

The Commanding Heights: the State and  
Higher Education in China  
——Towards a Synthesis of the Theories

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# Outline

- I. The commanding heights: the state and higher education in China
- II. Chinese-styled federalism in economic growth: a literature review
- III. Towards a synthesis of the theories

**I. THE COMMANDING HEIGHTS:  
THE STATE AND HIGHER  
EDUCATION IN CHINA**

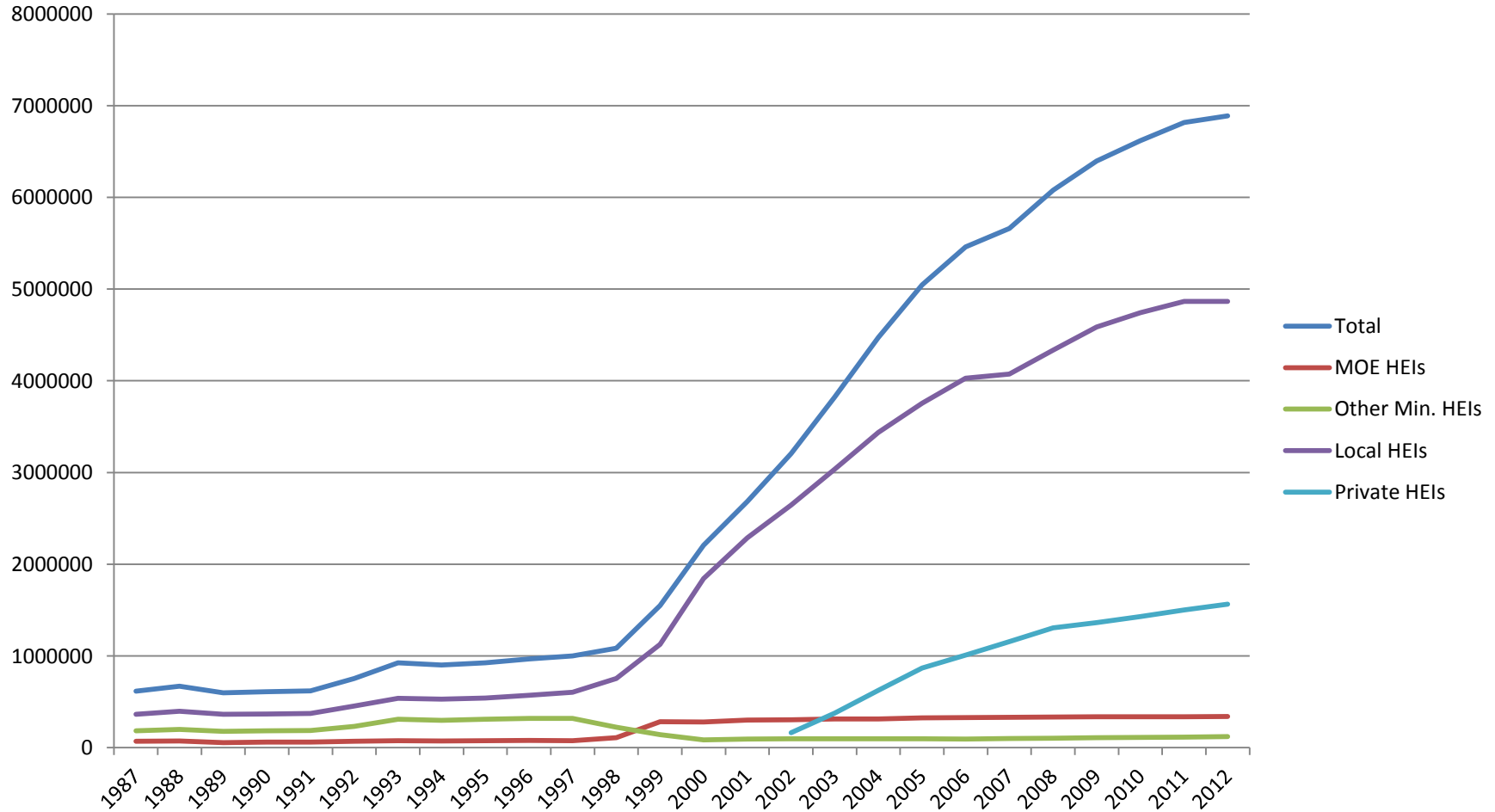
# China's higher education expansion: an overview

1. Access: Among developing countries, China perhaps has made the most impressive progress in quantitative terms, in the shortest period of time.

