## CONTEMPORARY SOCIAL SCIENCES VOL.2

## ・当代社会科学・ 第2辑

主编 | 侯水平 Editor-in-Chief | Hou Shuiping

- Talent Dividend Effect and China's Continued Economic Growth
- An Economic and Sociological Investigation of China's Modernization Process in Urban Water Supply and Drainage: Taking Chengdu City as an Example
- Conceptual Reengineering on Administrative Accountability System
- Sichuan-Chongqing Region: A Strategic Fulcrum of "One Belt and One Road" and the Yangtze River Economic Belt





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#### 图书在版编目(CIP)数据

当代社会科学. 第2辑:英文/侯水平主编. 一成都: 四川人民出版社, 2015.12

ISBN 978-7-220-09722-5

I.①当… Ⅱ.①侯… Ⅲ.①社会科学-文集-英文 Ⅳ.①C53

中国版本图书馆CIP数据核字(2015)第299685号

### DANGDAI SHEHUIKEXUE

### 当代社会科学(第2辑)

侯水平 主编

特约编辑	马 丹		
责任编辑	韩波		
装帧设计	戴雨虹		
责任印制	李 剑 孔凌凌		
出版发行	四川人民出版社(成都市槐树街2号)		
网址	http://www.scpph.com		
E-mail	scrmcbs@sina.com		
新浪微博	@四川人民出版社		
发行部业务电话	(028) 86259624 86259453		
防盗版举报电话	(028) 86259624		
照排	四川胜翔数码印务设计有限公司		
印刷	四川华龙印务有限公司		
成品尺寸	210mm × 285mm		
印 张	11.25		
字 数	450千		
版次	2015年12月第1版		
印 次	2015年12月第1次		
书号	ISBN 978-7-220-09722-5		
定价	35.00元		

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	③ 四川人民出版社	
主办单位: 四川省社会科学I Hosts: Sichuan Academy o	1 Social Sciences	2015
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### Talent Dividend Effect and China's Continued Economic Growth

Chen Jing'an Wang Xueren\*

Abstract: The rapid growth in China's economy is partially due to the demographic dividend. However, there has been a slowdown in such an effect in recent years, which will bring adverse impacts on the sustainability of China's economic growth, thus deserving attention. In regard to this, we suggest that we shall be prepared early. For instance, we should enhance the quality of rural surplus labor force, increase the employment rate, train high-level leaders, and then accelerate talent management reforms. Through these ways, we can turn China's "demographic dividend" into "talent dividend", providing strong support for China's long-term and sustainable economic growth.

Keywords: demographic dividend, decline, talent dividend, China's economy, continued growth

#### 1. China's declining demographic dividend

Since the country started implementing various reforms, China has experienced rapid growth for more than three decades, which is a miracle in the world. Many studies state that such growth is, to a certain extent, owed to the demographic dividend effect. As Wang Xiaoqin points out,<sup>[1]</sup> China is at present benefitting from the demographic dividend, one of the most important factors leading to "China's economic miracle". The so-called "demographic dividend" refers to a country's high proportion of working population. The ensuing relatively huge work force and small dependent population form a "golden age" advantageous to economic development.

In her view, the "demographic dividend" has brought growth to China's economy in three ways. Firstly, the high rate of labor force brings massive labor input to the market. Secondly, the relatively small population of elderly citizens and children enables a higher saving rate. And thirdly, the large quantity of excessive labor has shifted from the agricultural sector, where the productivity is low, to the highly productive modern urban regions, filling job vacancies in cities. Moreover, research

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by Cai Fang indicates that,<sup>[2]</sup> of China's economic growth over the past 20 years, the population quantity and quality have accounted for 69%, whereas the physical capital and other factors (e.g. management competence) have contributed to only 31%. In China's real economy, the demographic dividend effect is most evident in that the country has made use of its comparative advantage of cheap and intensive labor to seize opportunities in the new round of economic globalization. By initiatively participating in the global production chain, China has grown to be one of the world's manufacturing powerhouses concentrated on "processing", and China's high savings for investment and strong exports have led to rapid growth in the country's economy. However, the country's demographic dividend will eventually come to an end. In fact, influenced by many factors, the effect of demographic dividend has shown signs of decline in recent years.

