incentives, in the sense that increased effort substantially increases income. This is unusual for government employees in most countries.⁶ Acemoglu et al., (2008) explain the normal pattern in a model in which government worker outputs are hard to monitor and government worker preferences are similar to the preferences of the population. In this case, high-powered incentives would simply induce unproductive signaling and over-emphasis of quantifiable targets (which are indeed problems in the Chinese context.) Naughton (2008a) argued that high-powered incentives evolved in the Chinese context as an essential regime survival response, since they prevented a “cascade of defections” from the regime, such as occurred in the Soviet Union (Solnick 1996). High-powered incentives allow government officials to juggle the grey areas between corruption and fostering economic growth without abandoning their allegiance to the regime. Substantial payments for meeting target responsibilities combines with a permissive attitude toward charging fees for services; setting up various kinds of quasi-public profit-making enterprises, and generous job perks. Strong incentives, highly aligned with the goals of China’s top leaders, are a striking characteristic of the current Chinese system.

⁴ There are an elaborate series of equivalencies among bureaucratic ranks. For example, a “bureau” under a central government ministry is equivalent in rank to a municipality or district under provincial administration. Except for the top leaders, the age limits were specified in a 2006 government directive. Rongfei Sun 2011b.

⁵ Shih et al. (2012) found that economic growth did not have as much causal power as their measure of factional affiliation in predicting promotion to the CCP Central Committee.

⁶ For example, Frant (1996: 370) says “Certainly within the public sector, all incentives are low-powered in Williamson’s sense: Public employees are never entitled to retain cost savings or revenue increases for their personal use.”

- (4) Educational and experience credentials are required for advancement. The 2002 regulations on cadre selection say that an official in even the lowest-ranked leadership position should have at least a vocational school or junior college degree. At the municipality level (the third of the five major levels), a leading official should have a four-year college degree. Personnel regulations also lay out experience requirements, such that given jobs require several years of experience in related subordinate jobs (Handbook 2010: 17). Finally, when an official has a job, he or she still faces continuing education requirements: about 12 days a year. Thus, the system now builds demand for education and experience into the structure of careers. The objectives are both to create a more skilled and better-educated managerial group, and also to create regular patterns of promotion, thereby restraining favoritism and excessive patronage.
- (5) The system directly provides multiple education and training opportunities. In a sense, provision of education can be seen simply as the system responding to a demand that it has created itself by requiring educational credentials. Provision of education has been partially outsourced to the educational sector, which has expanded dramatically in the past decade, turning out more than 6 million college and vocational school graduates annually since 2011, compared to only 1 million in 2001. Universities compete actively to supply executive and continuing education, and officials are also encouraged to go abroad for further study, especially to short-term courses in leadership. However, it is important to stress that in addition to these outside institutions, the CCP also maintains a strong role by directly providing education through its own unique institution, the Party School (Chin, 2011; Pieke, 2009; Tran, 2003, 2007; Wibowo and Fook 2006). Besides being one part of the spectrum of educational opportunities that officials can access to get credentials, Party schools fulfill a range of additional functions.

Party schools play a key role in managing transitional career phases, as an individual re-tools for higher-level managerial responsibilities. Particularly important are the 6-month residential programs: to be selected is an honor, and a sign of an upward career trajectory. Participants are freed from work responsibilities and turn their cell phones off; they are trained in new managerial skills while being oriented toward a broader, more strategic conception that is also in line with the Communist Party's world view. As would be the case in an Executive MBA program in an elite American university, participants have unparalleled opportunities to network and build relationships in a relaxed setting. Thus, Party schools are an important part of the overall incentive system, since they serve as part of the selection process for upwardly-mobile officials; reward those who have been chosen; and indoctrinate this elite with the strategic vision and policy program of the Communist Party.

1.2. The coherence of the Chinese system

The five elements described in the previous section together add up to a coherent system of professional careers and incentives, backed with the training necessary to improve the human capital foundation of the system. This is a managed system of human resources, much like that in a large corporation, but this is by far the largest organization in the world: There were 85 million members of the Chinese Communist Party at the end of 2012 (Xinhua 2013). To manage an organization on this scale, regular procedures and institutions are necessary, and from the preceding discussion it should be clear that the system is fairly institutionalized, and substantially rule-driven. Moreover, the system as it exists today has achieved certain notable milestones of stability and institutionalization.