– According to the latest statistics from MOE, total enrollment at higher education institutions (of various types) reached 24.68 million in 2014, and gross enrollment 34.5%.

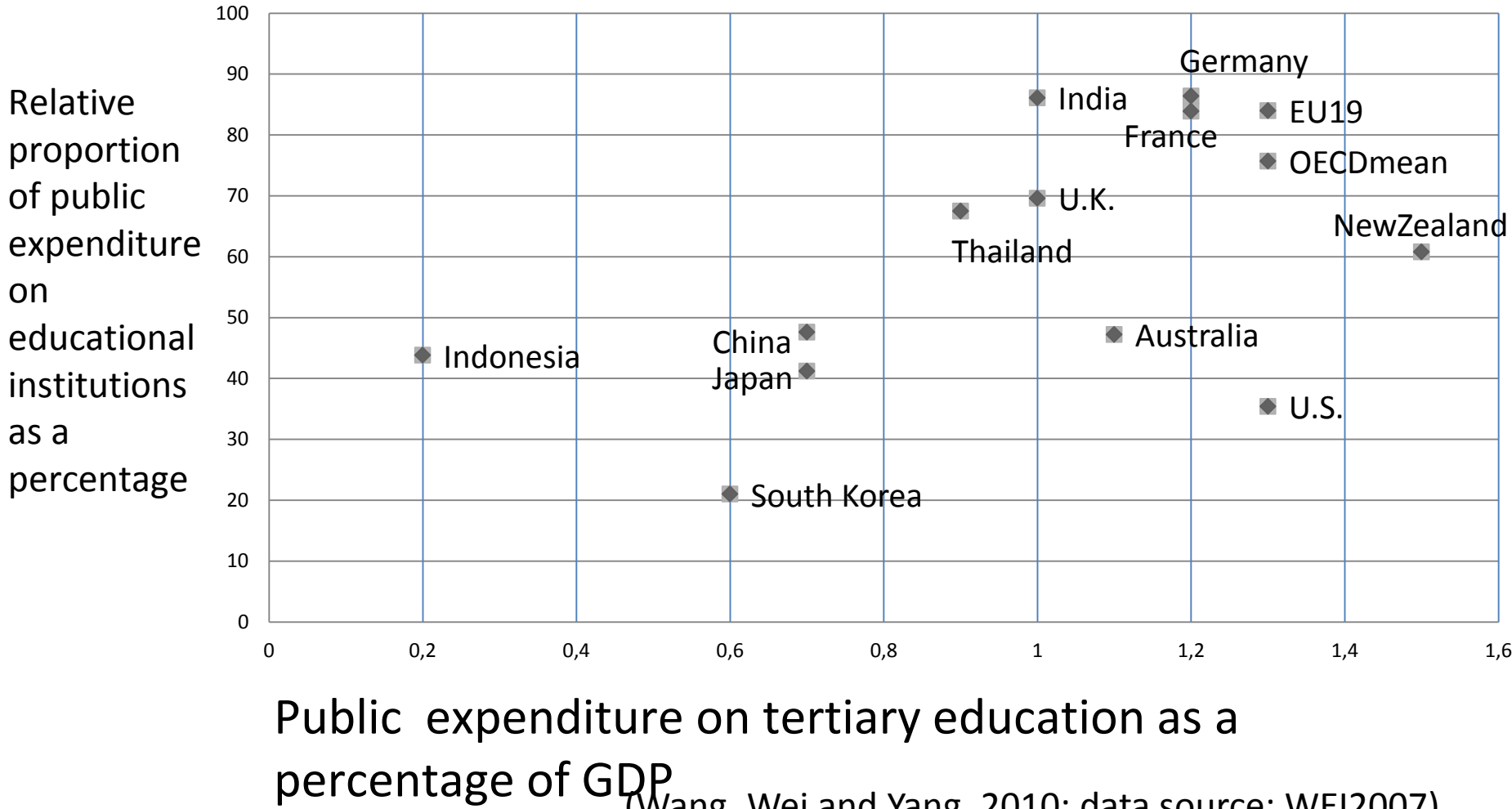
- 2. Structural: expansion depends on local higher institutions
  - Number of new entrants of HEIs belonging to the central government as percentage of the total declined from 30% in 1998 to 17% in 2000, and 7% in 2012.