First of all, the growth rate of working-age population has begun falling. In 1973, China started its full implementation of family planning. And in 1980, the country officially enforced mandatory birth control, which means that the one-child policy for urban families was carried out simultaneously with the reform and opening up. In force for three decades, the policy has reduced China's population increase by more than 400 million, with birth rates falling rapidly nationwide. Relevant studies<sup>[3]</sup> have found that China's total population will reach its peak of 1.406 billion in 2030 and the working population around 923 million in 2020. The growth rate of the working-age population, on the other hand, will remain on the fall until 2013, when the labor population may stabilize and then gradually decline, meaning the "demographic dividend" will soon exhaust.

The second contributing phenomenon is "migrant workers shortage". In recent years, especially at the end of 2004, the coastal areas of China began to observe a shortage of migrant workers. This phenomenon then gradually spread to inland regions. Cai Fang believes that the phenomenon is basically due to the slowing growth of the working-age population, which showed signs of an end to infinite labor supply.<sup>[4]</sup> Based on overseas experiences, when major developed countries entered the "Lewisian Turning Point", their GDP per capita was between US\$ 300 and US\$ 500, and the ratio of agricultural labor to total labor decreased to 40%-50%. And workers' wages soared at the same time. However, in as early as 2003, China's GDP per capita already exceeded US\$ 1,000. Therefore, the transformation from "tide of migrant workers" to "shortage of migrant workers" must be one important sign of contracting demographic dividend effect.

The third phenomenon is the accelerated aging of the population, which refers to an increasingly larger proportion of elderly citizens. The direct reasons were decreased fertility and mortality rates, especially the former. The direct consequence of an aging population lies in a constantly increasing dependency rate. As the consumer population increases and the productive population decreases in proportions, the labor productivity will be seriously affected, hence making the "demographic dividend" naturally disappear. Certainly, an aging population is not unique to China. Nevertheless, compared with developed countries, this problem has emerged in China when the country's economy is still not fully developed yet. The so-called "aging before getting wealthy" means heavier social burdens. And unlike developed countries, China's pension scheme and medical system are relatively incomplete and are not fully supplementary to each other. At present, only a third of workers in China, most of them urban residents, are entitled to pension insurance. Therefore, overall social burdens will inevitably increase, with China's population continuing to age and the disappearance of the "demographic dividend" in the country, weakening the sustainability of the country's economic growth to a certain degree, unless we take effective countermeasures.

## 2. Necessity for China to shift from the demographic dividend effect to the talent dividend effect for continued economic growth

This paper suggests that, in order to achieve continued growth in China's economy, we need to be prepared in advance to realize the talent dividend effect, which needs to change our past dependence on the demographic dividend effect.