First, the system achieves basic incentive compatibility. Participants in the system do not have obvious incentives to act contrary to the rules or mis-represent their preferences. To be sure, there is plenty of “phony compliance,” unproductive signaling, and falsifying of credentials by officials striving to show that they are achieving mandated objectives. But toadyism does not threaten the operation of the system. Generally speaking, participants are rewarded for doing things that are in accord with the objectives of the principal—the CCP leadership—which has designed and structured this organization to achieve its goals. In some respects, those goals are quite limited, but they are important: maintain social stability and generate economic growth. It seems likely that the hierarchical system has effectively channeled private motives into the principal's definition of society's motives. Among insiders, there seems relatively little danger of the type of widespread disaffection with the regime's political and economic project, of the kind that crippled Gorbachev's *perestroika*.

Second, expectations are being realized. As Pierre Landry has shown in an interesting empirical piece (2008: 116–152), the system works the way people within it thinks it will work. People believe that the Communist Party runs the system of evaluation and promotion, and that their expectations about what will affect their careers have been realistic. Expectations in the system are in equilibrium. Similarly, the system is now attractive to young Chinese beginning their careers. Surveys of recent graduates of elite Chinese universities show that government service and state-owned enterprises have surpassed foreign-invested firms and private enterprises as the jobs of choice. A quantifiable indicator is the number of graduates sitting for the entry-level civil service exams. As Fig. 1 shows, those exams are massively over-subscribed: 1.4 million people took the exam in 2013 for 20,879 jobs, so that only 1.5% of applicants could ultimately succeed. Thus, the system is attractive enough that it is able to draw abundant new talent into the base of the increasingly predictable career pyramid.

Third, shifting from the individual to the systemic perspective, the hierarchy is steadily accumulating the skills which it needs to run things. The demand and supply of education and skills are both increasing rapidly. Burns (2006: 39) shows that the proportion of leading cadres at the municipality level with college degrees had already surpassed 80% by 1998, and was continuing to climb. Nobody who has had contact with Chinese mid-level officials over the past twenty-plus years can fail to be struck by the dramatic improvement in their training and preparation. As the competence of the bureaucracy has increased, the system has been able to claim a new kind of legitimacy based on expertise and problem-solving ability.

