

Im Fokus

The Politics of China's "Green GDP"

Die politischen Determinanten des chinesischen „Green GDP“-Projekts

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Abstract

This article analyses the politics of the Chinese green GDP project and its recent deadlock. In order to gain a more thorough understanding of the political backdrop of the project, the local politics behind the Chinese environmental crisis have been taken as the analytical focus of this paper. Drawing on recent research, it is argued that local cover-ups of frequently illegal environmental exploitation – which is commonly made responsible for China's environmental problems – are largely induced by the structure of the Party-state. This leads to the conclusion that the causal reason for the deadlock in the green GDP is not, as is often reported, resistance from local leaders, but rather the lack of support from the very top level on the eve of the 17th Party Congress due to the green GDP's heavy political baggage.

Keywords: China, Green GDP, local governance, environmental protection

Introduction

It is safe to say that the condition of the Chinese environment is grim. Particularly, the last 30 years of spectacular economic growth have deeply affected China's natural resources. The critical state of the Chinese environment has been confirmed again in a recent study report jointly published by the Chinese State Environmental Protection Administration (SEPA) and the World Bank (WB) in February 2007 (WB & SEPA 2007). However, due to pressure from Beijing, the most disturbing part of the report was not even released. It was estimated that 750,000 Chinese are dying prematurely from pollution-induced causes every year (FTChinese 2007; *New York Times* 2007). Meanwhile, the Chinese Ministry of Health found that the recent surge in cancer cases, making cancer the primary cause of death in Chinese urban and rural areas (19 and 23 percent of fatalities

respectively), is largely attributable to environmental pollution (CD, 21.5.07). Obviously, China is paying a high price for its impressive economic development.

Moreover, if the country does not urgently reverse its trend of environmental degradation, the “Chinese [economic] miracle will end soon” (*Der Spiegel* 2005). That is, at least, what is going to happen according to Pan Yue, the outspoken Chinese Vice-Minister for the Environment. He warns that a country as densely populated as China, with its fast-track economic development and an already strained environment, can simply not afford to adopt the developed nations’ strategy of growing rich first and cleaning up later. Furthermore, Pan is likely to be the political mastermind behind the Chinese Green Gross Domestic Product (GDP) project. This scheme has currently been put on hold since the publication of the project’s second report with data for 2005, originally scheduled for March 2007, was obstructed (*China Digital Times* 2007). The following article attempts to spread some light on the political background of this project and its current deadlock.

The name “Green GDP” reflects the rather technical objective of including the environmental costs of economic activity into national economic accounting. Yet, the fact that China is the first country to have attempted such a comprehensive calculation of environmentally revised GDP figures also reflects the projects’ political function. The “green faction” within the Chinese central government seeks to aim this function at political factors which prevent China from effectively protecting its long-term livelihood in favor of short-term economic growth. Hence, it is assumed here that the Green GDP project is primarily a political tool, in the face of indirect structural incentives within the Chinese system of governance that lead to systematic environmental disregard. Moreover, we assume that the “non-publication” of the second report in March 2007 was politically triggered. In order to understand this political background, the politics of environmental degradation, particularly at the local level, where environmental protection measures need to be enforced, are the analytical focus of this article.

Our analysis will proceed as follows: section two will outline the rationality behind calculating a Green GDP from the perspective of sustainable development and summarize the most important conclusions from the Green GDP’s first report published in 2006. In section three, we will analyze the institutional configuration of environmental protection at the local level. We adopt the framework of common goods and principle-agent structures to highlight important features of

China's local governance structures. This enables us to review our assumptions and discuss the implications of our findings in section four.

GDP, Sustainable Development and the Green GDP Alternative

GDP is a measure of the size of a domestic economy, or, as it is commonly defined, "the market value of all final goods and services produced within a country in a given period of time". Yet, it cannot simply be used as a measure of a country's "welfare" because of its purely quantitative nature. This warning came from none other than one of the fathers of GDP accounting, Simon Kuznets, as early as 1934 (Cobb, Halstead & Rowe 1995). Nonetheless, from WW II onwards, the GDP came to be the first and foremost indicator with which to gauge development and progress. It is, often enough, at least in the public view, equated with welfare itself. The GDP, undoubtedly, is the single most dominant hallmark of "success" in public debate and for policy makers worldwide.