In the face of China's declining demographic dividend, American economist Harry S. Dent<sup>[5]</sup> (in his book, The Next Great Bubble Boom) asserts that China will fall into poverty after the "demographic dividend period" expires in 2020. Aside from that, a number of people<sup>[6]</sup> are expecting that, after enjoying the "demographic dividend" for an extended period, China will even lose such a source for economic growth in around 2013, with its "dependency ratio" stop falling downward. Of course, in theory, labor force growth is not the only factor affecting the trends of economic growth. It is a necessary rather than a sufficient condition for economic growth. Even in China, the labor force growth is converted into an additional source, i.e. the demographic dividend for economic growth, only under the precondition of integration into the global economy, relying on the development of labor-intensive manufacturing in the coastal areas. However, in view of China's current economic structure, the international circumstances and other factors, the declining effect of the demographic dividend will definitely have significant impacts on the sustainability of China's economic growth. First and foremost, China's economy is still highly externaloriented, with an external dependency rate of up to 70%, and the support for such an export-led growth model stems from the resource and labor-intensive industries with comparative advantages of low labor cost and so forth. Secondly, a number of emerging industrialized countries including India, Vietnam and Brazil are copying the development mode of China and vigorously attracting businesses and investment, in order to bring into play their own advantage of low-cost labor, which forms considerable competition with China. Thus, if China's demographic dividend effect declines or even disappears completely, the country's growth and competition pressures will inevitably become heavier and heavier. Furthermore, the weak momentum of economic growth will bring adverse impacts on employment, pension and other issues. Therefore, in our opinion, although the "demographic dividend" has not yet ended in China, as far as the long-term steady economic growth is concerned, we should still attach great importance to the adverse effects brought forth by the gradual decline or even disappearance of the "demographic dividend". By taking precautions and making preparations, we can actively switch, in terms of dependency, from the demographic dividend effect to the talent dividend effect, so as to make better use of China's huge population. As their differences, the "demographic dividend" refers to economic benefits brought forth by a large quantity of ordinary unskillful labor, while the "talent dividend" refers to such benefits brought by a large workforce of knowledgeable and skillful employees. While the two terms may sound similar, they reflect very different requirements for labor input. The "demographic dividend" only emphasizes the quantity, whereas the "talent dividend" puts more emphasis on the "quality" of the workforce. In the following, we will discuss the reasons in several aspects.

### (1) The modern growth theory and practice have fully proved that the quality of the labor force is superior to the quantity

From the perspective of growth factors, whereas classical growth theories in early days paid attention to the quantity of input elements, and new growth theories nowadays place more emphasis on the quality of such elements as well as the efficiency of element combination. An important contribution is expanding the definition of "labor" in the



Neoclassical Growth Model to cover human capital investment. This means manpower includes not only a country's absolute quantity of labor force and their average skill level, but also their education levels, production skills, cultivation of mutual cooperation, etc. (collectively referred to as "human capital"<sup>[7]</sup>). The theory holds that the human capital plays a greater role than the physical capital in terms of economic growth. Human capital investment is proportional to the national income and grows faster than material resources. According to the human capital theory, human resources, one of the three key elements of productivity, refer to manpower resources with different degrees of technical knowledge. Labor force with a high degree of technical knowledge can bring forth an output significantly higher than that by a technically unknowledgeable workforce, and technical capability can be cultivated through investment in education. In practice, developed countries have significantly demonstrated that the accumulation and increase of human capital contributes much more to economic growth and social development compared with the increase in physical capital and labor force quantity.

### (2) Under its reform and opening up, China needs to improve its comparative advantage of human resource elements

Although the labor force growth has reached the peak while the new increase in workforce population appears to have declined, China's overall workforce

Enhancing manpower quality is the key to China's economic transformation and upgrades



is still considerably huge in respect of the absolute quantity. The basic fact that China has a large labor force means the nation must make efforts on the issue of "population", especially under the circumstances of the decreased or even negative growth of the new working population. To consolidate the advantages in element conditions, we have to improve the labor force quality. By improving the quality of labor and the skills of the workforce, we may avoid being trapped into the same-level competition with India or other nations with a large population, so as to promote economic growth and simultaneously to win time for industrial upgrades and transformation.

### (3) A shortage of talents rather than resources constitutes the challenge for China's continued economic growth

Currently, there is a debate at home and abroad<sup>[8]</sup> that China's economic mode of high proportion of export and investment has led to heavy reliance on energy and raw materials. Therefore, the scarcity and the low utilization efficiency of energies and raw materials supply will constitute constraints on China's economic growth, which will thus make it difficult for China to achieve high-speed growth. However, the above view is questionable. As some scholars<sup>[9]</sup> have pointed out, historically speaking, no emerging industrialized countries have been interrupted in rapid growth simply because of insufficient supplies of energies or raw materials. For instance, Japan is in lack of energies, but even the outbreak of the world oil crisis did not hinder its soaring economy. And China's energy and raw material supplies are much better than Japan's. Therefore, it is indeed doubtful that energies and resources are the bottleneck of sustainable growth in China. Besides, capital elements will not become a factor restricting China's sustainable economic growth either, in view of the present situation of active international capital flows, large domestic savings as well as relatively strong desires to save. In fact, compared with the economic structure and