# Number of New Entrants, by type of HEIs



- 3. Financial: Sources of financing diversified
  - direct government contributions 83% of funding in 1990,
  - 55% of the funding came from direct government contributions and about one-third (35%) came from tuition and other student fees in 2011.

# Cost-sharing reform in China has attracted much attention





# The Project of “University Expansion: in a Changing Global Economy”

- Started in 2008, by HSE, Stanford, CIEFR, and colleagues from India
- Analytical frameworks of higher education development (Carnoy et al, 2013)
  - Institutions driven
  - Globalization driven
  - Market forces driven

BRICs Project:

- State-centered

# From a comparative perspective,

- China: the developmental state story
  - The legitimacy of the Chinese state is rooted in its ability to maintain economy growth, of which human capital is increasingly an important determinant. The expansion of higher education in China is a state-led process, which by design primarily serves the political objective of sustaining the state legitimacy.

- However, what I would argue, is that from the historical perspective, “The past several decades after economic reform witnessed a transition of the strategy by the state, which is from the control-all strategy to the commanding heights strategy.”
- Wang, Rong. 2014. The Commanding Heights: The state and higher education in China. In Fan, Shenggen, Ravi Kanbur, Shang-jin Wei, and Xiaobo Zhang (eds.). The Oxford Companion to the Economics of China. Oxford University Press.

- Commanding Heights was first used by Lenin as a defense of his New Economic Policy
  - which included permitting profit-making enterprise in some areas of the economy. In persuading his suspicious colleagues, Lenin at a convention in 1922 proclaimed that the reforms were rather modest, and the new Soviet state would always retain its control over what he called the “commanding heights” of the economy.

- China's higher education under the planned economy is a system where the state controls every aspect wherever feasible.
  - HEIs functioned as state apparatus that specialized in training.
  - Students were provided free education at HEIs of which all were publicly owned and operated, as private institutions were rapidly eradicated in the 1950s.
  - What is of paramount importance to the system is that for graduates of colleges, universities and 3-year polytechnics, they were commonly under the control of direct state job assignment, by which they were guaranteed jobs in the state sector.

- Over the past two decades, “the commanding heights” strategy adopted.
- How the expansion in China has been achieved?
  - There are two reforms adopted by China’s central government. One is to loosen grip on the mass of HEIs and decentralize them towards local governments, the other is to prioritize support/control towards elite institutions.

## Including:

- (1) Localization of higher education institutions which used to belong to central level line industry ministries.
- (2) Structural streamlining and centralization of the regulatory and management responsibilities to a two-tier system of management, consisting of two central organizations including MOE and provincial education bureau.
  - MOE is not the sole central higher education authority as we know of today.
- (3) Localization of the accreditation authority for 3-year vocational and professional institutions (polytechnics) to provincial governments.

- The above policies soon effected.
  - The number of HEIs belonging to the central government declined from more than 400 in the early 1990s to only 111 in 2001.
  - After local governments were given the accreditation autonomy, during the four years that followed, 584 polytechnics were established.