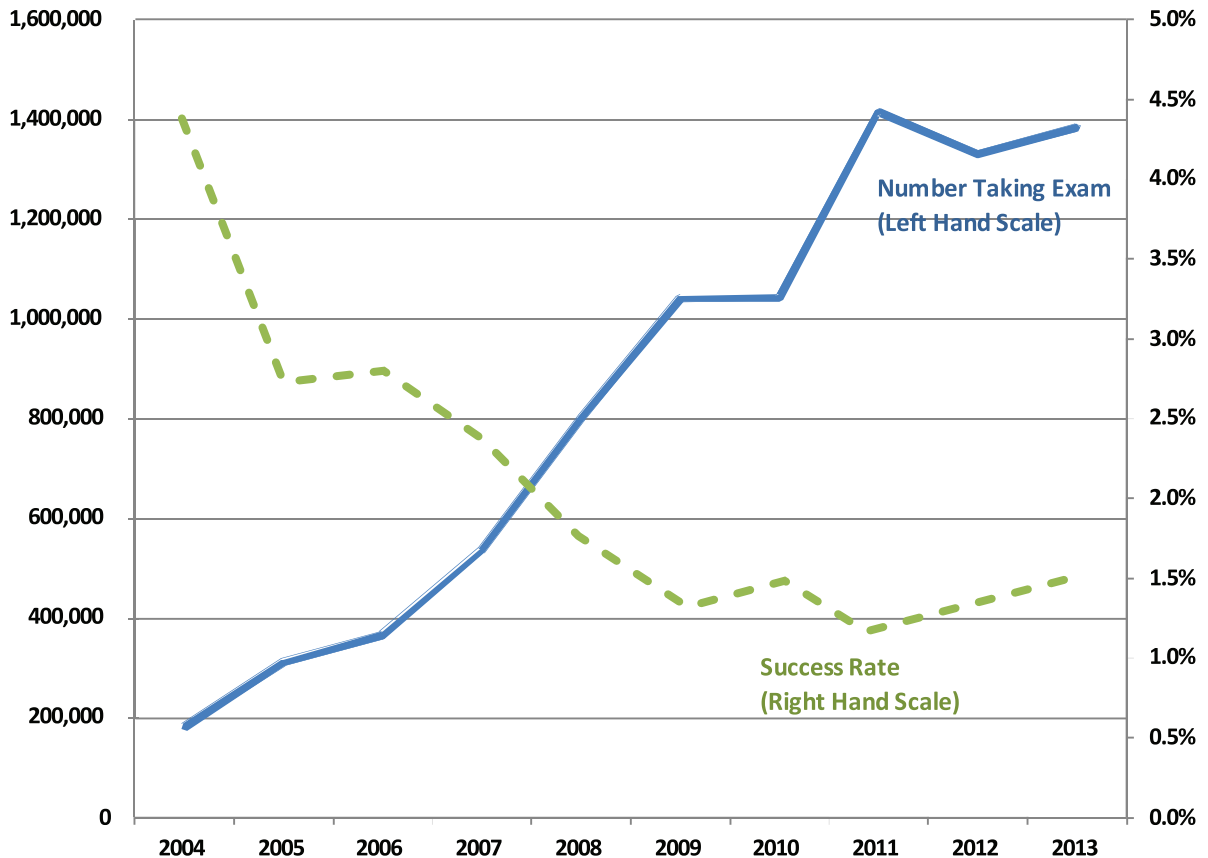


Fig. 1. Ministry of Personnel (2013).

A new system has come together. One simple corollary follows from this. This is not a transitional system, on its way to something else. This is the Chinese system. The Communist Party has now built the kind of political system that it wants. It functions, by their lights, reasonably well. The dynamics within that system are not inherently unstable, pushing the system towards dramatic change or collapse. I am not arguing that this is a good system—or that it is a bad system—merely that it is a coherent system that its own positive and negative features, and is worthy of additional study. Of course, this system faces important challenges that will require adaptation and new evolutionary initiatives, and the system is still very vulnerable to fluctuations in the quality of the top leadership and on the willingness of top leaders to continue to play by the rules. But the fundamentals of this political system are likely to persist through the near future, even as Chinese society develops and becomes more sophisticated and diverse. The system simply has a great deal of its own internal logic and inertia.

1.3. A counter-reformation

In order to see the process of hierarchical rebuilding as a whole, I suggest we call it “the Chinese Counter-Reformation.” I define a “counter-reformation” as a top-down response to the challenge of reform that involves adopting selective elements of the reform idea in order to strengthen and consolidate a hierarchical system. Having a label makes it easier to pull out the threads of continuity and trace the process through its twists and turns. In particular, the label “Chinese Counter-Reformation” helps to highlight the fact that these political changes are part of a process that has been ongoing for more than three decades. Most Western readers will associate the term Counter-Reformation with the Catholic Church during the period from the 1540s to the 1650s, when it responded to the profound challenge of the Protestant Reformation. This was a many decade process, in which a hierarchical organization reformed itself, but also strengthened itself, successfully enough to survive to the present day. In a similar fashion, the Chinese Communist Party has been responding for decades to the challenge posed by those arguing for across-the-board liberalization, rule of law, and movement towards democracy. The Counter-Reformation of the CCP has been intended from the beginning to reduce the persuasiveness of arguments that reform should extend beyond the economic to liberalization of the political system; to turn back questioning of the Communist Party monopoly of power; and to maintain Party power. This has meant developing new types of performance legitimacy, including, but not limited to, delivering economic growth.

A curious but telling feature of the literature on the European Counter-Reformation is that historians have never achieved a consensus about whether “Counter-Reformation” or “Catholic Reformation” is the more appropriate term for the changes

that were instituted in the Catholic Church. On one hand, the Church refused most doctrinal changes and used its strengthened powers to beat back demands for a more profound transformation. On the other hand, the Catholic Church reformed itself, introducing better accountability, teaching, and education.⁷ Ever since, there has been some ambiguity and tension between the concepts of “reform” and “counter-reform” in discussing the process. Precisely this tension and ambiguity should be brought into the discussion of the Chinese counter-reformation. True, the Chinese Communist Party has changed its “doctrine,” or ideology, much more profoundly than the Catholic Church ever did. But it has strengthened and rationalized its organizational hierarchy in a way that is quite reminiscent of the Catholic Counter-Reformation.

During the economic reform process, the Communist Party retreated from much of the private sphere, leaving Chinese citizens an unprecedented freedom to live their lives as they please, and far greater material resources to pursue happiness as they see fit. However, retreat and doctrinal softening were not the only elements of the CCP response: The other important element was the program of rebuilding and restructuring the political hierarchy (Shambaugh 2008). As the market economy grew in China, the Party made the hierarchy stronger, more rational, and more capable (in part by jettisoning realms of activity in which hierarchical management was extraordinarily inefficient). Communist Party restructuring has been designed to allow a hierarchical and authoritarian organization to adapt to a vastly more complicated and challenging environment. In that sense, it represents a profound reaction by a large and powerful organization to external change—not a feeble reflection of reform in the economic realm, but a reaction the basic purpose of which is to allow the organization to carry on as before, but stronger. In that sense, Chinese Communist restructuring is a counter-reformation, and this label appropriately sharpens the contrast with economic reform.