the growth mechanism of developed countries, the real challenges facing China's sustainable economic growth shall result from talents and technologies. Technologies are, to a great extent, reflected in and dependent on the hierarchy and level of talents. Therefore, talents, especially a large number of talents with high skills and innovation abilities, will be the key to China's sustainable economic growth. In particular, along with the decline of the demographic dividend effect and the increase of labor costs, China's comparative advantages in the traditional labor-intensive industries will be gradually reduced or even eliminated, which will then lead to a series of chain reactions such as export decline, decreased employment, investment contraction and even economic recession. The latest international financial crisis in 2007 has to a certain degree exposed the fragility of the economic structure of China. Hence, from the perspective of long-term growth, we cannot blindly depend on short-term stimulus to cope with the threat of economic recession. Instead, we must specifically overcome the "challenge", i.e. the unreasonable labor structure, shifting the focus from the "quantity" to the "quality" of the labor force.

### (4) Enhancing manpower quality is the key to China's economic transformation and upgrades

From international experiences, for any nation or region with a large population, insufficient capital and scarce lands, its industrial structure has to evolve from resource and labor concentration to capital and technology intensification. However, such transformation is not easy. According to expert research,<sup>[10]</sup> the industrialized stage led by laborintensive industries lasted 110 years in the U.S. and 80 years in Japan. Based on the actual conditions in China, despite the particularly large population, the country will certainly undergo quite a long period of industrialization mainly driven by laborintensive industries, and the source of international competitiveness will still exist in labor-intensive industries or those with greater use of the labor force. This, however, is not contradictory to the requirement for necessary transformation and upgrading of China's economy. In fact, labor-intensive industries prospering since China's commencement of reform and opening up have, to a great extent, benefited from the rise of international processing trade, which, in essence, is the result of the industry shifts by developed countries, as well as the development of intra-industry and intra-company trades around the globe. As the characteristic of processing trade, production elements with the lowest technical contents, added values and profits are outsourced to countries and regions with the advantage of cheap labor, under the dominance of developed countries, which on their part enjoy great superiority in the distribution. Though those subcontract areas benefit from employment opportunities and certain technological spillovers, they also have to pay such costs as resource overexploitation, environmental pollution, etc. Apparently, the above growth mode is not suitable for long-term sustainability. The bearing on resources and the environment aside, the rise of China's labor costs has become a challenge to the competitive advantage of China's traditional laborintensive industries in recent years.

Industrial upgrade and transformation are inseparable from the support by the human resources with appropriate quality and competence. The stimulus by talents to the upgrade of industrial structure is mainly realized through the following three functional mechanisms, i.e., accelerating the enhancement of traditional industries, promoting the emergence of new industries and driving the concentration of pillar industries, all via the role of talents.<sup>[11]</sup> Firstly, talents will directly promote innovations in technology, management and culture by their own intelligence, so as to effectively upgrade traditional industries to a higher end. Secondly, with their knowledge, technologies and patents, talents are able to attract capital, projects, labor and other high quality manpower to work together, so as to promote rapid industry rise. Thirdly, talent



agglomeration has great "external" effects. With the aid of knowledge spillover effect, the agglomeration of talents helps further stimulate new thinking and form a strong innovative atmosphere. As a result, it will help further attract more talents and inspire greater innovation. The competition and economic advantages of developed countries are exactly based on their talent and technical advantages.

Therefore, reducing the talent gap and improving the level and quality of labor force should be the basic national tasks in order to promote the smooth economic transition, to improve labor productivity and to meet the arrival of an aging population.