- (4) Symbolic of the added commitment of the Chinese government to commanding heights, on May 4, 1998, President Jiang Zemin declared that “China must have a number of world class universities” in his speech at the conference celebrating Peking University’s centennial. Thus, besides the then on-going “Project 211”, Project 985 came into being in 1999.

- Two dimensions of “the commanding heights”
  - In addition to the Commanding heights of the HEI institutional hierarchy, there is:
    - Commanding heights of mechanisms of intervention

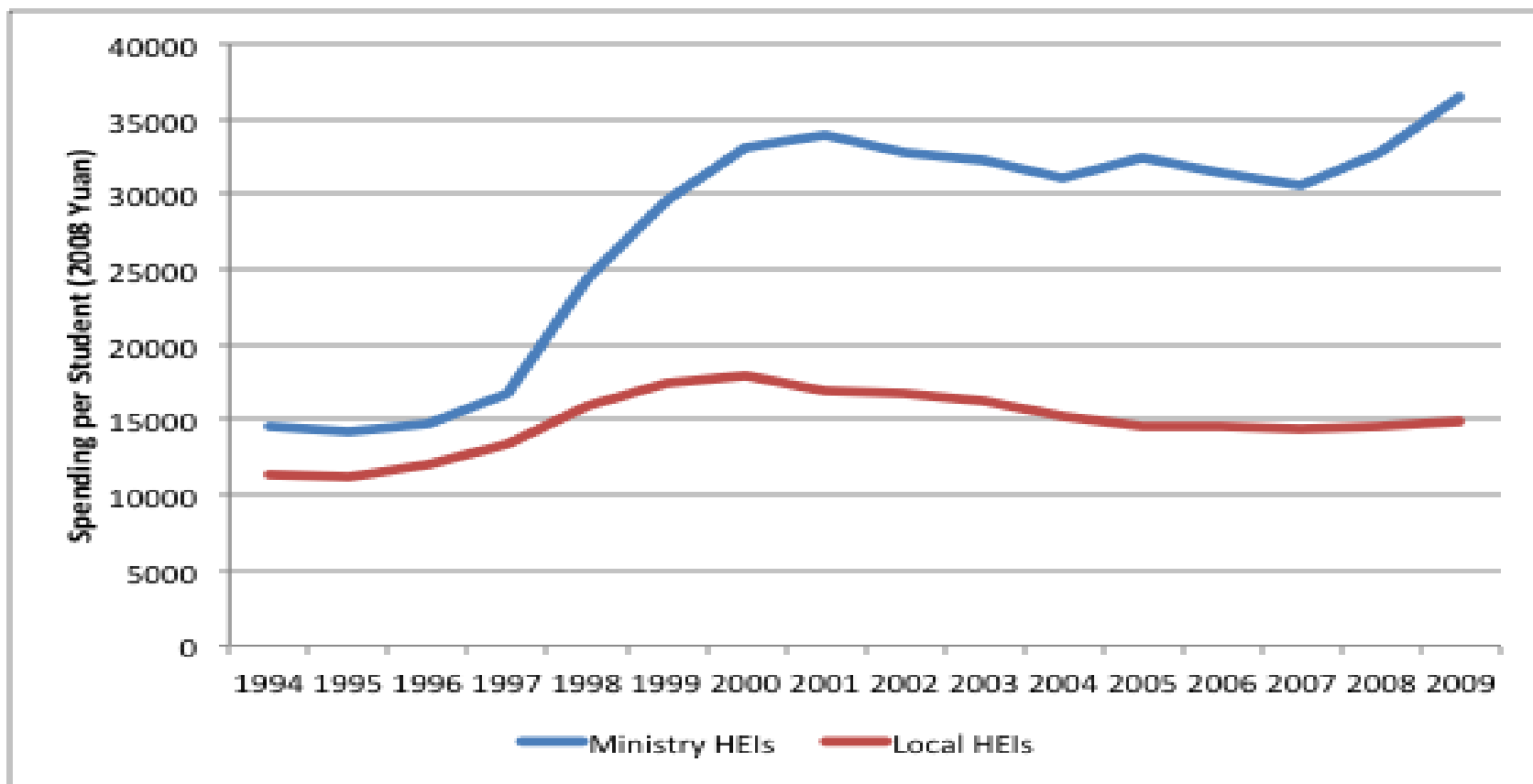
- The state has adopted differential treatment towards different aspects of university governance.
  - The state allows HEIs more leeway in fund raising,
  - but takes measured steps to allow private institutions to proliferate,
  - meanwhile develops more comprehensive rules of quality assurance,
  - retains firm control over accreditation of 4-year and beyond programs,
  - develops a whole funding regime for various kinds of project-based initiatives
  - and keeps its hands-on approach to HEIs' personnel management firmly unchanged.

