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# The People's Republic of China

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## I. BRIEF DESCRIPTION OF THE COUNTRY

### 1.1 Socio-economic profile

The People's Republic of China (PRC), founded on October 1, 1949, covers an area of 9.6 million square kilometers. In 2001, it had a population of 1,276.27 million among 31 provinces, autonomous regions and municipalities (exclusive of Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Province). China is a country with 56 nationalities, but the *Han* is the largest one, accounting for about 91.59 per cent of the total population.

Beijing is the capital city of the country. In recent decades urbanization has taken place rapidly with fast economic development (See Tables 1-3). The urban population has grown very fast. In 2001, the number of cities had grown to 662, however most of the Chinese people still lived in rural areas, and only 37.66 per cent resided in urban areas.

**Table 1: Urban/rural population (per 10,000 persons)**

Year	1953	1964	1982	1990	2000
Urban population	7,726	12,710	21,082	29,971	45,844
Rural population	50,534	56,748	79,736	83,397	80,739

Source: National Bureau of Statistics of China. 2002, *China Statistical Yearbook 2002* (Beijing, China Statistics Press), P.95. <sup>1</sup>

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<sup>1</sup> Note: All data in this report are exclusive of those of Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Province.

**Table 2: Urban/rural population proportions**

YEAR	Urban		Rural	
	Population (per 10,000)	Proportion (%)	Population (per 10,000)	Proportion (%)
1980	19,140	19.39	79,565	80.61
1990	30,195	26.41	84,138	73.59
1995	35,174	29.04	85,947	70.96
2000	45,906	36.22	80,837	63.78
2001	48,064	37.66	79,563	62.34

Source: National Bureau of Statistics of China. 2002, *China Statistical Yearbook 2002* (Beijing, China Statistics Press), page 93.

**Table 3: Number of cities, 2001**

10 million over	4-10 million-	2-4 million	1-2 million	0.5-1 million-	0.2-0.5 million	Under 0.2 million	Total
4	4	17	141	279	180	37	662

Note: Cities are grouped by population in urban districts

Source: National Bureau of Statistics of China. 2002, *China Statistical Yearbook 2002* (Beijing, China Statistics Press), P.359.

In China, there are four cities with population over 10 million, which are Chongqing (30,979,100), Shanghai (13,271,400), Beijing (11,223,000), and Chengdu (10,199,000). (The number of the population of the cities includes that of the population of the counties under the jurisdiction of these cities governments.)

In 2001, China's GNP reached RMB 94,346.4 million (USD11,367 million), and GDP RMB 95,933.3 million (USD 11,558 million), per capita GDP RMB 7,543 (USD 912). While China is accelerating its industrialization, the ratio of the three economical sectors (primary industry, secondary industry, and tertiary industry) is changing gradually (Table 4). However, China is still a developing country.(Table 5)

**Table 4: Composition of Gross Domestic Product (%)**

YEAR	GDP	Primary industry	Secondary industry	Tertiary industry
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**Country Reports on Local Government Systems:  
China**

<b>1980</b>	100.0	30.1	48.5	21.4
<b>1990</b>	100.0	27.1	41.6	31.3
<b>2000</b>	100.0	16.4	50.2	33.4
<b>2001</b>	100.0	15.2	51.2	33.6

Source: National Bureau of Statistics of China, 2002, *China Statistical Yearbook 2002* (Beijing, China Statistics Press), page 52.

**Table 5: Persons Receive Subsidies of Relief Funds (10 000 persons)**

Item	1999	2000	2001
Number of persons receiving lowest cost-of-living In urban area	265.9	402.6	1170.7
Number of persons receiving lowest cost-of-living In rural area	265.8	300.2	304.6
Number of poor persons receiving temporary almsgiving in urban area	157.1	155.6	213.9
Number of poor persons receiving temporary almsgiving in rural area	1659.8	1667.6	1800.5
Number of persons with livelihood guaranteed In five aspects in rural area	303.7	270.6	221.6
Number of persons receiving periodical and fixed government relief funds in rural area	52.5	62.5	80.7
Number of persons receiving collective subsidies In rural area	195.4	208.1	186.1
Number of laid-off, retired, elderly and disabled staff and workers receiving relief funds	51.5	49.7	4 9.7

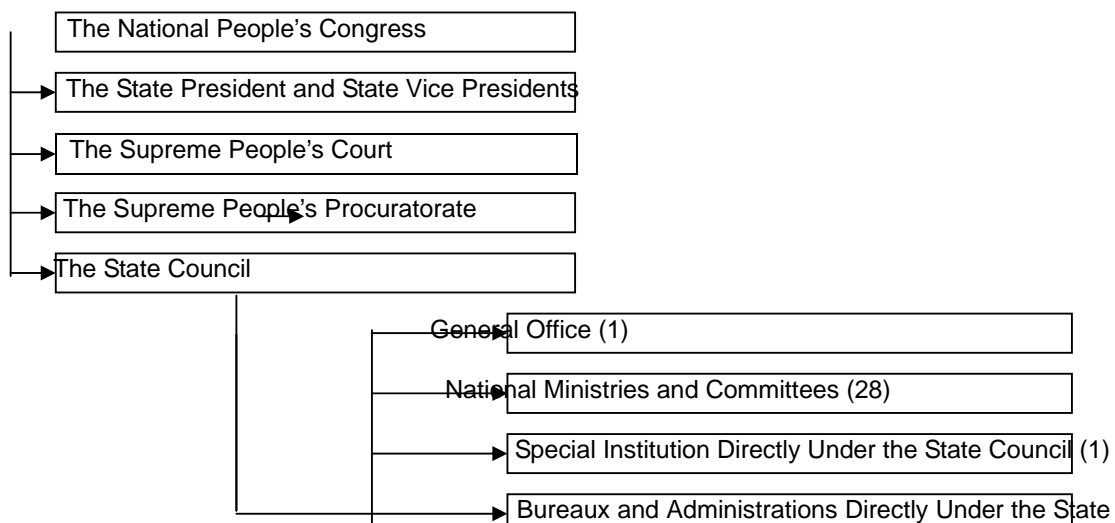
Source: National Bureau of Statistics of China, 2002, *China Statistical Yearbook 2002* (Beijing, China Statistics Press), page 806.