In summary, with China's demographic dividend effect gradually decaying, it is a right choice to replace it with the "talent dividend" for the sake of continuing the miracle of China's economic growth. Such a transformation is not only necessary, but also addresses the following two aspects. Firstly, with the declining "population dividend effect", adverse impacts such as rising labor costs, decreased international competitiveness of industries and so forth will become increasingly significant. Secondly, the "demographic window of opportunity" for China will remain open for a certain period within the transitional environment, which deserves cherishing and proper utilization. Such a shift is urgent and requires us to pay attention and prepare in advance.

### 3. Countermeasures and proposals for China to acquire the talent dividend effect

It is not impossible for China to transform from a "populous nation" to "a nation with great talents". Much data shows that China has the potential advantages and favorable conditions for the development of "talent dividend".<sup>[12]</sup> At present, people aged 15 or above in China enjoy over 8.5 years of free education, one year more than the world's average. The free education period of new workers even extends to 11 years. Of the total population, China has more than 70 million people with the



Talent dividend refers to economic benefits brought by a large workforce of knowledgeable and skillful employees.

university degree or above, ranking the second in the world. The country also has a far greater number of employees with junior middle school education or above, compared with the world's average.

The aggregate quantity of China's national science and technology human resources has surpassed that of the United States. But we shall also see that, before we can get real "talent dividend effect" through effectively transforming our population edge into talent and economic advantages, there are still many problems and difficulties to overcome, such as the brain-drain of high-level talents, the double restrictions by both inadequate talent development and talent misallocation, the inadequate system and mechanism of talent development and utilization, the inherent and acquired defects of the talent market, as well as the outdated and inert concept and management of talents. In general, the qualities of China's population are in great need of improvement in terms of health, science and morality, since they have become main factors affecting the national competitiveness and new industrialization.<sup>[13]</sup> Accordingly, we recommend the following measures to accelerate transformation and to promote sustainable economic growth.

(1) Improving the quality of rural labor force and promoting the corresponding workforce flows in rural areas. From the distribution of working-age population, the vast majority of China's "demographic dividend" lies in rural areas, which, with their abundant labor resources, are one main source for China's "talent dividend" in future. However, not many such resources have been transformed into the real labor.<sup>[14]</sup> Therefore, in the long run, we shall fully develop the working-age population in such areas,<sup>[15]</sup> especially turning surplus labor force in rural areas into skillful and quality labor.

(2) Attaching importance to and resolving "employment difficulties", especially for college students. As in sharp contrast to the phenomena of "shortage of migrant workers", there is also the issue of "employment difficulties" in China. In particular, in recent years there are many university graduates finding it hard to land a job. Such a dilemma has wasted the enormous inputs in talent cultivation, reduced China's revenue from the demographic dividend and delayed the acquisition of "talent dividend".

(3) Vigorously training and importing highlevel leaders and creative talents. We must truthfully cherish talents by means of policies and actions, encouraging the return of talents from overseas. On the other hand, we shall also increase investment in the development and full utilization of domestic highlevel talents, so as to create a favorable environment and soil for outstanding people to excel.

(4) Accelerating the personnel work reform to improve the overall talent efficiency. For this purpose, we need to emancipate the mind, to improve systems for education and talent cultivation, and to implement quality education. Besides, we should improve the mechanisms of talent selection and utilization, strengthening talents' participation in government work and other political affairs. Last but not least, we should develop special zones and implement special policies for talents,<sup>[16]</sup> so as to closely keep up with social development in terms of talent management.