Based on observations of the Chinese practice,  
**Organized differentiation versus Liberal  
styled differentiation**

- and a proposal of comparative analysis framework (what features of differentiation to consider)
  - Administrative differentiation
    - Existence of a group of central-government institutions (MOE HEIs)
  - Financing differentiation
    - Project 985 as discussed previously that drives enlarging differentiation of costs per student

# *China: Spending per Student by Type of Institution, 1994-2009 (2008 Yuan)*

*(includes 3 and 4-year degree granting higher  
education institutions)*



– Functional differentiation

- The central government (MOE) has maintained authority of accreditation of 4-year, and graduate degree programs and only delegated the authority of accreditation of 3-year programs to provinces.
- MOE has strengthened as a central R&D administrative authority ( aside from the Ministry of Science and Technology, etc.)

– Demographic differentiation

- The central government (MOE) has maintained the authority of distributing higher education opportunities at elite institutions, thus allocative decision rights over one of the most-sought after resources in the Chinese society.

# As consequence,

- First, local higher education systems are invariably beheaded, for the top HEIs in their territory invariably belong to the central government.

## Second, Repercussion effects of higher education development strategy on the whole system

Competition for access to quality education intensified while free compulsory education implemented.

- According to a longitudinal survey towards a cohort of senior high school graduates in Shaanxi Province 41 conducted by CIEFR in 2008,
  - Large proportions of students who passed the college entrance exam decided not to go but to “repeat” to take the exam next year, the proportion for the second tier HEIs 22% and 41.9% for the third tier HEIs.
  - Among students who gave up higher education opportunity in this way, more for non-economic reasons (63%) than for economic reasons (37%).



- Third, vertical differentiation of the higher education system is consolidated.
  - The dynamics behind institutional development is essentially vertical and oriented to bureaucratic rules, for HEIs to compete to climb up to join the commanding heights league as defined in terms of various kinds of projects and credentials set out by the state, the prowess of the state is thus strengthened.

## II. Chinese-styled federalism in economic growth: a literature review

- The project of “higher education federalism” initiated by HSE started last year, CIEFR took part to prepare a case study of China.
- Research questions:
  - Expansion depending on local public higher education institution in China
    - Where are the local incentives from?
    - What are the center-local relations in China’s higher education?

- Research very limited
- In contrast, in the economics literature, local autonomy and behavior in China remains a focal point of analysis

- “ China is the only country (in the world) where the local governments have played a leading role in increasing rates of growth.”
- Economic development in large countries depends on how sub-national governments perform in implementing pro-development policies. (Bardhan and Mookherjee, 2006)

- Similar logic can be applied to higher education. So what insights can be gained?
- Five strands of the Chinese-styled federalism literature
  - Not in terms of time sequence
  - Different from “generations” of federalism literature (Barry Weingast, 2009)

# First strand

- Chinese-styled federalism, Market-preserving federalism (Qian and Weingast, 1997)
- Economic decentralization as the driving force of economic growth in China
- Jin, Qian and Weingast (1999):
  - China's fiscal contracting system provides local governments with strong (marginal) fiscal incentives and at the same time improves horizontal distribution across provinces in budgetary spending.
  - Stronger fiscal incentives---measured in terms of higher marginal revenue retention rate—implied faster development of non-state enterprises and more reform in state-owned enterprises.