## **1.2 Political and administrative structure**

China is a socialist country led by the working class and the people's democratic dictatorship based on the alliance of workers and peasants. The organs of the state power include the National People's Congress, President, the State Council, local people's congresses and local governments, autonomous organs in the nationality autonomous regions, the Supreme People's Court and the Supreme People's Procuratorate. The system of the people's congress is a fundamental political system. The National People's Congress is the supreme organ of the state power and its permanent organization is the Standing Committee of the National People's Congress. The National People's Congress and its Standing Committee exercise legislative power. The local people's congresses at different levels are the state power organs at local level. The local people's congresses at county level or higher levels set up the standing committees that form the permanent organization at the corresponding local levels. Similarly, they are also legislative bodies.

The President of the country, according to the decision of the National People's Congress and the Standing Committee, has the power to promulgate decrees; appoint and remove the Premier and Vice Premiers of the State Council, as well as State Councilors, Ministers, the Auditor-General and the Secretary General; confer the state medals and glory titles; issue the decrees of special pardon, martial laws and mobilization orders; and proclaim a state of war. The State Council of China is the supreme administrative organ of the state and the executive organ of the supreme organ of the state power. Local governments are the executive organs of the state power at different local levels and the local administrative organs. Local governments are the administrative organs of the state under the leadership of the State Council and obey the State Council.

**Figure 1: Organization of the Chinese Government**



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Council (18)

— Offices	Directly Under the State Council (6)
— Institutions	Directly Under the State Council (14)
— State Bureaux	Supervised By Ministries or Commissions (12)

Source: The Chinese Constitution. The reform of the central government organization(2003),passed by the national people's congress.

The people's courts at different levels are the judicial organs of the country. The people's courts at local levels, special people's courts and the Supreme People's Court exercise judicial authority. The people's courts at local levels are divided into the grass-roots level courts, middle people's courts and higher people's courts. The special people's courts include military courts, railway transportation courts, water transportation courts, maritime courts, forest courts and other special courts.

The people's procuratorates at local levels are the organs of law supervision of the state. The state sets up the Supreme Procuratorate, local and special people's procuratorates. The local people's procuratorates include those of provinces, autonomous regions and municipalities, those of autonomous prefectures, cities under the jurisdiction of provinces and those of counties, cities, autonomous counties and districts under the jurisdiction of cities. The special people's procuratorates include military procuratorates, railway transport procuratorates, and water transport procuratorates.

## II. EVOLUTION OF LOCAL GOVERNMENT

Since the founding of the People's Republic of China, the designation of the organs of the Central Government, with the development and change of political and economic situations, has experienced adjustment and can be divided into four periods as follows:

### **Socialist Transformation (1949-1956)**

After the founding of the Peoples Republic of China, the Central Committee of the People's Government represented the country and exercised the state power. The Committee organized the Government Administration Council, the Revolutionary Military Committee, the Supreme People's Court and the Supreme People's Procuratorate. The territory was divided into six administrative divisions: North,

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Northeast, Central, East, Northwest and Southwest China. Each division respectively set up its own Administrative Committee (also called Military-administrative Committee) that was the highest local administrative body and represented the Central Government in leading all local governments at various levels under its jurisdiction.

In 1952, the Central Government changed the six administrative committees from administrative to supervisory bodies. In June 1954, the Central Government, in order to strengthen its leadership to the provinces, municipalities and autonomous regions, to decrease its organization levels, and to raise its efficiency, decided to dismiss the administrative committees. From 1952 to 1954, the Central Government adjusted some structures of the counties, cities and provinces. In September of 1954, the First National People's Congress made the law *The Organizational Rules of the Local People's Congresses and Local Governments*. Local people's congresses, local people's administrative committees, local people's courts and local people's procuratorates at various levels were founded according to this law. The local people's congress was the local legislative body, exercising legislative power. The local people's administrative committee was the executive body, exercising administrative power.

The people's committee at provincial level consisted of departments such as civil affairs, finance, planning, food, public security, culture, education, health, agriculture and forestry, transport, commerce, industry, supervision, labor, water conservancy, and sports. The people's committee at the autonomous regions and municipalities or cities also had almost the same organs with those of province. The county had ten administrative sections.

The governments of the provinces, some cities and counties were able to set up agencies under their jurisdiction. The people's committee at town or village level consisted of working committee of civil affairs, public security, military affairs, co-production, finance-food, culture-education, and civil mediation. By 1954, there were 28 provinces, 150 cities and 2,216 counties. Since then, the governments at different local levels were comparatively stable.