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### Conceptual Reengineering on Administrative Accountability System

Zheng Tai'an\*

Abstract: Great innovation needs to be guided by new concepts and theories. However, as an innovative system generated in China, administrative accountability lacks the support of systematic and advanced concepts, so the question of which direction it will take awaits to be answered. From the perspective of scientific and sustainable development, we should consider the following three aspects for the intrinsic concepts of administrative accountability: firstly, reengineering from administration according to law to the mutual penetration of administration according to law and legal administration; secondly, reengineering from the intrinsic values of law to the mutual concern of intrinsic values of law and form values of law; and thirdly, reengineering from power restriction to the interaction of power restriction, right restriction and responsibility restriction.

Keywords: administration, accountability system, conceptual reengineering

Every great innovation needs to be guided by new concepts and theories. Any innovation of a system is pioneered by ideological innovation. Physical and tangible innovation in the world is merely the externalization of ideological innovation. Meanwhile, any innovation of a system needs to be guided by theories, so it is unimaginable to expect the success of an innovation without the support of theories.<sup>[1]</sup> This is similar to China's socialist revolution needing to be guided by advanced theories. However, as an innovative system generated in China, administrative accountability lacks the support of systematic and advanced concepts. Consequently, the question of which direction it will take awaits to be answered. Innovation exhibits the phased transition of systems, but governmental officials simply take innovation as an expedient and tool to make partial adjustments to the original systems. In other words, administrative accountability is characterized by strong utilitarianism, instrumentality and random variability. Consequently, the gap between system design objective and social expectation shows that there is lots of perplexity during the implementation of administrative accountability system, which also reflects the lack of integration of theory and practice. Therefore, from the perspective of scientific and sustainable development,

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we urgently need to further consider and reengineer the intrinsic concepts of administrative accountability system.

### 1. Reengineering from administration according to law to the mutual penetration of administration according to law and legal administration

The idea of rule of law originated from the democratic and legal system of Deng Xiaoping theory. Jiang Zemin mentioned, on several occasions, that rule of law is an important part of Deng Xiaoping theory, in which the democratic and legal system occupies an important position. In the concrete discussion, Deng Xiaoping did not directly use the concept of rule of law but used "strengthen legal system," "improve legal systems" or "strengthen socialist legal system"; he just mentioned "governing by law" only once.<sup>[2]</sup> The last article in *Selected* Works of Deng Xiaoping (Volume III) is his South Talks, which Mr. Deng gave in 1992. He still used the term "legal system" when referring to legal problems. In other words, "We would rely on the legal system, and the legal system would be more reliable."<sup>[3]</sup> In this aspect, although Deng Xiaoping's democratic and legal system already included the basic contents and ideas of rule of law, he did not specifically name it in his articles.

As a key guideline of the Communist Party and China (CPC), the concept of rule of law was proposed by Jiang Zemin according to Deng Xaioping's democratic and legal idea, based on the summarization of practical experience, following the international and domestic social development trend, and pooling the wisdom of the party and the Chinese people. The concept of rule of law was first advanced on February 8, 1996, by Jiang Zemin at the Third Democratic and Legal Lecture for Central Leaders, which was held by the CPC Central Committee. He pointed out in his important speech,



As an innovative system generated in China, administrative accountability lacks the support of systematic and advanced concepts, so the question of which direction it will take awaits to be answered.

titled "To Implement Rule of Law and Safeguard the Country's Long-Lasting Political Stability", "We must implement and adhere to rule of law in order to enable the country's various works to gradually move on along the road of legislation and standardization. That is, under the leadership of the CPC, the Chinese people participate in the management of the country, the economic and cultural cause, and social affairs via various channels and in various forms. according to the Constitution and laws; and the country must gradually realize a sound legal system and the legalization of socialist democracy." In the 15<sup>th</sup> CPC National Congress report, Jiang Zemin took the rule of law as a basic strategy for the governance of the country; he further changed "a country with an adequate legal system" into "a country under the rule of law." Thus, "to govern the country according to law" and "rule of law" were first written into the Party's guiding documents.