The success of economic reforms led to an unanticipated acceleration of economic growth during the first decade of the 21st Century, and a massive accumulation of new wealth. Given this combination of political stability and economic progress, it is not surprising that we now see broad new propaganda efforts devoted to defending the system as it is. This is not surprising, since the equilibrium features of the system support a strong and distinctive worldview held in common. Take the system of Party Schools, for example. Besides their formal functions, the Party Schools build cohesiveness. They are in fact a giant team-building enterprise, and this reinforces identity and common purpose. People from different places and backgrounds meet at the Party School, share experience, and form informal associations. Party Schools are designed to insure that information flows effectively through the organization, but naturally this flow is not unidirectional. Cadres at the schools share coping strategies and ways to benefit personally, while staying within the boundaries of what the system deems acceptable. These features lead to a more assertive outlook and increasingly open expression of pride at what has been achieved. In the Catholic Counter-Reformation, the Jesuits rationalized hierarchies and provided essential education services, after which they went on to build impressive Baroque churches that dazzled with the interplay of light and shadow and their raw appeal to sentiment. It is not surprising that the CCP now also wants to begin building its own cathedrals that impress the intellect and dazzle the eyes.

2. Inside and outside: individual and systemic accountability

In this section, I return to the distinction between inside and outside, and discuss the question of accountability. More precisely, where should the line be drawn between “inside” and “outside” the system? Is the difference between inside and outside the same as the difference between state and society? In fact, while the distinction between state power and civil society is the right starting point, the core of the Chinese “system” is considerably larger than just the government. In addition to the government, the core of the Chinese system certainly includes the large, centrally-controlled state-owned enterprises; the state-owned banks and other financial institutions; and all state-run “public service units,” including universities, hospitals, and research institutes, plus the military. It includes government plus the “commanding heights” of both business and what would be the “non-profit sector” in the U.S. Generally speaking, these are the elite institutions whose personnel are largely within the scope of Communist Party management (McGregor 2010). Of the 85 million Party members at year-end 2012, the largest group consists of white collar workers (27.4 million), followed by farmers (25.4 million), retirees (15.5 million); and blue collar workers (7.3 million). Among white collar workers, Party membership is virtually universal for government workers, with 7.2 million civil servants and Party and state functionaries counted. Moreover, about 40% of managers or technical personnel in the large-scale business and non-profit sectors—rising to over 50% in state-owned units—belong to the Party (“Civil Servants” 2013; Xinhua 2013). Thus, the core of the system is the Party-state complex of elite institutions, including government, non-profit organizations, and those business sectors where state dominance contin-

⁷ For example, Hsia (1998) prefers the term Counter-Reformation and calls it “the reorganization of doctrine and Church from above,” and says that the church centralized “liturgy, doctrine, ecclesiastical administration and even sainthood,” thereby making them uniform (p. 126). But Hsia also describes reforms that made the Church more accountable and less corrupt; that subjected priests to clear rules and standards; and that greatly enhanced the role of education both among priests and in the Church’s outreach. These changes were pioneered and exemplified by the Jesuits. For all these reasons, Mullett (1984) prefers to call the same movement the Catholic Reformation. The term Counter-Reformation has stuck, though, probably because the Protestant Reformation was such a profound challenge to the Catholic Church, and the reforms within the Church were so obviously a response to this challenge. At the same time, the Catholic Church decisively rejected most of the Reformation demands regarding individual conscience, liturgy, and the distinction between clergy and laypeople. In that sense, the movement was profoundly “counter” the idea of reform, and the Church refused to change its core “ideology.”

ues. Individuals within these core institutions, particularly if they have substantial managerial and technical responsibilities, are clearly “insiders.”⁸

Within the core institutions, the CCP has introduced a substantial degree of institutionalization. Individual careers are now strategized within the context of a set of rules that apply to all within this realm. Insiders have agreed to play “by the rules.” This is literally true in the case of Party members: as a requirement of membership, they have agreed to uphold Party rules and accept Party discipline. For those insiders who are not Party members, they have accepted an implicit bargain. Most important is that insiders get clear access to professional development and the opportunity to develop meaningful careers, which provide both a comfortable livelihood and the chance to have a positive impact on society. Party members have a right to certain kinds of information that may not be publicly circulated. Insiders also have a certain “standing”: they have the right to participate in consultative processes that the Party has established. They have, in a sense, a “right to be heard.” In return for all this, individuals undertake to speak “responsibly,” i.e., within the framework defined by the political authorities. There is, within the system, rules that are generally binding and thus, individual career decisions are made mainly within a rule-bound system. Crucially, these implicit bargains extend upward to the top of the system, where individual leaders have *de facto* agreed to be bound by a set of rules. It is not uncommon for an authoritarian system to adopt some of the trappings of constitutional rule or democratic consultation, but the Chinese adaptation is unusually broad and thorough. Generally, the compromises authoritarian systems make with constitutional procedures can be understood as ways to balance elite interests at the apex of the system, or else as mere window-dressing (see for example Boix and Svobik 2011). What is quite remarkable in the Chinese case is that it is an authoritarian system that has been willing and able to introduce such a high degree of rule-driven procedures from the top to the bottom of its enormous operations. I can think of no parallel case.