### **Socialist Construction (1957-1966)**

During the "Great Leap Forward" started in 1958, the Central Committee of the Chinese Communist Party made some changes. First, the People's Commune replaced the township to become the rural basic unit of the State, which exercised executive power in rural areas. The number of People's Commune had reached 47,000. Second, the executive power of prefecture (agency of province, having jurisdiction over some middle cities) was expanded. On September 7, 1959, the National People's Congress determined that the cities could have jurisdiction over the counties. By 1966, 25 cities had jurisdiction over 72 counties. In 1956 there were

2,083 counties national-wide, which were decreased to 1,873 in 1959 and were increased to 2,105 in 1963. In general, a county had 45 organs and 500 personnel in this period.

### **Cultural Revolution (1966-1976)**

China was put into great turmoil during the Cultural Revolution period (1966-1976). All previous social and economical orders and rules were destroyed. The local administrative system was also broken. The prefectures had become one local-level government, which, instead of provinces, had jurisdiction over counties. The Revolutionary Committee replaced various local governments to mainly exercise executive power. In July of 1979, the National People's Congress replaced the Revolutionary Committee with People's Government. The functions of various local governments were restored.

### **New Socialist Construction (1976- present)**

In October of 1976, the Cultural Revolution ended and the socialist construction of China entered a new era. The new *Constitution* (1982) reaffirmed that local authority at the province, municipality, county, district and township-levels consisted of the People's Committee and People's Government. The local people's congresses were the power organs. The local governments at various levels are executive organs of the state. The prefectures are still the agencies of the provincial government. The system that counties are under the jurisdiction of cities is still maintained. By 1988, 168 cities had jurisdiction over 712 counties. The "People's Commune" was replaced by the town government. By 2001, the number of town governments reached 40,161. Some new organizations were put into various local governments, such as justice, auditing, land, administrative supervision.

In 2001 China joined the World Trade Organization (WTO). The economical system is changing to the market-economy. China's government organizations are in adjustment to these changes. The adjustment of the central government organizational structure occurred in 2003, and a new adjustment of the local government organizational structure will come soon.

## **III. MAIN FEATURES AND CHARACTERISTICS OF LOCAL GOVERNMENTS**

### **3.1 Local government categories and hierarchies**

## **Types and levels**

Local governments, according to the *Constitution* and the related laws, are divided into 3 main types: local governments at different levels, autonomous governments of nationality regions and governments of special administrative regions. The administrative hierarchical structure of local government has undergone several changes since the founding of the PRC. Generally, there were the following six levels from October 1949 to September 1954: large region, province, city, county (urban district), district and country (township). Since September 1954, the number of levels changed to five, which were: province, city (prefectures, league and autonomous prefecture), county (autonomous county, banner and district under the jurisdiction of the city), city district and village (people's commune, township and autonomous country).

At present, the organizational system of local government is divided into four levels as follows:

### *Provincial level*

This level includes provincial, autonomous regions and municipal governments, which are the highest levels of local government. In 2003, China had 31 provincial-level administrative units, including 22 provinces, 5 autonomous regions and 4 municipalities (Beijing, Shanghai, Tianjing, and Chongqing).

### *City level*

This category includes cities under the jurisdiction of the provinces, prefectures, autonomous prefectures and districts under the jurisdiction of the apex municipalities.

### *County level*

This level includes counties, autonomous counties, county-level cities, special zones, forest districts, industrial and agricultural districts, districts of the city under the jurisdiction of province, etc.;

### *Township level*

These include towns and villages, which are the lowest levels of local government.

## **Autonomous government of nationality region**

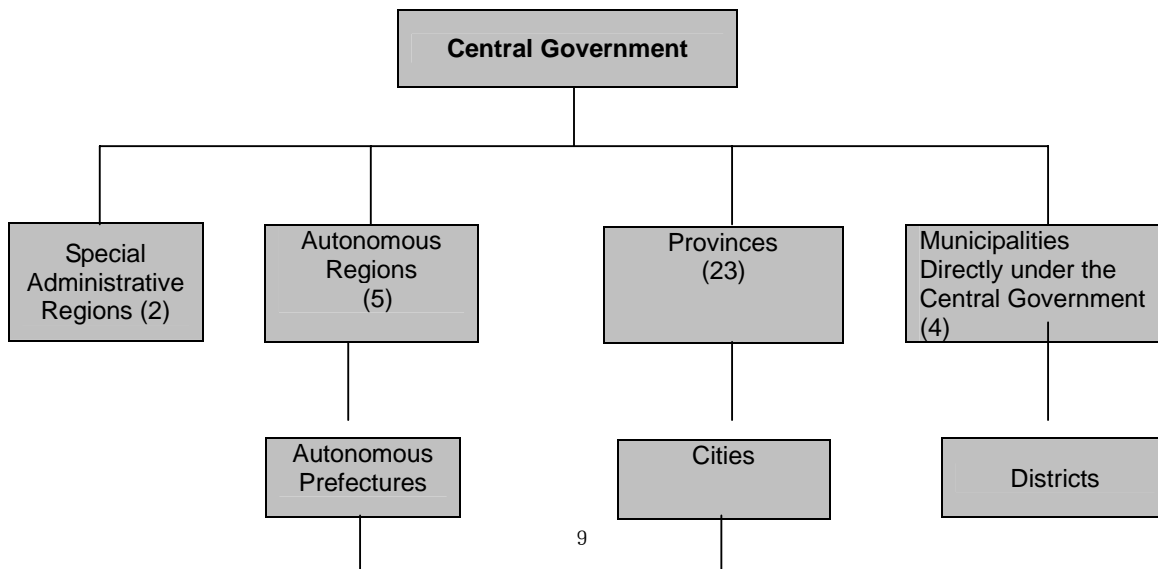
China is a multinational country. To carry out the autonomous system of

