Incentives, co-ordination and learning:

The institutional array of China's development

By **Alexander List**

The first Chinese institute of higher learning, the Chinese High School, now called Hwa Chong Institution.

In the popular imagination, China has a top-down government that tells its people what to do and brushes aside those who oppose it. Such harsh command, along with an infinite supply of cheap labour, is then said to account for the country's feats of development. That image and those feats then cause some people to pine for decisive, technocratic political will, and allow others to excuse why – given the pesky opposition – they cannot be held to a yardstick of rapid growth.

But this image of Chinese governance is deeply mistaken. China's government is fearful of its people. It is decentralised, with its localities and bureaus granted degrees of autonomy beyond the imagination of most of their peers elsewhere. It uses performance management, but of a different kind to that elsewhere, not least in South Africa.

Its institutions also have no magic formula based on race or culture. Officials work seven to eight hours a day, with qualifications and salaries similar to here. They face the same problems of silos, co-ordination and motivation as those in any other human organisation. The evidence suggests they solve these less badly than most others, though not perfectly. There may be much to learn.

To that end, this essay describes some features of China's institutions, as observed during several years living there and several years of research after. It considers, first, the manner in which Beijing motivates and disciplines local government; second, the institutional tools used to weaken silos at each tier of government; and, third, the means by which the state learns. It concludes with some reflections on relevance for South Africa.

THE USES OF HOPE AND FEAR

Many, if not most, of the officials in local government in China are anxious. This anxiety is induced by the Organisation Department, which is the arm of the Chinese Communist Party responsible for cadre deployment. This institution is something like a human resources department, only more powerful and better staffed. It holds files on every official, conducts their performance evaluations and selects candidates for promotion.

Deployments are open to political adjustment, but that opening is constrained. Senior leaders can swing the final choice towards their favoured candidate, but cannot introduce a candidate who has not, in the Department's evaluation, achieved adequate performance. There is a threshold beyond which patronage can take effect, and only competence clears that threshold. Inversely, there is a threshold of incompetence beyond which the Department advises demotions, rotations to worse posts or outright firing, though the latter is relatively rare.

The evaluations are based on a list of "negative" and "positive" criteria. Higher scores on the negative reduce the chance of promotion and increase the chance of removal, and vice versa. The target-setting for a specific official can be elaborate, but three criteria of performance are almost always weighted far higher than any others. They will determine a career trajectory, from the smallest village in a remote rural province to the corridors of power in Beijing.

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The first criterion – a "negative" one – is "social stability". In practice, it counts riots, and their intensity. A handful of protestors can be locked away without anyone noticing, and the official may not receive a blemish on his record. But escalation to a large crowd will lead to pictures online. Beijing will censor the pictures, but note their origin. If the crowd is large, sustained, or turns violent, reinforcements may be needed from other districts. Once calm is restored, the higher tier arrests the ringleaders, fires the local Party leader, and devises a compromise solution that assuages the majority of the protestors.

There is an implicitly democratic principle within this means of monitoring local government: if local people are angry enough for long enough to risk imprisonment, then the local government has failed and must be removed. Moreover, where elections require the people themselves to find a replacement, that responsibility falls to the government itself.

The system is not without risks. Firing the local leader each time a minor protest occurred would swiftly degrade performance even more. But by setting the bar high enough, yet not too high, the system means that, far from brushing opposition aside, local officials are constantly seeking to make sure that the local majority is content enough not to join passing protests.

The resulting fear cascades through departments. As an official in a local sanitation department once described it: "If I leave the streets unclean, the old ladies will complain; if I do not respond, they might come out on the street; if they come out on the street, my boss will get scared that his boss will notice, so he will fire or demote me."