# Second strand

- Political dimension of the Chinese style considered
- Decentralized economic governance combined with centralized political governance

- The central government has control over personnel, whereas sub-national governments run the bulk of the economy (Xu, 2011).
  - “regional tournament competition” : promotion of local leaders in the political system is based on local economic growth performance
  - The feature that distinguishes the Chinese regime from federalism: centralized political governance in which personnel control and cadre management by the central
  - The feature that distinguishes the Chinese regime from a typically centrally-planned economy: the governance of economy delegated to subnational



# Third strand

- “Regional tournament competition” Revisited
- According to my colleague Professor Liu Ming Xing and his coauthors (2011), “Factional ties with various top leaders, educational qualifications, and provincial revenue collection played substantial roles in elite ranking, suggesting promotion systems served the immediate needs of the regime and its leaders, rather than encompassing goals like economic growth.”

# Fourth strand

- With focus upon “the credibility of commitment” question: How the central is capable of making credible commitment to maintain a certain level of local autonomy?
  - Composition of the central ruling elite (shifting from center-dominated to provincial dominated, according to Liu Mingxing (2013))
  - Complexities of central and local economic relations: linkage of rent generation and rent seeking by central and local

# The “complexities of central and local economic relations” Argument (Krug et al, 2014)

- Classic Federalism Framework reexamined (Riker, 1964)
- Competing strong national parties
  
- Assume a federation satisfying four conditions:
  - (A1.1) elections exist at both federal and local levels;
  - (A1.2) encroachment by any level reduces the performance of the entire governance system;
  - (A1.3) the same parties compete for power at both federal and local levels;
  - (A1.4) voters, while making their decisions at any elections, consider performance of the party at both federal and local levels.

- In non-democracies:
- Competing strong vertical (factional) elite networks
- Rent generation and rent seeking
  
- (A2.1) encroachment by any level reduces the performance of the entire governance system
- (A2.2) the same elite coalitions (vertical elite networks) compete for power at both federal and local levels
- (A2.3) coalitions use their control over certain levels of government to extract rents; access to rents is given through personal control of particular politicians or bureaucrats holding certain offices; and
- (A2.4) the level of repression is limited in the sense that none of the coalitions can be eradicated in the competition.

- The willingness of the central level politicians to credibly commit to a system of incentives to make local politicians more likely to support growth depends on how valuable a growth-promoting policy actually is for the country and for rent generation and rent seeking of the ruling elites.
  - A resource-rich economy may rely on a stable flow of revenue.
  - The vertical elite coalitions turn into redistributive coalitions.

- The Chinese styled rent generation and rent seeking:
  - The central: in 2000 reorganized the state sector by limiting central control to 100-plus firms empowered as monopolies with concentration in so-called upstream industries
  - The local: land owners/downstream industries
  - Rent monopoly of the central SOEs directly linked to the economic performance of the downstream industries delegated to the local
  - Local: exchange allocative decision rights for income rights

# So, what insights gained?

- Fundamental questions are the same for both economic domain and education (social development) domain:
  - Center-local relations, without constitution-based guarantee
  - Policy advocacy and engineering process, without voter-pressure groups
  - Government incentives for growth and public service, without elections
  - Public budgeting, without the Congress-styled politicalized process

# **III. TOWARDS A SYNTHESIS OF THEORIES: AN ANALYTICAL FRAMEWORK**



1. Periodically proclaimed consensus of the Party elites functioning as overarching ruling guidelines

2. Sectoral (education) authority (MOE) and sectoral network

A synthesized framework

3. Local pro-higher education development incentives

4. Local pro-higher education development capacities

# Key Components of the Framework

1. Periodically proclaimed consensus of the Party elites functioning as overarching ruling guidelines

- Adjust center-local relations (volatile as without constitution-based guarantee )
- State-defined legitimacy of education development
- Coordinate horizontal relations of different sectoral authorities (to what extent power centralized to central ministries, e.g., MOF, and which sectors get priority?)