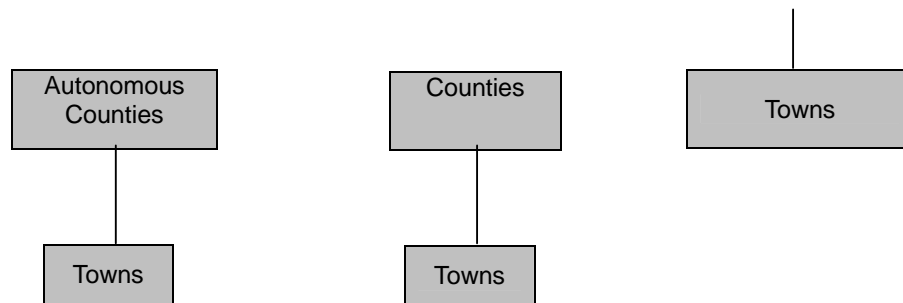
nationality in each region is the nationality policy of China. In 1954, the Chinese *Constitution* divided the autonomous nationality regions into three levels: autonomous regions (provincial level), autonomous prefectures (prefecture and city level) and autonomous counties (county level) according to their administrative levels. By the end of 2001, the Mainland of China had 5 autonomous regions (Inner Mongolia, Guangxi, Tibet, Ningxia, and Xinjiang), 77 autonomous prefectures and cities at prefecture level and 699 autonomous counties and cities at county level.

### Special Administrative Region

In 1982 the Chinese *Constitution* wrote that the State would set up special administrative regions whenever deemed necessary. On July 1, 1997, China resumed exercising sovereignty over Hong Kong and set up the Special Administrative Region of Hong Kong. In 1999 Macao returned to China and a new special administrative region was set up. The special administrative region is the product of the conception of “one country, two systems,” which means that the Mainland of China carries out a socialist system and Hong Kong, Macao and Taiwan a capitalist system. But in international affairs, the PRC is the only country representing China.

Figure 2: Administrative hierarchy of China, 2002





## 3.2 Local government structures and functions

### Functions of Local People's Congresses (at county and above levels)

The functions of local people's congresses at county and above levels include:

- Ensuring the enforcement of *Constitution*, laws, State Council regulations, and resolutions of higher-level people's congresses and its standing committees in administrative divisions;
- Ensuring the enforcement of state plans and state budgets in their administrative area;
- Examining and ratifying the plans of local social and economical development, and the budget made by the corresponding government;
- Discussing important affairs such as politics, economy, education, science, culture, health, environment, natural resources protection, civil administration, minority nationality, and making decisions;
- Protecting the public and the legal private property;
- Protecting the civil rights of citizens and the rights of the minor nationalities;
- Protecting the lawful rights and interests of various economical organizations; and
- Ensuring the equality of men and women, the equal pay for equal work for both sexes.

### Functions of local governments (at county and above levels)

The functions of local governments at county and above levels include:

- Carrying out laws and resolutions of the corresponding people's congress, and the order of the higher-level governments and the State Council;
- Governing the economy, education, science, culture, health, sport, environment, natural resources protection, finance, civil administration, public security, minority nationality, judicature, supervision and family planning;

- Exercising personnel appointing and dismissing, training, performance evaluating, rewarding and punishing in administrative organizations;
- Maintaining social stability;
- Protecting the civil rights of citizens;
- Protecting the public and the legal private property;
- Protecting the lawful right and the interests of various economical organizations;
- Protecting the rights of minor nationalities, respecting their social customs, helping them to exercise autonomy and to develop economy;
- Ensuring the equality of men and women, the equal pay for equal work for both sexes, and the freedom of women's marriage.

Local governments at town level carry out the laws and the resolutions made by the corresponding people's congress and the order of the higher-level governments.

The authorities of the autonomous areas take charge of the finance, education, science, culture, health and sport, etc. for themselves in their areas. They have the power to organize the public security army for safeguarding local social security and to use the local language publicly.

### **Organization of local governments**

Local governments consist of personnel and functional branches. Local governments' personnel system includes two types, which are administrative senior officers and heads of various functional branches and working personnel. The composition of provincial governments is listed as follows:

#### *Provincial Government*

At present most of the governments of the provinces, autonomous regions and municipalities have about 45 organizations and 50 officers who are selected for a term of five years.

**Table 6: Organization structure of provincial government**

Provincial Government - The People's Congress at province level

Agriculture and Forestry Department Audit Department Civil Affairs Department Construction Department Communications Department
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Culture Department  
Commerce Department Provincial General Office  
Culture Heritage Bureau  
Development Planning Commission  
Drug Administration  
Economic and Trade Commission  
Environmental Protection Department  
Education Department  
Finance Department  
Foreign Trade and Economic Cooperation Department  
Foreign Affairs Office  
Grain Bureau  
Health Department  
Information Industry Department  
Intellectual Property Bureau  
Industry and Commerce Administration  
Justice Department  
Land and Resources Department  
Labour and Social Security Department  
Legislative Affairs Office  
Local Taxation Bureau  
Oceanic and Fishery Bureau  
Overseas Chinese Affairs Office  
Public Security Department  
Personnel Department  
Population and family planning Commission  
Press and Publication Bureau  
Prices Bureau  
Prison Affairs Bureau  
People's Air Defense Office  
Quality Supervision Bureau  
Radio and Television Bureau  
Science and Technology Department  
Sport Bureau  
Statistics Bureau  
Traditional Chinese Medicine Bureau  
Tourism Bureau  
Water Resources Department

In general, the provincial governments have the most organizations among the local governments at various levels. The local governments at lower levels have few organizations compared to that of the higher government. But their administrative functions are similarly.