This fear might become paralysing or lead to short-time horizons, were it not balanced by the two other criteria. Those are "local GDP growth" and "local tax receipts". The better a local government performs on those, versus its peers, the higher the chances of promotion for all its officials. With regular and systematic rounds of promotion every five years, and the possibility for the best to go all the way to national government, that chance is credible and desirable. Since high enough growth creates jobs and high unemployment creates riots, the criteria together have spread a relentless obsession – in deed and not just word – with keeping employment high.

Under this system of reward and punishment, officials are granted substantial autonomy. As described below, they are provided with the intention of the tiers above and the constraints on their action, then left with the freedom to accomplish those objectives.

It is true that they also have freedom over their local constituents. They are largely released from cumbersome procedural regulations and can expropriate land, grant incentives and harass opponents with some impunity, provided they do not trigger large protests. Yet it must be asked: on what basis are complex procedural constraints on local action, handed down from a distant capital, more "democratic" or more "free" than constraints that arise from monitoring the local citizen's actual discontent? Do the people govern in the former any more than in the latter?

The weighting of the system is also under adjustment, to tip it more to the people. Two years ago, one of China's largest cities began an annual survey of 2 to 4 percent of the population, weighted to the poor and marginal, which asked only one question: "Did your life improve this year?" The answer to that question was formally introduced to the evaluations, and weighted higher than GDP and tax growth. It remains to be seen if this will take hold and spread, but if it does, the people may need neither to riot nor to vote in order to govern.

In all, officials across China work in the constant knowledge that they must deliver services and growth, that they can take risks in doing so, and that a credible, powerful, extensive monitor stands watch over them, in the form of the Organisation Department. It will allow them to access patronage, but only if they deliver.

This arrangement would break down if officials were only given incentives. If they lacked the requisite capabilities, local officials would widely fail to meet the targets, and the system would either have to decimate the ranks of government or lose its credibility. So it is that another set of arrangements exists alongside the monitoring, to provide officials across China with two of the hardest and most important capabilities in public administration: to co-ordinate and to learn.

BREAKING SILOS

Government requires silos; effective government requires overcoming them. The test of a public organisation is therefore not whether it is siloed, but what tools it possesses to work across them and how effective those are. China's institutional arrangements furnish three such tools.

One has been described above, namely prioritisation of common targets. An individual in a department may sign a performance contract and meet all of the particular targets, but if their village, city or province does not meet its overall targets, their prospects will be dim. That they cannot control this outcome is acknowledged as unfair, but such moral reasoning plays second fiddle to the utilitarian importance of delivery.

The second tool is the use of multiple "deputies", who are responsible for clusters of portfolios. China's national government has four vice-premiers, a province like Hunan has six vice-governors, and a city like Shanghai has eight vice-mayors (an upper limit). Each deputy heads a cluster of interrelated

One of the oldest cities in China, Xi'an.

departments, although which departments are assigned to which portfolio varies from province to province and decade to decade as needs change.

The deputies do not intrude on the internal working of individual departments, but they have substantial authority to set common goals and resolve cross-department disputes. Their decisions cannot be appealed to their superior and they have a substantial voice in budget allocations among departments in their cluster. Much more than revolving chairpersons who are merely "first among equals", they provide substantive leadership to portfolio clusters and hence help to give them a reality that is functional, not merely formal.

Moreover, leaders must first serve as a deputy before ascending higher. Few mayors have not been vice-mayors, and every premier has been a vice-premier. That means that top leaders have long experience in the difficult managerial tasks of co-ordinating across silos, and have been selected on their aptitude for it. So the qualification for leadership is not only proficiency in running an individual department, but also in solving cross-silo disputes in the pursuit of common goals. Leaders at each tier of government are trained in co-ordinating, and judged on how good they are at it.

The third tool is an institutional form placed at the disposal of those leaders. Known as a "leading group", it is a temporary, purpose-driven cluster. Forming one requires only a clear objective, whether to "attract foreign investment", "build the national electronics industry", or, at its most ambitious, "reform the economy". The leader who chairs the group will then designate the institutions involved, and choose several existing officials to act as the Office of the Leading Group. Both purpose and composition are laid out in a document, which may have as few as three or four pages, that is ratified by a group decision at the relevant tier of government.