Yet, critical voices argue, the method of calculating the GDP hardly justifies this position. As a raw measure of economic activity, the GDP does not distinguish between "cost and benefits, between productive and destructive activities or between sustainable and unsustainable" action (Cobb, Halstead & Rowe 1995). It also ignores many services and goods clearly beneficial and essential to society, such as volunteer work, family life, and services and goods provided by nature, simply because these often are not and, sometimes, cannot be exchanged on the market and, thus, have no market value. Yet, it is easy to understand that a monetary economy must depend on both social (social relationships, values, stability, etc.) and natural (clean water and air, natural habitats, resources, etc.) endowments if it is to be sustainable in the long run. Nonetheless, GDP accounting not only disregards social and environmental costs of activities in the monetary economy, it even values positively measures to counter negative environmental side effects (for a discussion in greater detail see Cobb, Halstead & Rowe 1995; Cobb & Daly 1994).

The standard way of calculating GDP is to add up the total market value of all "household and government consumption", "investments" by private enterprises, and "net exports" (imports subtracted from exports). Yet, when, for example, massive landslides caused by deforestation occur in some country, the rescue and clearing expenses, as well as repairs, all count positively toward GDP, as did the preceding sale of wood from the cleared forest on the international market. In this or similar cases, natural capital and the associated recovery

measures are positively counted not once, but often twice (in the above case in both government consumption and net exports). In this example GDP growth can hardly be regarded as an indicator of societal advancement because the expansion of the monetary economy measured in GDP is based on the destruction of environmental capital. If one follows the loose definition of sustainable development, adopted by the groundbreaking *Brundtland Report* in 1987, sustainable development is development that meets “the needs of the present without compromising the ability of future generations to meet their own needs” (WCED 1987). If successful economic growth is expected to meet such requirements, the dominance of GDP in the public debate seems misguided because GDP does not distinguish whether growth is based on environmental degradation or not. It is for this reason that some voices advocate the calculation of a Green GDP. Regardless of the practical difficulties involved, advocates emphatically argue that “[t]he benefits of nature are too important and too large to be ‘left off the table’” (Boyd 2007:717). This means one has to “put a price tag” on services and goods provided by nature, in order to be able to measure them in monetary terms. Arguably, this is the most controversial part of the exercise.

The first Chinese attempt for such a yearly Green GDP calculation “priced” nature in two different ways: 1) by the “virtual cost”, meaning the estimated cost of treating pollution (water, air and solid waste pollution) that occurred during the relevant year; 2) by the cost of “environmental degradation” and its effects (on public health, loss of agricultural production, etc.). The first Green GDP report for the year 2004, jointly sponsored by SEPA and the Chinese National Bureau of Statistics (NBS) and published in September 2006, concluded: Firstly, using the virtual cost approach, an economic loss of 287.4 billion CNY, standing for 1.8 percent of the national GDP for 2004, is estimated. This number is qualified by the authors as the absolute minimum damage. Secondly, employing the environmental degradation approach, the economic loss caused by pollution amounts to 511.8 billion CNY. This accounts for 3.05 percent of the Chinese total national GDP for 2004. Yet these numbers include only 10 of 20 pollution items originally planned for. Citing technical difficulties, the estimate also excludes costs of natural resource depletion (of land, minerals, forest, water and fishery resources) and costs of ecological damage. Both, however, should be an integral part of a Green national accounting system, according to SEPA vice-minister Pan Yue and the former head of the NBS Qiu Xiaohua. One can thus conclude that

the estimated environmental costs of around 2 to 3 percent of the total annual GDP, stemming only from industrial pollution, are a rather optimistic estimate. Even this, however, reduces Chinese growth figures around one fifth to one third every year and puts the Chinese "economic miracle" into a vastly different perspective¹ (CAEP 2006; SEPA & NBS 2006).