It is equally remarkable that this systemic achievement has taken place within the context of a ruling party that has systematically defeated all attempts to establish external accountability to its decision-making. For example, the previous section described rules for promotion, but not one of these rules could be enforced by an “outsider.” No ordinary Chinese citizen has standing to challenge a personnel decision. Indeed, despite the relatively high degree of institutionalization within the system, the Communist Party as a collective body retains substantial discretion over virtually every outcome. In the case of the personnel system, individual job appointment decisions are invariably made by the Communist Party committee one level higher than the position being filled, and these Party decisions themselves are not rule bound and certainly cannot be appealed to any external or higher body. For individuals, managing their own career is not just a matter of hitting the targets assigned in their target responsibility system; it inevitably involves anticipating and understanding the goals of their Communist Party superiors. Career-oriented individuals must be extremely sensitive to Party policy and must “manage upward” the expectations of their superiors.

All the rules described in the previous section have escape hatches in “case of special national need.” Indeed, some of the “rules,” even those known widely and in precise detail, are not published in open sources. For example, the rule that ministers must retire at 65 is not published in an open regulation; while the rule that two five-year terms is the limit is openly published. A logic of power operates behind the pattern of disclosure: decision-makers wish to retain a certain amount of discretion and do not wish to have those decisions subject to external criticism or review. Chinese rule-making represents an interesting case of a system binding itself internally while refusing all external bounds. This can be demonstrated more precisely by looking at the promotion process closely.

The Communist Party manages the personnel system directly, since it is the foundation of Communist Party power. The CCP binds itself to multiple procedural steps and to consultation, specifically by mandating four steps to the cadre selection process within the Communist Party.⁹ The first step is nomination (or recommendation *tuijian*); followed by investigation (*kaocha*); public comment (*gongshi*); and final decision (*xuanju*). Over the past twenty years, the Party has adopted a steady series of reform measures that are designed to make each of these steps more substantive. Current CCP policy officially calls for “democratic” nomination, which means recommendations are solicited not just from the individual Party boss of a jurisdiction, but from a broader range of leadership officials (government as well as Party), and even the public. There should be more nominations than there are posts to fill. Investigation of nominees specifically includes 360 degree evaluations (by superiors, colleagues and subordinates) and sometimes straw polls. The public comment period of 7 to 15 days is allowed to permit previously hidden objections to emerge before the decision is formalized. A considerable investment of time and effort is made in following these procedures.

While Party decision-makers are not bound to follow the suggestions they hear, the input of interested individuals is internalized, in the sense that it is brought into formal organizational channels and considered legitimate. The CCP thus brings all these “insiders” into a process of discussion and give-and-take, in which it hopes to win their assent to Party policies. In turn, the Party is prepared to invest an enormous amount of time and effort in consultation and perhaps adaptation of policy. Conceivably, these measures could one day evolve into robust institutions that would make a real difference in the way political power is exercised, but today they are thoroughly subordinate to the direct management of the appointment

⁸ Note that Communist Party membership, in and of itself, is not enough to make someone an “insider.” Most ordinary Party members are not insiders, and the Chinese Party has always had a large number of farmer members, few of whom could be considered insiders.

⁹ The description here applies to Party officials. The same process applies to government officials—who are nominated and selected by CCP committees—except that it is even more complicated because the Party only nominates a candidate. In an additional round of administrative procedures, scrupulously respected by CCP officials and media outlets, the Party nominee is then formally accepted by meetings of the local or national legislatures.

and promotion process exercised by the CCP, through its Organization Department. “Democratic nominations” are screened by the relevant Party body, and the formal nominees emerge from the screening process. There is no way for the name of an “outsider” to be placed directly into the post-screening discussion process by another “outsider.” The Standing Committee of the Party body one level above the position being filled first solicits an advisory vote from its own Party Congress, but then makes the decision on its own. After the decision is made, it must be ratified by a simple majority vote of the Party Congress at that level (Handbook 2010: 18–26). Yet these are in the end advisory votes, and while the decision-makers are enjoined to pay attention to them, they are also instructed that it would be irresponsible to simply follow majority vote in determining the outcome. As good party members, they should always retain the initiative. Empirical studies of the actual process are scarce, but one study in Rui’an City in Zhejiang found that between 2000 and 2002, 98% of the formal Party nominees ended up being appointed to their posts (Rongfei Sun 2011a).