### **Structural relations of local governments**

Local governments of China comprise a hierarchical system with a characteristic

of leadership at different levels, the lower level being subordinate to higher level. The provincial governments lead the city governments. City governments lead to county governments and county governments lead country governments. This means that lower-level governments must accept the leadership, instructions, supervision and examination of higher-level governments conscientiously and complete the tasks received from them.

In China, there are people's congresses at various local levels. The representatives of the people's congresses of provinces, cities, and counties are elected indirectly by the voters; the representatives of town are elected directly by the voters. The Law of Election provides the number of the representatives. The tenure of the representatives of provinces, cities, and counties is five years. The tenure of the representatives of town is three years.

The local people's congresses have the following powers:

- Selecting the senior officers of the local governments. In China, an indirect rather than direct election system is used to elect the local administrative officers. That is, the local voters elect the representatives of people's congress who have the right to select the officers of local governments. The candidates for the senior officer should be nominated by the presidium of the people's representatives or co-nominated by more than 10 representatives;
- Countermanding the improper orders by the corresponding government;
- Hearing the progress report of the corresponding government, people's court and people's procuratorate;
- Selecting and dismissing the chief judge of the people's court. Selecting and dismissing the Chief Procurator of the people's procuratorate; and
- Appointing or dismissing the members of the cabinet of the corresponding government.

The obligations of the local governments are as follows:

- Carrying out the laws or resolutions of the corresponding people's congress, and the order of the higher-level governments and the State Council.

The provincial governor, the Chairman of the autonomous region, the mayor of city, the governor of county and town should report their work to the corresponding people's congress once a year.

According to the *Law of Legislature*, the people's congresses and its standing committees of provinces, autonomous regions, and municipalities make local laws or regulations. These laws or regulations should not contradict the *Constitution*, the national laws or regulations.

The governments of provinces, autonomous regions, and municipalities make local rules.

The Standing Committee of the National People's Congress has the power to repeal local laws or regulations that contradict the *Constitution*, the national laws or regulations.

The Central Government (the State Council) has the power to change or repeal the improper rules made by the local governments.

### 3.3 Local government finances

#### Government revenue and expenditure

Since the Third Plenum of the 11<sup>th</sup> Central Committee of China's Communist Party, the Central Government has put forward a series of policies that have expanded the power of local authorities in local finance. Therefore, provinces can have an independent plan as well as autonomy in economic management. Consequently, they have opened their doors to the outside world, fully utilizing local resources. By emphasizing the continuous, coordinated and rapid economic development, the local financial administration has been strengthened. All these result in the expansion of local revenues and expenditure, which contributes to the swelling of Central Government revenue (see Tables 7 and 8)

**Table 7: Budgetary revenue and ratio of central and local government**

YEAR	Total Revenue (RMB 100 million)			Ratio (%)	
	Total	Central	Local	Central	Local
1994	5,218.10	2,906.50	2,311.60	55.7	44.3
2000	13,395.23	6,989.17	6,406.06	52.2	47.8
2001	16,386.04	8,582.74	7,803.30	52.4	47.6

Source: National Bureau of Statistics of China, 2002, *China Statistical Yearbook 2002* (Beijing, China Statistics Press), page 271

**Table 8: Budgetary expenditure and ratio of central and local government**

YEAR	Total Expenditure (RMB 100 million)			Ratio (%)	
	Total	Central	Local	Central	Local
1994	5,792.62	1,754.43	4,038.19	30.3	69.7
2000	15,886.50	5,519.85	10,366.65	34.7	65.3
2001	18,902.58	5,768.02	13,134.56	30.5	69.5

Source: National Bureau of Statistics of China, 2002, *China Statistical Yearbook 2002* (Beijing, China Statistics Press), P.272

### *Local financial revenue*

In China, the local financial revenue comes mainly from three sources as follows:  
(1) local taxes, (2) shared taxes, and (3) non-tax revenue.

**Table 9: Local financial revenue**

<p><b>Local taxes:</b></p> <ul style="list-style-type: none"><li>▪ Business tax</li><li>▪ Income tax of the enterprises subordinate to the local government</li><li>▪ Personal income tax</li><li>▪ Tax on the use of urban land</li><li>▪ Tax on the adjustment of the investment in fixed assets</li><li>▪ Tax on town maintenance and construction</li><li>▪ Tax on real estates</li><li>▪ Tax on the use of vehicle and ships, stamp tax, slaughter tax</li><li>▪ Tax on agriculture and animal husbandry</li><li>▪ Tax on special agriculture products</li><li>▪ Tax on the occupancy of cultivated land, contract tax</li></ul> <p><b>Shared taxes:</b></p> <ul style="list-style-type: none"><li>▪ 25% of the value added tax</li><li>▪ 50% of the tax on stock dealing (stamp tax)</li><li>▪ Tax on resources other than the ocean petroleum resources</li></ul> <p><b>Non-tax revenue:</b></p> <ul style="list-style-type: none"><li>▪ State-downed assets profit</li><li>▪ Planning subsidies to loss-suffering state-owned enterprises</li><li>▪ Income from administrative fees</li><li>▪ Penalty and confiscatory income</li><li>▪ Income from use of sea area, field and diggings</li><li>▪ Expert project income</li><li>▪ Other income</li></ul>
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### *Local financial expenditure*

Local financial expenditure covers many areas. In 2001, the statement of local government expenditure was seen in Table 10.