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The utility of the tool lies in the apparatus that comes with it. Junior or working-level officials can submit to the group Office any problem encountered in the pursuit of the group's purpose. The Office is then responsible for attempting to find or broker a solution. If it cannot, it bumps up the problem to a Vice-Leading Group that meets quarterly. If that forum finds no solution, it is bumped up again, to a Small Leading Group, which includes the heads of

the departments involved in the problem. If there is still no solution, the problem goes to the Full Leading Group, which is authorised to change policy if needed.

Through these routines, minor problems are prevented from festering by being escalated continually until they are resolved. And as soon as a problem is solved, it stops escalating. Each step in the process spends little or no time reconsidering issues discussed below, but only those that truly require senior decisions. It is only at the Full Leading Group, meeting once or twice per year, that policy reports and significant changes are considered. These ad hoc delivery clusters spend the vast majority of their time solving problems and, when it comes time to discuss policy, that discussion is anchored in the shared experience of real problems and what the real solutions to them have been.

None of these tools is close to perfect. The common goals can encourage "free riding". The deputies can interfere too much, or too little. The leading groups can be empty and ineffective. Co-ordination is a hard art. China's institutions train its leaders to be skilled practitioners of this art, furnish them with tools for it, and motivate those under them to at least play along. This does not solve the problem; nothing has or ever will. But it is these tools, not some magic formula or cultural trait, which may account most for the Chinese capability to "get things done".

THE INSTRUMENTS OF LEARNING

However, getting things done has little point if the things being done are ineffective or counter-productive. Making action count requires learning – and learning is hard for any organisation, let alone a public one. It requires the means to find and diffuse knowledge, to sponsor and induce officials to risk innovation, and to accept the recognition of failure.

One of China's means is a dual network of training institutions and policy think-tanks spread across the country. The former are called "party schools". Hundreds of units at the village level are no more than classrooms for ideological indoctrination, but the provincial branches are prestigious, well funded, and home to some of the liveliest policy debates in the country. The central school, in Beijing, is both a premier research institute and a training ground for future provincial and national leaders. Its seminars are sometimes led by the president himself and frequently by cabinet members. Debate is not just encouraged: a willingness to challenge orthodoxy is recorded positively in students' personnel files. Attendance is a career coup.

The schools constantly exchange knowledge among themselves as they hunt for what works. If a provincial faculty notes some promising new administrative practice or policy, this is reported to the central school, which can then organise an evaluation.

If successful, the practice is then incorporated in upcoming seminars, which helps diffuse it to leaders in other provinces.

A similar function is performed, alongside the schools, by several networks of think-tanks. The Chinese Academy of Social Sciences has branches in half a dozen major cities. The state has internal policy research units and planning commissions in each province and city. Many ministries have internal quasi-research units, whose job is not to channel ideas from the ether, but to collect experience on the ground, analyse and aggregate it.

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This is aided by the second learning process, which relates to the design of national programmes. These do not specify means; rather, they specify ends and leave the models for achieving them to the lower tiers to adapt and experiment, but under continuous, problem-oriented monitoring. That is, they make a sum of money available to each province or city to pursue those ends, and then continuously bring together officials from different regions to compare projects and results.

To illustrate, consider affordable housing. Several years ago, the construction of tens of millions of units was designated as a national priority. In many countries, the national government would have to spend years in exhaustive debate and analyses of myriad issues, such as the best model for combining public and private spending. The resulting model would be imposed on local governments as a condition for funding. It would likely fail in many places. Five years later, a hue and cry would arise about the failure and the whole process would start again. By then, the original designers would have left the department, so the next version would not learn, and another bad programme would restart the decadal cycle.