These reforms, then, should be understood as compulsory consultation, not real changes in the distribution of power. They are designed to limit excess discretionary power at the lower levels of the system. Without some transparency and competition, lower level political bosses can build local level “machines” because of their control of the appointment process. Opening it up is designed to limit this type of corruption, making local leaders both more sensitive to public opinion and more dedicated to implementing the center’s objectives. This type of opening may have many benefits. Consultation makes the managed constituency feel respected and listened to. It probably makes life easier for the ultimate holder of the leadership post, since he has been introduced to his constituency and formally accepted by them. The improved collection and disclosure of information about candidates may reduce some kinds of corruption surprises. Open nomination might enlarge the pool of available job candidates. In short, these procedural changes give the system more flexibility. But they are means for the exercise of personnel power by the Communist Party, predicated on the idea that they improve, and do not challenge, the exercise of that power.

The discrepancy between significant individual accountability and insignificant systemic accountability is close to absolute. The Chinese system has been able to deflect or defeat all attempts to impose even the most modest external accountability on its policies and actions over the past decade. At the same time, Chinese leaders have recently stepped up the effort to provide individual accountability over their own cadres. A set of regulations in 2010 were specifically devoted to clarifying accountability for government officials, and establishing procedures for re-affirming that accountability persists even after officials have been transferred or promoted to different and perhaps distant posts (Handbook 2010: 1–6). Recent regulations require officials to file financial disclosure forms (although implementation still appears to be highly uneven). New conflict-of-interest rules require family members to avoid doing business with government-related companies (Handbook 2010: 124–26). Retired officials are forbidden from doing business with their old units for two years. There is every reason to be skeptical that these regulations can be effectively enforced without giving standing to “outsiders” to challenge officials who abuse their position. But what is most striking is the enormous gap in today’s China between the accountability being demanded of individuals within the system and the complete absence of accountability to those outside the system.

3. Discussion: the case of labor

The preceding section described the core of the system, where nearly all the “insiders” work. At the other extreme, there are hundreds of millions of outsiders who have no direct employment relationship with the government, CCP, or any of the organizations the Party manages directly or indirectly. In between, there is a grey area, concentric circles that include social groups in intermediate positions. Their changing relationship with the core of the system can shed light on the changing Chinese system. The most interesting intermediate group may be industrial workers. While there are only 7 million blue collar workers in the CCP, there are 280 million members of the official All-China Federation of Trade Unions (ACFTU). Moreover, this 2012 number is more than double that of a decade earlier (NBS 2013: 848).¹⁰ The growth of union numbers reflects the increased support the Chinese political leadership has given to the ACFTU. While independent labor unions continue to be forbidden, China’s political rhetoric and media coverage have shifted since 2003 to generally support labor activism by the ACFTU. The financial resources of the ACFTU have increased; and efforts to organize private and especially foreign firms have been supported by the national government.

The development of trade unions can tell us much about the evolution of institutionalization in China. Unlike the case in the former Soviet Union, the ACFTU was a weak and marginal player through the socialist period. Disbanded during the Cultural Revolution, it was revived in the 1980s, but in the pro-business and pro-development environment of reform China, it had little voice or influence (Gallagher 2005; Hurst 2009). However, as China moved to radical reforms in the 1990s that involve substantial lay-offs, the level and complexity of labor disputes increased. In 1993, China set up a dispute settlement mechanism under the auspices of the labor bureaus, a government agency subject to effective control by local governments (Brown 2007). Fig. 2 plots the number of cases handled by these dispute settlement mechanisms, and shows that they increased dramatically, including a major spike in 2008–2009, and subsequent stabilization around 600,000 annually.

As the number of labor disputes handled through this settlement mechanism has grown, the nature of the settlement process has settled into a new pattern. As Christina Chen (2011) shows, a new set of institutions based on local tripartite

¹⁰ Since there are a total of 510 million non-agricultural workers in China, many of them in tiny, dispersed establishments, a large majority of workers in large-scale factories and other businesses are now unionized (NBS 2013: 123).