**Table 10: Local financial expenditure**

- Expenditure for armed police troops
- Expenditure for capital construction
- Expenditure for comprehensive development of agriculture
- Expenditure for circulating funds
- Expenditure for city maintenance
- Expenditure for developing land and sea area
- Expenditure for foreign affairs
- Expenditure for geological prospecting
- Expenditure for government administration
- Expenditure for innovation enterprises
- Expenditure for national defense
- Expenditure for operating expenses of agriculture, forestry, water conservancy and meteorology
- Expenditure for operating expenses of departments of industry & transportation
- Expenditure for operating expenses of departments of commerce
- Expenditure for operating expenses of departments of culture, sport & broadcasting
- Expenditure for operating expenses of education
- Expenditure for operating expenses of departments of sciences
- Expenditure for operating expenses of departments of tax, etc.
- Expenditure for price subsidies
- Expenditure for public security agency, procuratorial agency and court of justice.
- Expenditure for public health
- Expenditure for pensions and relief funds for social welfare
- Expenditure for retired persons in administrative departments
- Expenditure for supporting agriculture production
- Expenditure for science and technology promotion
- Expenditure on subsidies to social security programs
- Expenditure for Supporting underdeveloped areas
- Expenditure for special items
- Other expenditure

### **Local financial system**

Since the founding of the PRC in 1949, China has adopted a financial system of unified leadership and graded management. This system implies that the Finance Department not only centrally controls financial power, but also that the financial revenue and expenditure system is centrally planned, checked and ratified by the State. Furthermore it provides that the State makes national financial laws and policies, while local governments can only adapt some rules and methodologies to suite local conditions.

The unified general budget is divided into the central budget, provincial budget, county budget and basic-level (village and town) budget. The local budget is associated with local finance. The local governments redistribute the local budgets according to the budgets checked and ratified by the next higher and the Central Government and dispatch the local reserve financial resources, make up the concrete measures of carrying out the national budget, carry out the local budget and work out the final accounts. The people's congresses at the county level and above have the powers to discuss, determine, examine and approve the budget. The State Council has set up the auditing organs to audit and supervise the financial revenue and expenditure of the departments of the State Council and local governments at different levels. The auditing organs have their branches in local governments at all levels and exercise the auditing and supervisory powers.

In 1994, the Central Government started the taxation separation reform on the basis of the classification of channels for collection of tax revenues. The revenue of the Central Government and the revenue of the local governments have different coverage. The local extra levies are associated with the relationship between the Central Government and local governments.

The off-budgetary revenue is defined as the third revenue (or extra-extra budgetary revenue), besides budgetary revenue and extra budgetary revenue, from fund raising and levies imposed by local governments. The amount of the off-budgetary revenue is equivalent to 30~120% (300% in some rich areas of China) of the budgetary revenue imposed by governments. On average, the off-budgetary revenue accounts for more than 30 % of the government spending. In China, the Central Government has gradually handed more power down to local governments. Local governments have now not only taken responsibility of handling local public affairs and also possessed more independent power on fund raisings. However, under the existing centralized fiscal system, the fiscal behavior of local governments could be supervised only by the Central Government, not local taxpayers.

Because of the establishment of the taxation separation system in 1994, local governments have possessed their own increasing revenues along with the growing GDP. This justified local governments of a limited fiscal autonomous power and made the first important step of reforming the Unitary Fiscal System. However, the taxation separation system could solve only the problem of proportional allocation of fiscal resources between local governments and the Central Government, not the problem of disproportional allocation in a changing environment. Consequently, there are no fundamental solutions regarding who should make decisions on finance and taxation and how to supervise the implementation of the decisions. When local governments are not happy with the revenue in a proportion assigned by the Central Government under the taxation separation system, there appear the problems of unaccountable fund raisings or local extra levies. Till now, these problems have been solved time and

time again only by the Central Government. This indicates that the realization of taxation separation system is not equivalent to fundamentally restructuring the Unitary Fiscal System.

Local governments are the institutions which collect and spend money, and their behaviors must be under check and supervision. Under the Unitary Fiscal System, the check and supervision come mainly from the Central Government, not from taxpayers. Nowadays, what local governments do becomes more localized and faces more up to the satisfaction of taxpayers. However, the misdemeanors of local governments could be checked, punished, and relinquished again only by "superiors." Hundreds of local governments made wrong doings while the corrections come from only one, the Central Government.

In conclusion, the fundamental measures to reform the fiscal system are to hand down part of fiscal power to local governments, to establish an autonomous fiscal democratic system, and to change the supervisions from by the Central Government to by local taxpayers. Taxpayers should decide and supervise, through local congresses, whether to collect more money, how much more to collect, what purposes to collect, how to spend, how efficiently to spend. Taxpayers should also have the rights to stop and punish the wrong doings of local governments.

### **3.4 Personnel systems in local government**

In August 1993, *Provisional Regulations on State Civil Service* (hereinafter referred to as *Regulations*) was issued. It is a national regulation of civil service both in central government and in local government.

#### **Recruitment**

According to the *Regulations*, the recruitment of civil service in local government should be Public, Fair and Competitive. Everyone who wants to become a civil servant should take the public and unified examination hold by the local government. The examination includes written exam, interview and other simulated tests. On the basis of the results of examination, the local governments recruit only outstanding ones.

#### **Promotion**

Promotion of state civil servants must adhere to the principle of both political integrity and ability, and appointment on merits, and lay stress on work accomplishments.

State civil servants can be promoted one grade at a time in accordance with the order for promotion. Individual civil servants who display outstanding political integrity, ability and work performance may skip over one grade in promotion. But the decision must be reported to departments concerned for approval as stipulated.