Environmental Protection under Cadre-Led Local Governance

Environmental protection is a classic common goods management problem. A healthy environment can be treated as a common good or common pool resource because nobody can be excluded from its usage (non-excludable). Because of this trait, common goods have a strong tendency to be overused. Since its usage by one person reduces its availability for others (hence, it is rivalrous), this over-usage creates undesirable outcomes for the collective (in the case of environmental over-usage these problems take the form of pollution, habitat destruction, repair costs, health costs etc.). There are many market and non-market solutions to this problem. However, all require a higher authority (usually the state) that enforces regulations or guarantees other local agreements to curb overexploitation. In the case of environmental protection, the state's function usually is to internalize environmental costs into the cost-benefit calculation of private enterprises through laws, regulations, fees, and penalties and, thus, prevent excessive exploitation of the common good. Therefore, the state should function as the guardian of the public long-term interest, which is, or rather ideally should be, sustainable development (for a discussion in greater detail see Cobb & Daly 1994; Ostrom 1990).

Yet, before we focus on specific characteristics of Chinese governance structures, it is important to note, no matter what form the political system takes, some form of antagonism between economic development and environmental protection is unavoidable – particularly so in the early stages of economic development. One of the factors often responsible for a lack of environmental concern is that (local) governments, particularly those in underdeveloped regions, strongly depend on tax income, which is levied from only very few industrial enterprises. This naturally leads to a conflict of interest on the side of the (local) executive, as it often does in China (Wang 2006). Furthermore, often it is

¹ The report published by the World Bank and SEPA, mentioned in part one, calculated Green GDP figures as well and comes to similar conclusions (WB & SEPA 2007).

not only the government, but a whole chain of local livelihoods that depend on income generated directly and indirectly on the production processes of a few polluting industries. Without “an alternative which can provide ‘cleaner’ livelihoods”, (van Rooij 2006:63) neither the government nor the citizenry have an interest in enforcing anti-pollution measures. Also, in the primary stages of industrialization, environmentally damaging industries might often be the only option available to initiate economic development. These obstacles to effectively limit environmental depletion are surely not unique to China and might, to a certain degree, be unavoidable. Yet, political variables can either aggravate or alleviate existing contradictions.

In 1978 the Chinese state recognized the need to protect environmental public goods from overexploitation with the adoption of article 26 of the Chinese constitution. It asserts that:

[t]he state protects and improves the environment in which people live and the ecological environment. It prevents and controls pollution and other public nuisances. (Translation from Wang 2006:161)

Since then, a growing body of environmental legislation under the Chinese Environmental Protection Law has evolved. Nevertheless, the deteriorating Chinese environment and available research on environmental law lead one to believe that Chinese environmental law “suffer[s] from a lack of proper adherence and enforcement” (Wang 2006). Overall, effective environmental protection in China remains “spotty” (Economy 2004:116). A reason often cited as the cause of this state of affairs, even in the Chinese state media (e.g. Xinhua 27.10.2006), is local protectionism or “protective umbrellas” (*difang baohu san*), from local governments who prefer short term growth over environmental protection.

But why do local governments act in this way? In order to understand why local officials often enough protect polluting enterprises and undermine environmental protection, a focus on law and its implementation might distract from the fact that China is a party-state, where “party authority consistently trumps law” (Whiting 2006:28). We must take into account that, at the local level, where environmental regulations are enforced, law and regulations belong to the category of least concern and are “routinely violated by local authorities” (Zhong 2003:139). While local protectionism has almost become a truism to explain various problems of the Chinese state, the reasons behind the behavior of local governments have received far less attention. Local official obedience or deviance, generally speaking, is “an outcome of choices made by individuals

acting within certain structurally provided confines" (Lü 2000:228). So what are the structures that motivate local governments, seemingly on a regular basis, to disregard environmental concerns or even obstruct environmental administration work?

The failure of effective environmental protection at the local level can be attributed to two possible causes. 1) The structural confines already present do not provide adequate restraints and incentives to make local officials act in accordance with the needs of environmental protection. This means the Chinese central state faces a "principal-agent dilemma", meaning that the agents on the ground capitalize on their information edge to act in their own interest (e.g. to earn illegal side income from enterprises that seek to evade paying pollution fees) instead of the principal's. The Chinese catchphrase *shang you zhengce, xia you duice* (above there are policies, below there are counter-policies) exemplifies this problem. 2) The structural confines basically work and control agents' behavior, but simply do not encourage local officials to act in the interest of environmental protection.