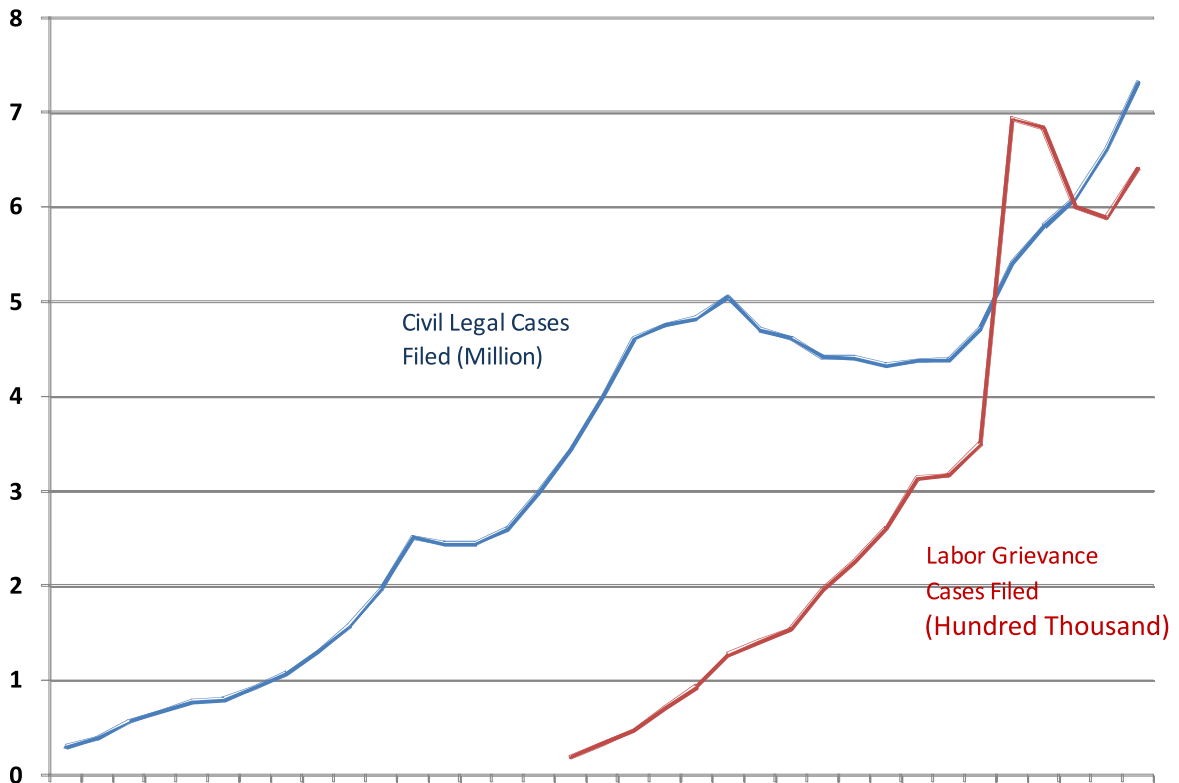


Fig. 2. NBS (2013), pp. 840, 847.

commissions has been created to oversee the labor grievance process. Tripartite Commissions are composed of a representative from the employers association, the trade union, and the local government labor bureau. These commissions establish arbitration committees for specific cases, and oversee the dispute resolution process. Chen's analysis (on which this account is based), shows that the CCP holds a direct line of authority over two of the three participants in the commission. The CCP could easily issue a command down through the Ministry of Labor to the local labor bureau or through the ACFTU to the local union. But the players have different institutional interests, and so they operate as a check on each other. This is an institution of accountability, then, but one that operates "inside" the system. It is not so much that workers have been given a new independent legal status; rather, they have been brought inside the system where they are given a legitimate voice and arena for discussion. There is no risk than any of these labor adjudication bodies might stake out new territory in workers' rights, since the initiative is held firmly at the top. In fact, the CCP has recently been engaged in significantly expanding the scope of labor rights: most immediately, the adoption of a new Labor Contract Law in 2008 was the cause of the spike in grievance procedures in 2008–2009. The law gave workers new employment security and rights to severance pay, and use of grievance procedures increased as workers, supported by their unions, moved to exercise their newly granted rights. The labor grievance procedure thus indicates a process in which the regime brings a group into a structured negotiation and arbitration process, while legitimating their interests. The assent of workers to the grievance process is generally achieved, and they are brought into the system.