### **Salary**

A post--grade salary system has been established across the whole state civil service. The salary of civil servants includes four parts: post pay, grade pay, basic pay and seniority pay. Besides, they enjoy a regional allowance and other allowances as provided by the State. All state civil servants who are deemed excellent or satisfactory in the annual evaluation may be granted salary increment and bonus in accordance with relevant regulations. State civil servants are entitled to insurance and other benefits as provided by the State.

Unless otherwise stipulated by laws, regulations or policies of the State, administrative organs of the State are prohibited to increase or reduce the salary of state civil servants in any way, or increase or reduce insurance and other benefits of state civil servants.

### **Training**

Training of state civil servants follow the principle of integrating theory with practice, linking study with application, teaching according to needs and emphasizing practical results. Training for state civil servants be divided into: new-recruits training, pre-post training for promotion to a leading post, specialized professional training in accordance with the requirements of a specific job and up-to-date training for in--service state civil servants. These training are mainly hold in National Administrative College, local administrative colleges or other training institutes.

### **Mobility**

A mobility system has been established in the state civil service. A state civil servant may change posts within an administrative organ of the State, or to another organ, enterprise or institution. Mobility includes external transfer, internal transfer, rotation and secondment.

Secondment refers to in--service state civil servants, being selected and assigned by the administrative organs of the State in a planned manner, to hold certain posts at administrative organs of the State or enterprises or institutions at the grass-root for certain period.

## Rights

The civil servants are entitled to the following rights:

- May not be removed, demoted, dismissed or subjected to disciplinary measures without legal grounds and lawful procedures;
- To be granted the rights necessary to perform their duties;
- To be granted remuneration for their labors, and enjoy insurances and benefits;
- To be entitled to criticize or comment on the operation of the administrative organs of the State or the performance of the leaders of those organs;
- To appeal and lodge complaints;
- To be entitled to resign in accordance with the stipulations of these Regulations; and
- To enjoy all other rights as prescribed by the *Constitution* and laws.

## Disciplines

The civil servants must strictly observe the discipline, refraining from the following behavior:

- To spread views that are harmful to the government's reputation, organize or join an illegal organization, organize or join an anti-government activity such as a rally, parade or demonstration and organize or participate in a strike;
- To neglect the duty and affect the work adversely;
- To oppose resolutions and orders of superiors
- To suppress criticism and take revenge for such criticism;
- To defraud or deceive leaders and the masses;
- To engage in graft, embezzlement, offer or take bribes and abuse power for personal gain or for the benefit of other individuals;
- To squander public funds or the assets of the State;
- To engage in abuse of power infringing on the interests of the masses, damaging relations between the government and the masses;
- To divulge state secrets and secrets from the workplace;
- To damage the honor and interests of the State in foreign affairs activities;
- To participate in or support activities connected with pornography, drug abuse, superstition and gambling, etc.;
- To violate social ethics causing harmful effects;
- To engage in trade, business and other profit-seeking activities; and
- To engage in other ill-disciplined behaviors.

A state civil servant found engaging in any of the ill-disciplined actions listed as above, provided the actions does not constitute a crime or is not being investigated as

a crime, shall be subject to disciplinary sanctions. Disciplinary actions comprise warning; record a demerit, record of a serious demerit, demotion, removal and dismissal.

### **3.5 Local Autonomy**

#### **Organizational leadership and subordination**

The supreme administrative organ is the State Council. The administrative organs of state in the locality are the local governments centrally led by and obeying to the State Council. The branches of local governments must carry out the laws and regulations of Central Government, complete the tasks given by it and accept its professional guidance.

#### **Functional division and coordination**

The functions of central and local governments are very similar in content. The difference between the local and central level is that the Central Government manages the administrative affairs of the country centrally and makes the macro decisions while the local governments mainly manage local administrations.

#### **Centralization and decentralization of state powers**

The relationship between the State Council and local governments follows a model of unified leadership and proper decentralization of powers. In particular those branches of government concerned with political and social stability, socio-economic issues of vital national concern, high technology, major infrastructure construction, key scientific and research institutes and universities are managed by the Central Government. As for finance, economy and trade, legislature, education, scientific technologies, health, culture, sports, employment, personnel and social welfare, functional management by both levels of government is practiced. For the important adjusting and control of powers of macro economy on banking, tax, price and the development power of resources, a joint method of division of authority is put into place. The branches such as auditing, supervision, statistics could practice the system of dual leadership.

#### **Consolidating financial leadership and graded management**

The consolidated finance of the state is divided into two levels, central and local, in which the local level can be subdivided into three levels: province, county and country. For the cities that govern counties administratively, the fourth level, namely city-level, is added. In this hierarchical framework, central finance is in a leading position and local finance is the basic one.

### **Administrative interaction**

The Central Government can exert its influence on local administrations in many aspects. The State Council, in terms of the administrative legislature, controls the local administrative procedures. The local governments must abide by the laws and regulations by the Central Government. The State Council guides the local administrations in terms of policies, assigns tasks to local governments in terms of plans. In doing so, the Central Government confers on the local governments the necessary authorities. The State Council examines and approves the works of local governments through three graded ways - general supervision at the administratively subordinate relationship, special supervision of supervisory branches and economic supervision of auditing branches. Through these supervisions, the Central Government evaluates the local governments' practice to policies, laws and plans. Of course, local governments have counter-action to Central Government to some extent. In recent years, some local governments have exerted certain influences on the Central Government at the decision-making of finance, import, export, trade and so on.