The Chinese approach was different. The central government set a national target and budget for low-income housing. City-level targets were calculated on a simple formula and the budget was divided accordingly. Each city was then allowed to experiment with whatever models it thought might work to deliver the requisite units within the budget. Some cities built and rented out the houses themselves. Some provided low-income residents with rent or purchase subsidies. Some created wholly new and imaginative models. The only requirements were that the funds had to be clearly accounted for, and the officials in charge of the programme had to attend regular briefing sessions

and conferences with their peers elsewhere and with the national government.

A similar example arises in research and development (R&D) funding and, indeed, in most public interventions. In each, explicit provisions upfront allow for adjustment later. Budgets are increased for those that perform and lessons are extracted from those that do not. Officials who innovate successfully in a city are elevated to the province, and from province to centre.

By their nature, though, policy innovations are risky. Given the additional complexity involved, it would be a surprise if new policy ideas failed any less often than new business ideas. So policy innovation has to be able to signal when experimentation is permitted, as well as develop the means and habits of constructively admitting failure.

The Party's past furnishes tools for both. The first is the habit of "self-criticism". Once used by Mao Zedong to eliminate opponents, Deng Xiaoping and his successors rehabilitated it to allow the admission of failure without consequence for one's position. Deng himself considered the extent of self-criticism to be a decisive difference between the communist parties in Russia and China.

The second tool for innovation will designate a series of "points" – such as individual cities or public entities – where experiments are both allowed and monitored. If successful, the points are expanded to a "line", such as a province or sector, with the experiment being adapted in the expansion. After another round of evaluation and adaptation, the innovation is expanded to the "surface".

This system can fail. But when it succeeds, the results can be astonishing. China's famous special economic zones (SEZs) were and continue to be points in this system. Indeed, when detached from such a system, their utility is limited, as the failure of SEZs in country after country outside China has shown.

Its most striking use may have been in land reform. In its early years in power, before the disasters of the late 1950s, the Party used its tools of experimentation and local adaptation to accomplish the largest land redistribution in history, while increasing food production. After 1978, while reversing Mao's mistakes, it redistributed again. Giving provinces latitude in means, and adapting to crops and markets and available services, millions of large farms were broken up and several hundred million rural farmers lifted themselves out of poverty within 10 years. It was an example of a joined-up, rapidly learning, fast-moving system demonstrating its capabilities, and announcing them to anyone who cared to learn.

A BILLION PEOPLE RISING

China may be in the early stages of an economic crisis. If it stumbles, whether now or later, some will no doubt say that none should learn from it. Yet this should not obscure the unprecedented achievement of the last decades, in which tens of millions of jobs were created year after year, in tandem with wages rising at double digits. Thirty years ago, China was as poor as Sierra Leone. Today, interns in factories in its central provinces earn more than South Africa's security guards, and construction workers in its richer cities earn more than much of our middle class.

Nevertheless, the achievement is fragile. No one knows that better than China's leaders. As the *Huainanzi*, a book of political philosophy written in 100 BC, tells them, "Worrying about a calamity once it has arrived is like a sick person searching for a good doctor once he has already become critically ill." This book and others provide deep sources of much of their institutional practices. The Chinese were writing and using works on pragmatic public governance before Rome was an empire, and have continued to do so for two millennia after.

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South Africa does not need to believe that Europe has had no reverses, or to read Reformation treatises on government, to borrow from it electoral democracy and social welfare. Still less do we need to believe that China will rule the world, or to read the *Huainanzi*, to borrow some institutional tools from the country that has improved the lives of more of its people at a faster rate than any other before it.

The borrowing will need to be tailored, but both the need and the uses are clear. How can our political parties change cadre deployment? How can we react differently to service delivery protests? How can we turn governmental clusters into function, not just form? How can we make our working groups work? Why do we have just one new school for civil servants, instead of nine? How can we redesign national programmes to stimulate initiative, instead of suppress it?

To be sure, many entrenched interests will resist even raising such questions. Nonetheless, the example of a billion people rising may help to start the debate.