The specific case of labor is quite consistent with recent trends in China's legal system overall (Clarke 2007). During the 1990s, the number of civil cases filed soared to reach an initial peak of 5 million in 1999 [also shown in Fig. 2, on a different scale]. It was reasonable at that time to see this as a tentative but real commitment to a system of law that could well have evolved into independent institutions capable of imposing genuine accountability on authorities. As Minzner (2011) describes, there has been a broad "turn against law" in the 2000s. The emphasis on law as an external check on misbehavior peaked in 1999, which shows up conveniently in Fig. 2. Since that time, the emphasis on law has been replaced by an emphasis on the role of judges as active agents in conflict resolution and maintaining a "harmonious society." Judges are rewarded for the number of cases they resolve through mediation. The subordination of judges to the party and to the party's social policies has been re-emphasized. In this environment, it is not surprising to find that the proportion of both labor grievances and commercial contract disputes that are resolved through mediation or arbitration without going to trial has increased significantly in the past five years. At the same time, there has been an unprecedented crackdown on independent lawyers seeking to defend even the most modest rights of Chinese citizens (Clarke 2009). In other words, since the early 2000s, certain ambiguities in the institutionalization process in China have been resolved.

While the growth of legal institutions in the 1990s *might* have meant the CCP was willing to accept some types of independent legal oversight, trends since the 2000s show a clear preference for mechanisms that resolve disputes through consultation, give-and-take, and negotiated outcomes in which the Party-state retains the upper hand. During the 2000s, the independence and robustness of the legal system has weakened, while the bureaucracy has become stronger and more inclusive.

This reveals a final point. Not only is the distinction between “inside” and “outside” unusually large, Chinese policy-makers seek to bring more of society “inside” when this is possible. Workers in state enterprises probably lost more from the reform process than any other social group, and they were largely outside the institutional representation process. Now, the Chinese political system has begun to bring them inside the system, giving them representation through the ACFTU, and making them increasingly subject to Party monitoring. Doubtless, Chinese political leaders would like to bring more of society “inside” the system, for example, by spreading Party committees into the bulk of private firms (Thornton 2012). In their view, the mechanisms for consultation and oversight within the system are reasonably successful, and they would like to expand that system.

4. Conclusion

This paper has had as its primary purpose sketching out a very strong pattern in the relationship between bureaucracy and law in China since the beginning of the economic reform period: the bureaucracy is strong and the law is weak. Inside the core of the system, the bureaucracy is increasingly rule-bound and predictable; outside, the rule of law has not progressed and has even digressed since the early 2000s. There is some accountability for individuals within the system; none for those outside the system. These patterns come from the top-down nature of political change, and from the desire of CCP officials to maintain power. Most power-holders and influential figures inside the system likely view it with a degree of satisfaction, so that any immediate political and legal reforms are likely to proceed within the framework of existing policies. Measures to “improve inner Party democracy” and “improve the leadership selection process” might be on the table; but proposals that break down the barriers between inside and outside and establish external accountability are not even on the horizon.

The danger for the Chinese system is that the institutional needs of the hierarchical system may exclude other kinds of change and flexibility. The existing system, I argued above, is consistent and incentive-compatible. It provides incentives that produce the kinds of outcomes that political leaders want. However, the Chinese political system exists in an extremely dynamic economic, social and international environment. Therefore, the outcomes that China needs—and those that its leadership desires—may also change rapidly. It is not clear that the system will adapt smoothly for these, other, needs. For example, since 2004, Chinese leaders have spoken of the need to “be-balance” the economy, reducing investment and the pro-producer bias in the system, to produce a more consumer-friendly and less resource-intensive economy. However, there has been no progress in this direction. This may not be surprising, given the high degree of alignment of incentives at every level of the system behind the goal of economic growth. The incentive structure may be too inflexible, leading to an over-emphasis on production and business. There have been recent attempts to diversify the incentive structure of local government leaders, by lowering (or removing) GDP growth as an indicator, and adding other success indicators. Indeed, such efforts were endorsed in the important reform resolution of the November 2013 Third Plenum (CCP 2013). However, trial implementation of these measures began as far back as 2005, and they have yet to achieve any significant success. Turning this speeding ocean liner in a new direction is proving difficult. A related danger is that the Chinese system may become less receptive to outside criticism or input. Increased pride over Chinese accomplishments; dismay at the failures of the Western economies since 2008; and an edgy nationalism driven by the rapid increase in Chinese capacity—all these make China less eager to absorb lessons and models from the outside. It must be an open question whether an increasingly internally-directed system can continue to absorb lessons, adapt to new challenges and build new capabilities in the way that the Chinese system has done so successfully over the past thirty years.

Acknowledgments

The author thanks Chen Ling, Donald Clarke and Richard Madsen for helpful suggestions and discussion. Eric Brousseau, Jerome Sgaard, and the participants at the workshop on “Legal Order, The State and Economic Development,” in October 2011 made numerous comments that led to a richer discussion and helped me correct errors. Two anonymous reviewers for this journal made valuable suggestions.

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