## **IV. EXTENT OF PUBLIC PARTICIPATION**

The Chinese *Constitution* stipulates that the Chinese people can manage the state affairs, economic and cultural undertakings and social affairs through various channels and ways. The system of the people's participation is the expressive and essential characteristics of the socialist democratic system. The people's participation includes two ways—direct and indirect participation. The latter refers to the participation that the elected representatives or their agents by election govern the state and its social and public affairs. The electoral law of China has different stipulations for the ratio of every representative to the represented population in urban, rural and minority nationality areas respectively. When voting for the representatives of the local people's congress, the population represented by each representative in rural areas is four times more than that in urban area. For municipalities, cities and districts under cities, each rural representative will represent more population than urban districts. The stipulation by the electoral law really reflects a higher percentage of the current development in urban than rural areas.

The law also stipulates that the ratio of electing representatives in *Han* and minority nationality areas is different. In the minority nationality area, if the total population of a same minority nationality is less than 15 per cent of the total population in the area, the population represented by each minority nationality

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representative is allowed to be presented proportionally less than the population represented by each non-minority nationality representative, but not less than a half. For the areas in which the minority nationality population accounts for over 15 per cent but less than 30 per cent, the situation is the same as the above one but the minority nationality representatives cannot exceed 30 per cent of the total representatives. For the autonomous counties with very small population, the population represented by each minority nationality representative is allowed to be represented a half less than the population is by each non-minority nationality representative. All minority nationalities should have the representative of the National People's Congress even if their population is of a very small number. Besides, *Electoral Law* stipulates that the National People's Congress and the local people's congress in the areas with relatively more returned overseas Chinese should have a proper number of representatives of returned overseas Chinese.

The local people's congresses hold meetings at least once a year. The representatives have the right to dismiss the cabinet members of the corresponding local government. The presidium of people's congresses, the standing committee and the various special committees of local people's congresses put forward bills to the people's congresses for consideration. Ten representatives jointly raise a bill to the people's congresses for consideration. The representatives make suggestion and criticism to the corresponding local government. The local governments have to make improvement. All these concrete stipulations reveal the substance of the socialist democracy.

Another way of public involvement is direct participation, which means that the people themselves govern national and social affairs by participating in elections, supervision, democratic management of enterprises, management of cultural, health, welfare, security, mass organization, government or political affairs and through discussion. Political participation is the core content of people's participation. The channels of people's participation can be divided into organizational and non-organizational participation. Organizational participation refers to people participating in the management of national and public affairs through some social organizations like political parties and trade unions. Non-organizational participation refers to people as individual citizens participating in the management of national and social affairs according to certain legal procedures, such as individuals' participation in election, holding public offices, expressing their opinion and putting forward suggestions and critiques to the state organs and their personnel.

At present, the system of the people's direct participation includes the following four components:

### **Social consultation and dialogue**

In the socialist system, direct dialogue and consultation about important national

and local affairs between the leaders and the masses, and between social organizations and the masses can be undertaken on an equal basis, which shows that the system is a democratic political system. The social consultation and dialogue are favorable to handle and coordinate the different benefits and contradictions between various social groups, build a close connection of the leaders and mass, make the decision-making more scientific and more democratic and promote the socialist democratic and political construction.

### **Writing letters and visiting state organs**

People can express their own and collective ideas and suggestions to the state organs by writing letters and paying visits. This kind of activities, to some extent, reflects the state of national socio-economic development and the social contradiction objective. In addition, it is a factor of supervising and restricting the state organs and management branches at different levels and has an impact on the decision-making of the leadership circle. This system is an expression of the socialist democracy with Chinese characteristics.

### **Workers and staff congress**

Workers and staff in the state-owned enterprises comprise the congress through democratic election, which exercises the power of democratic management. It is a basic form of the state-owned enterprises to practice democratic management and an important system of realizing the goal that workers and staff directly participate in management and exercise their powers of being the masters in the country.

### **Mass autonomy in grass-roots level areas**

According to the laws, the people adopt a system of managing, educating and serving themselves in the societal grass roots level areas where they live. According to the *Constitution*, there are two mass autonomous organizations in the grass-roots level areas, which are the neighborhood committee in urban areas and village committees in rural areas. Both kinds of committees are identified as an organization form with direct democracy and are important organization forms of direct peoples' participation in the management of national affairs and therefore are an important component of the socialist democratic and political system.

## **V. CONCLUSIONS**

Since 1949, local governments have played an important role in political, economic and social life. While the planned economy is changing towards a market-oriented one, the reforms of political system will change the governmental

functions towards the direction of facilitating the development of a socialist market economy. The functions of local governments will shift from the intervention towards fostering the market and guaranteeing its orderly operation, otherwise the socio-economic development would be hindered.

During this processes, the local governments play two roles: one is to promote the market economy; the other is to solve the many problems raised from the traditional planned economy. This makes the transition of the function of the local governments not very easy.

Under the traditional planned economy, the local governments don't have clearly defined functions, rights and obligations. Consequently, they are overstaffed and inefficient, which makes them difficult to fulfill the needs of the market economy.

The goal of reforming the local administrative system are:

First, to give citizens more right to elect, chose and criticize the local officials. The local people's congresses will have more right to make policy on local important affairs.

Second, to change the function of the government, to separate the government from the state-owned enterprises.

Third, to reduce the number of the government organization and its staff.

Today, China is undergoing political reforms while improving a market economy system. Local governments are called for to build gradually an open, fair, honest, effective administrative system.

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