# Document study of the CCP Congress Report: 1949 to the present

Party Congress	8 <sup>th</sup> (1956)	9 <sup>th</sup> (1969)	10 <sup>th</sup> (1973)	11 <sup>th</sup> (1977)	12 <sup>th</sup> (1982)
<b>Education</b>	Cultural	Not mention	Not mention	Cultural	Economic developm ent
					Spiritual Civilization

- 2. Sectoral authority (MOE) and its vertical network
  - Function both as POLITICAL institutions and technical institutions !
  - Policy advocacy and engineering process, without voter-pressure groups
    - Sectoral authority as the leader of “political coalition” for pro-education policy advocacy
  - Government incentives for growth and public service, without elections
    - Provides sectoral incentives
  - Public budgeting without the Congress-styled politicalized process
    - MOE functions as THE legitimate competing agency on behalf of the education sector in the intra-political process

# Interlude 1: “Who speaks for education in China?”

- An on-going research project at CIEFR
- Text research over proposals of the National People’s Congress, National Political Consulting Committee over the past three decades and the major media reports by the CCP
- Coding of the “who” (demographic variables and working experience variables) , over proposals related to issues of higher education, vocational education, minority education, etc.

# Interlude: Project 985 ( China's World Class University Project): a case study of policy making in China

- In some years the single most important revenue for elite institutions such as PKU and Tsinghua U., driving discrepancy between elite and non-elite HEIs.
  - Where it came from, how it sustained, why the long-lasting legitimacy over the years despite?

# Preliminary conclusion

- Without denying the importance of globalization context and global partners, but important to have domestic champion of globalized education ideologies such as WCU.
- MOE, elite HEIs, and influential individuals with background of elite HEIs formed a political coalition, with MOE as the coalition leader, to constantly promote the ideology of linkage between state legitimacy and “World Class University”, to mobilize political and social support, and to compete/bargain for more public investment.

- 3. Local pro-higher education development incentives
  - Sectoral incentives
    - Getting ahead of colleges and universities in the hierarchy of HE, is institutionally linked with personal incentives towards education managers, as cadre ranks of education institutions leaders officially linked with the ranks of the institutions themselves.
  - Political incentives
    - Getting ahead in the CCP cadre hierarchy of local governors
  - Economic incentives
    - including immediate rent-seeking and generation incentives



# Research ongoing, more empirical evidence demanded

- 3. Local pro-higher education development incentives
  - Sectoral incentives
    - Getting ahead of colleges and universities in the hierarchy of HE, is institutionally linked with personal incentives towards education managers, as cadre ranks of education institutions leaders officially linked with the ranks of the institutions themselves. That explains the importance why MOE retains the authority over the Commanding Heights , as sectoral central authority (MOE) has no direct leverage over provincial or prefecture governors.
    - **However, no direct promotion ladder upward to the central MOE for local education cadres (hypothesis)**

– Political incentives

- Getting ahead in the CCP cadre hierarchy of local governors
- **However, education performance indicator so far found insignificant in comparison with other factors**

– Economic incentives

- including immediate rent-seeking and generation incentives
- **However, land-owner/redistributive local governments low incentives (hypothesis)**

- 4. Local pro-higher education development capacities
  - Stringent fiscal capacity
  - Fiscal transfer regime with limited local discretionary authority ( reliance upon categorical grants)
  - Cost-sharing higher education policies

# In summary, preliminary conclusions

- Where are the local incentives from and what behind “the Commanding Heights”?
  - Incoherent local incentives:
    - Political incentives: not strong enough
    - Sectoral incentives: increasingly strong but with “costs”
    - Economic incentives: uneven
  - Cost-sharing policy that makes up for the lack of public funding capacity of governments
  - Sectoral central authority prioritized support towards the elite

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# Thank You!

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