As a significant part of the rule-of-law idea, administration according to law is also an important channel and form to implement rule of law. The essential feature of administration according to law is that the formation and operation of administrative power should be governed by law. The country divides the state powers, thus emphasizing the superiority of legislative power over administrative power; the source of administrative laws is statute law; and legislation is based on safeguarding the people's rights and freedoms. Therefore, the country should regulate the administrative power in a



comprehensive manner, and emphasize the priority, superiority and supremacy of law. Administration according to law is developed as a form of relation between administration and law. The elementary form of the relation between administration and law is to utilize laws to administer affairs, and its essential feature is that the laws are governed by royalty, monarchy or imperial power. In this form, the administrative laws are subordinated to the despot, and generally superior to law. Legislation is based on royal or imperial power; the basic contents of administrative laws are intended to rule, restrict or regulate the act of subjects; and administrative laws have obvious willfulness and horizontal tendency. Therefore, laws are realized and guaranteed by the top-down supervisory mechanism.

Given that legal administration is a mature form of relation between administration and law, its essential feature is that administration is governed by good laws. The country continuously adjusts the structure of the state power to ensure reasonable allocation of administrative power and legislative power. Legal administration emphasizes the uniformity of substantive rationality and formal rationality, attaching great importance to rule by good laws. It also overcomes the idea of passive administration and realizes a rational, positive administration. Thus administration according to law, reasonable administration and responsible administration are organically unified. Responsible administration runs throughout the administrative process, achieving dynamic combination of inner responsibility, process responsibility and consequential responsibility. Legal administration emphasizes the diversity of values and concerns regarding the balance among varied interests. The concept further enriches the administrative law methodology and emphasizes the effectiveness and civilization of administrative law methodology. It also fully reflects the moralization of rule of law and the legalization of morality in the administrative process. So, under this concept we establish a comprehensive and profound supervisory network to realize rule of administrative law.

In summary, the relation between administration and law advances in a gradual but uneven manner. That means, not all components advance side by side. Classifications of administration by utilization of laws, administration according to law and legal administration are endowed with the nature of formal logic and dialectical logic. From the perspective of formal logic, in the case of administration by

We must implement and adhere to rule of law in order to enable the country's various works to gradually move on along the road of legislation and standardization.



utilization of laws, power is superior to law; in the case of administration according to law, law is superior to power; in the case of legal administration, law and power are interactive and promoted mutually. From the perspective of dialectical logic, things tend to develop by following the rule of "negation of negation"; development is a transformation toward the opposite; the relation between administration and law advances from administration by utilization of laws to administration according to law and further to legal administration, thus coinciding with the development of dialectical logic.

It should be mentioned that a country needs a fairly long historical process to establish any of the three patterns of governance: administration by utilization of laws, administration according to law and legal administration. Moreover, certain lowerlevel features will probably exist for a long time, even when the higher-level type has emerged and become predominant. However, some features of the higherlevel type probably have emerged ahead of time when the lower-level type is in dominant position. Consequently, since administration according to law is predominant nowadays, we should highly emphasize and analyze the individual phenomenon and causes of administration by utilization of law and then study countermeasures to overcome the problems. In the meantime, we should have the strategic thinking and vision of the world, change ideas to advance with the times, and establish new ideas in the process of administration and accountability according to law. We should always be concerned about the injection of factors and ideas of legal administration and focus on the quantitative accumulation and reconstruction of the rule-of-law concept.

### 2. Reengineering from the intrinsic values of law to the mutual concern of intrinsic values of law and form values of law