The basic governance structures of the Chinese state have, despite adjustments to deal with emerging problems during the reform process, essentially been preserved over nearly 30 years of reform. Unlike in the former Soviet Union, the Chinese central government never directly implemented policies through powerful ministries, but has instead delegated centrally-decided policies down to lower levels of the administrative hierarchy. The control mechanisms for implementation rely heavily on the hierarchy of the Chinese Communist Party (CCP), which coexists with the state at every level. The local governance structure is characterized by a power dominance of party committees and particularly of the local party secretary, who is primarily responsible to and monitored by the party apparatus. There are few "outside" checks and balances; local judiciaries remain tightly controlled by politics, and local people's congresses, although theoretically responsible for government supervision, "have [in reality] no real authority to act without the active support of the CCP" (Whiting 2006:9). Furthermore, pressure from the media is severely restricted since local media are under the control of local governments' propaganda offices, while national media can merely expose selected and severe cases of local governments' misbehavior. In addition, the official petition system, the so-called "letters and visits" (*xinfang*) offices, is only partly effective for citizens to complain about local cadres' behavior. Some local governments have developed highly skilled methods to obstruct complaints from

reaching higher levels and sometimes even harass locals that make it to Beijing to complain directly to the central government by hiring thugs specializing in these “services” (RFA 2007; Whiting 2006). It is important to note that local Environmental Protection Agencies (EPAs) also have few means to push for environmental protection if local leaders are unwilling. These problems stem from the fact that local EPA leaders, just like the leaders of other local governmental units, have lower administrative ranks than the party secretary. They are also dependant on local governments for funding and staffing (van Rooij 2006; Xinhua 27.10.2006). When, for example, as often seems to be the case, a county leader is, at the same time, heading the administration of industrial development parks, he is indeed able to guarantee firms a so-called “two no-contacts” (*liang ge ling jiechu*) policy; that means no contact (or interference from) the local population and responsible local supervisory government agencies (Xinhua 27.10.2006). Without all of these potentially balancing factors, the control of policy implementation indeed “is almost exclusively reserved for higher party authorities” (Zhong 2003:129). The main and decisive tool for controlling cadres’ performance is the CCP’s internal monitoring system.

The monitoring system for policy implementation in China has evolved from one that emphasized indoctrination and political reliance to a highly sophisticated system that combines clear and quantifiable performance targets with “monetary incentives and career jeopardizing punishments” (Zhong 2003:139). This scheme is combined with rigid cadre selection, regular training, and rotation criteria, all designed to choose and maintain “reliable and loyal cadres [...] , [which] take the interests of the center seriously, even when they are left unsupervised” (Whiting 2006:19). Within this “cadre responsibility system” (*gangwei zeren zhi*) leading cadres sign performance contracts with higher authorities and are personally held accountable for reaching the outlined targets. The contents of performance contracts are not primarily dependent on legislation, but rather on semi-formal initiatives, such as speeches by central leaders expressing the central government’s concerns, central policy circulars (*zhongyang wenjian*), etc. and specific local conditions. Yet, despite local variation, some elements of performance targets are priority nationwide: social and political order, family planning, and local economic development. These issues mostly belong to the so-called “critical or veto targets” (*yipiao foujue* or *fouding zhibiao*), meaning that underperformance in one area automatically leads to a negative overall evaluation with severe consequences for cadres’ careers (Edin 2003; Whiting

2006; Zhong 2003:139ff.).

Since the power of leading cadres is largely unchecked locally and, according to the principal-agent dilemma, local agents always have the information edge over principals, there is plenty of room for distortion, cheating, and abuse on the side of local agents (reason 1 above). A local cadre possesses ample means to "silence his critics and potential whistleblowers and to distort and resist policies handed down from above in his 'independent kingdom'" (Zhong 2003:187). It is, thus, safe to assume that "informal incentives" in the form of corruption by local entrepreneurs who seek to make undisturbed use of, and to cash in on, environmental capital, often enough contribute to local governments' tendency for environmental disregard.

Yet, can the widespread occurrence of local protectionism to cover up pollution and to avoid controls, environmental impact assessments or penalties be seen as a total failure on the part of the party dominated system of supervision? Some research findings cast doubt on this conclusion (see particularly Edin 2003; Whiting 2006). These authors argue that the system of supervision seems to work reasonably well for some central policy concerns, such as the goal to generate economic growth, and even for the extremely unpopular "One-Child Policy" (but compare recent developments in C.a., 4/2007:139ff.). These issues are, overall, implemented with remarkable success (O'Brien & Li 1999). The problem might rather be that "the system is good at doing some things but not others". That is, since the cadres' contract targets are focused on revenue generation/economic growth, as is reflected in the high importance of GDP figures, it is very hard to enforce other official policies which happen to be in "conflict with short-term economic growth and revenue generation" (both citations in Whiting 2006:7).

One might wonder, then, why it is not simply possible to change the performance targets and give environmental protection a greater weight, as has often been discussed but, up to now, has never been seriously implemented (*China Digital Times* 2007). Susan Whiting provides one possible answer: She points out that the most important positive incentive to elicit compliance and to resist the temptations of the market economy, hence, the "carrots" of the cadre management system in the form of "high-powered financial incentives", (Whiting 2006:5) are very much dependant on local tax-revenue generation and thus, local economic growth.² This, again, is partly due to the incentives

set by the Chinese fiscal system. While the responsibilities of and demands on local government are ever-growing, their fiscal resources are not sufficient. As of 2006, “all four sub-national levels of government combined were responsible for 45 percent of the national revenue total, but 72 percent of the expenditure” (Wang 2006 cited in Whiting 2006:13). Furthermore, there is evidence that the current system of one-party rule through largely unchecked cadre power and exclusively inner-party control mechanisms “cannot cope with more than a few state goals simultaneously, especially when those goals conflict” (Edin 2003:51). Yet, growth of the monetary economy and environmental protection unavoidably conflict at times – at least in the short-term. This suggests that the control and supervision system, which might function better than is often assumed, is actually intimately tied to environmental exploitation and discourages environmentally friendly cadre behavior (reason 2 above).

The Chinese local state that Jean Oi, referring to rural areas, once compared to a “multilevel corporation [...] [with every] level of government [...] [being] fiscally independent and [...] thus [being] expected to maximize its economic performance”, (Oi 1999:102) can hardly be expected to reduce its economic performance by internalizing the costs of environmental usage that otherwise would be cost-free. If this is true, then environmental degradation in China is severely aggravated by systemic political variables under cadre-led governance. This is probably not so much due to the party’s loss of control over its agents as to the fact that *the control system in place encourages environmental exploitation*. Generalizing conclusions that are valid for a country as regionally diverse and as large as China are always to be taken with a grain of salt. Yet, the fact that the cadre management system and party-led governance structure is in place all over the country, and that it seems to systematically discourage environmental protection by local officials, seems not only important for the understanding of the Chinese environmental crisis, but also for understanding the politics behind the Green GDP project.

² To realize the sums that bonuses can amount to, the example provided by Zhong (2003:140f.) is telling. He recounts a bonus of 30,000 CNY for a Jiangsu province village party secretary in 1998, provided for meeting the economic development criteria outlined in his performance contract; a sum that amounted to more than at least one year’s regular income. The reward was, however, not coming from higher authorities, but from the village budget itself, hence promising the cadre a share of the village income he was urged to increase. The similarity to incentives that business corporations use to motivate managers is striking.

Conclusion

Only when we understand the nexus of obstacles to environmental protection, grounded in the environmental neglect of standard GDP accounting and aggravated by the Chinese cadre-focused governance system, we can fully comprehend the political strategy behind the Green GDP project. We are also able to understand better why it has run into a political deadlock for the time being. Exploitation of Chinese natural resources is particularly rampant because local officials regularly disregard long-term sustainable development in favor of short-term economic growth. This behavior is most likely not only, or maybe not even primarily, induced by the central state's loss of control over its local agents. It is the local party-led governance system itself that systematically encourages local officials to exploit the environment for short-term tax-revenue and GDP growth.