People throughout the ages have made

numerous descriptions about the intrinsic values of law: "The spirit of laws and human relationships are in fact combined. We may not follow human feelings by violating the spirit of laws, nor should we observe the spirit of laws by disregarding human feelings. To seek a balance between the two, we should not violate the spirit of laws nor should we disregard human feelings, otherwise we will go on a mistakable way";<sup>[4]</sup> "Public affairs should be handled by officials according to justice and laws";<sup>[5]</sup> "Our ancestors made laws in consideration of feelings, justice and other factors. If the laws disregard feelings and violate justice, the laws cannot be passed down to later generations"; <sup>[6]</sup> "As political affairs must be based on the customs, the statute must be based on human feelings. It would be improper governance if the affairs are not handled according to the customs; likewise, a law which is not based on human feelings is not a good law"; <sup>[7]</sup>"If the superiors' act is consistent with justice, people would follow it even no order has been made; if the superiors' act is in violation of justice, people would not follow it even they are punished".<sup>[8]</sup> Though the "human feelings" or " justice" mentioned above is limited by the times, such words reflect our ancestors' expectations regarding the values of law. It can be inferred that laws in ancient times would not have a foothold if they failed to reflect the needs of the subjects, needless to say the contemporary society. The value orientation of current laws focuses more on the fusion and unification of intrinsic values and instrumental values of law.

The interaction of law, good faith and morality is also the optimization and integration of moral legalization and legal moralization. Good faith is not only a principle of morality but also a principle of law. As a principle of morality, good faith marks a "degree" among the parties and between the parties and social interests, so the legitimacy of law is continuously verified with the development

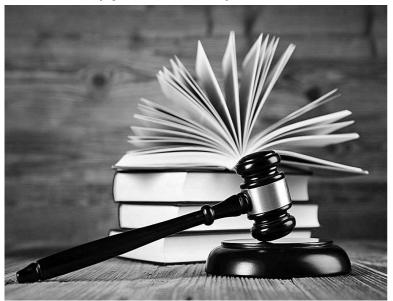


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of society. As the basic principle of civil law and commercial law, good faith is embodied in a concrete legal system. However, as the moral feature is weakened, the legal feature becomes prominent, which is concretely manifested as the solidification and refinement from moral good faith to covenant good faith, subjective good faith to objective good faith and personality good faith to system good faith. At the same time, good faith shows the internalization and promotion from system good faith to personality good faith, objective good faith to subjective good faith and covenant good faith to moral good faith. The transformation forms a virtuous circle in the process of advancing wave upon wave and rising in a spiral. In other words, we should understand moral institutionalization in a higher and wider sense. Moral institutionalization should be replaced by the justification of system to enable morality to operate in a legal system or other social systems.

Administrative accountability is a new thing in China. It exerts higher requirements on the administrative accountability subjects, administrative counterparts and administrative environment, endowing the connotation and extension of the intrinsic values of law with

Legal good faith has unique and powerful aims and functions of keeping benefit balance for different parties



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the characteristics of new times. In terms of administrative accountability, cooperation is the external form and internal need of the intrinsic values of law. Cooperation is based on moral good faith, which is a guarantee for the parties to seek fair benefits through cooperation. Without moral good faith, the parties will lose balance in the cooperative-interest relation, and consequently one party's rights and interests will be affected or prejudiced. Therefore, moral good faith is not the ultimate goal that people pursue. Instead, it is the criterion used to adjust people's cooperative relation. It requires people to do two things well: one, words should be true so that people can send clear, real messages to others and the administrative counterparts can make right and beneficial choices based on those messages. Two, promise should be abided by and obligation should be carried out so as to satisfy the counterpart's interests. Generally, if the parties can meet the two requirements, the cooperation is fair and the interest relation is balanced. Thus the basic role of moral good faith is to require the parties to respect and maintain the interests of their counterparts and guarantee that both parties can obtain deserved interests by cooperation. However, on some occasions, for instance, change of situation, the parties fulfill their moral good faith but their mutual interests cannot be balanced. Under such circumstances, the parties' interests shall be readjusted and the promises cannot be mechanically emphasized. As a result, it is not enough to emphasize moral good faith because it cannot inevitably realize balance of parties' interests. Moral balance is just a method, the purpose of which is to realize the interest balance. What should actually be emphasized is maintenance of interest balance of all parties. This reflects excellence of legal good faith over moral good faith. Legal good faith grasps something more fundamental, more critical. Consequently, it has surpassed moral