If a Green GDP accounting system was implemented, it would serve as a quantifiable, "hard" measurement of how much environmental cost is caused by economic development, something that "traditional" GDP accounting cannot deliver. Leaders in Beijing, who regularly verbally commit themselves to environmental protection, would be encouraged to strengthen their efforts in practice. The Green GDP is also intended to influence public opinion. An easy-to-grasp display of economic gains vs. environmental costs is likely to enhance public environmental awareness. A third and crucial intended effect would be to directly influence cadres on the ground – as vice-minister Pan put it, to reverse "wrong ideas about officials' achievements" (BBC PF 8.9.2006). If Green GDP accounts would be calculated for provinces (as the non-published second report did), and lower localities, or even be included in the cadre political contract system, the local incentive structure would be altered in favor of environmental concerns and cadres' interests would be aligned more with long-term public interest. This might not entirely fix the system, since corruption, local dependence on tax-income, and livelihoods provided by polluters, etc. will not cease to exist. Also, opportunities for falsifying statistics would pose a continuing problem. However, with a full implementation of the Green GDP, environmental protection would rise to a significantly different status in the political process of the Chinese state. The political strategy behind the Green GDP project is thus tailored to tackle many obstacles to environmental protection under current political conditions.

Yet, it is probably because of this political baggage that the second Green GDP report was not published as scheduled last March and that the future of

the whole project is still uncertain. Claiming methodological immaturity of the Green GDP concept, as NBS director Xie did to justify his veto on publication of the Green GDP report, makes little sense when the NBS agrees at the same time to pass the report on to the state council for “policy making” (*Pingguo Ribao* 2007). Xie was more likely motivated by political concerns. “Some local governments [...] tried to put pressure” (AT, 1.8.07) on the authors not to publish the report, as Wang Jinnan, a senior researcher involved in the project, revealed. This was likely caused by the fact that the report calculated, for the first time, Green GDP reports for each province, making the achievements of some provincial leaders’ look far less remarkable. Hence, the new director of the NBS, a vice-ministry level department, who is lower in administrative rank than provincial heads, preferred to “push the responsibility [for the Green GDP report] on the state council” (*China Digital Times* 2007). However, this doesn’t mean that the overriding reason for the non-publication is resistance from local leaders, as the press has often reported. The key to these events is most likely to be found in the lack of support at the very top.

The above analysis of how Chinese local governance structures affect environmental protection substantiates this conclusion. It is obvious that without a serious overhaul of the cadre-led governance system, any efforts to significantly curb environmental exploitation are bound to fail. Employing the Green GDP as a “practical” measure of environmental cost without a serious governance reform would publicly and continuously contradict regular verbal commitments to more balance and “scientific development” by Chinese top leaders. It might even threaten the widespread and legitimacy-generating myth that the supposedly strong Chinese state is beset by “evil” local government officials who obstruct the benevolent central government’s policies (Li 2004), while in reality local governments’ (mis)behavior seems to be often induced by the very structure of the party state.

The cadre-led governance system has survived through all the years of reform and it is one of the main tools, if not *the* central pillar of CCP dominance over state and society. It is probably because the Green GDP project is revealing some fundamental problems in this system that it came to a political deadlock. This doesn’t mean it is impossible to design a one-party governance system that has strong enough incentives for local officials to take environmental costs seriously into account. It means, however, that this would certainly have to be a major reform, including large scale transfer of fiscal income and possibly some degree

of (at least more than presently) real checks and balances for local cadres. In other words, solving the root problem that the Green GDP project stirred up would require huge political effort that would probably need the backing or at least acceptance of the whole core CCP leadership circle. If this is to happen, then certainly it will not be before the 17th Party Congress this fall is over and leadership positions have been reshuffled.

The Green GDP project group is reported to still be working on its third report with ecologically revised GDP figures for 2006 (*Pingguo Ribao* 2007). Hence, the project has not yet been terminated altogether. But even though the project is said to enjoy the support of some high-profile leaders, the political tremor that it created might just as well be too strong for it to survive.

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