Governance is the next issue to tackle on the development path of the People’s Republic of China. Further adapting institutions and the functioning of the state to an increasingly market-oriented economy is crucial to maintain economic dynamism. Governance reform is also fundamental to address emerging strains related to rising inequalities and environmental deterioration.

During the past two decades, China has taken important steps to reform its state: it has started to adapt its tax system to market mechanisms, designed a budgeting process and laid bases for a modern civil service. But various governance weaknesses still persist, such as fragmentation of authority and co-ordination problems. Corruption continues to be a widespread problem, undermining public action and affecting the efficiency of market allocation. Although China has adopted new sets of regulations close to international standards in various areas such as intellectual property rights, the enforcement of these regulations remains a major issue.

This report goes beyond the general statement that governance matters. It shows how, in practice, governance impacts on public action by looking at different policy sectors, such as agriculture, higher education, labour market and social protection, foreign investment, environment protection, collection of statistics, protection of intellectual property rights, banking and tax collection. The study also takes stock of the progress made in public management and public finance and explores policy options for the future. Further redefining the role of the state, modernising public management, adjusting the relations between levels of government and consolidating the institutional framework for market forces are four directions in which reform efforts should be pursued.
6. Conclusions

China’s rapid change since the beginning of the transition process is not only visible in the flourishing private sector enterprises and the radical renewal of its urban landscapes: it can also be seen in the transformation of its institutions. Over the past 25 years Chinese leaders have taken measures to adapt the role of government and public administration to an increasingly market-driven economy. The administrative, productive and social service functions previously folded into a structure of closely linked organisations have been dispatched to different public and private organisations. SOEs have been separated from the public administration and new regulatory bodies have been set up. Chinese leaders have laid bases for modern tax, budget and civil service systems. China has also taken steps toward a system based on the rule of law, and has embarked on an ambitious regulatory reform programme.

Progress in governance was achieved in a relatively short period of time and has contributed in a crucial manner to sustain China’s high growth rate. Such achievements are all the more commendable since the size of China renders reforms difficult by requiring longer chains of command and by multiplying the sources of potential problems.

In his Report on the Work of Government to the 10th National People’s Congress (National People’s Congress, 2005), Prime Minister Wen Jiabao stressed three objectives for the government’s 2005 work plan: continuing to ensure steady and rapid economic development; pressing ahead with economic restructuring and opening up; and developing social undertakings and building a harmonious society. In the last part of this Report, the Prime Minister highlights a fourth objective, that of improving “the government’s capacity and style of work”. This study fully confirms the importance of reform efforts aiming at reforming government institutions. But it goes further in two respects.

First, it shifts the focus from government to governance. This implies thinking about government, its role and mode of functioning in relation to non-government actors. For instance, the discussion on the problem of regulation enforcement led to stress the importance of public participation in policy-making and in the implementation process. It also implies paying particular attention to the relations between ministries and non-core public bodies such as regulatory bodies and public service units, and to relations across levels of government.

Second, this study has shown the interdependence of the different objectives set in the 2005 Government Report. Indeed, organisational problems, fiscal imbalances, managerial weaknesses, loose accountability structures and inadequate participation mechanisms affect the efficiency and effectiveness of public action in all policy sectors. Improving governance is a necessary pre-condition for the design and implementation of the policies that will be necessary to sustain economic growth and to address existing sources of tensions (fiscal pressure, social tensions linked to inequalities, corruption and environmental deterioration, etc.).

The analysis conducted in the framework of the China Governance Project identified four overall directions along which China should sustain reform efforts to improve its system of governance.

The fundamental issue, underpinning many of the challenges facing China today, is the redefinition of the role of state. This question precedes that of the sustainability of public expenditures and of efficiency of public action. It is the context for reforms affecting organisational structures, public service units and the civil service. Much has been
achieved but, overall, the state needs to do much less directly and to focus its efforts on areas where markets cannot accomplish national objectives. The main recommended lines of action include: i) increasing public expenditure in education, health and science and technology; ii) consolidating the institutional framework of the newly created SASAC and of other regulatory bodies; iii) redefining the role of the state in the delivery of services provided by public service units, increasing the performance of PSUs and consolidating their accountability relationships with government authorities; and iv) rationalising the administrative organisational structure and improving co-ordination.

The on-going modernisation of governing tools needs to be sustained. This is crucial if the system of governance is to be further adapted to a market-driven economy and to improve the efficiency and effectiveness with which public resources are used. The experience of OECD member countries has shown that the systemic links between these tools requires a co-ordinated approach. The main recommended lines of action include: i) further shifting from control to regulatory governance, simplifying the administrative approval system and better ensuring the application and enforcement of regulations; ii) consolidating budgeting process in view of using it as a strategic governance tool; iii) improving the quality of the civil service; iv) pursuing efforts of administrative simplification, using new technologies to improve overall public management; and v) sustaining anti-corruption efforts, complementing policies based on investigation and sanction with a preventive approach. Part of the solution to the problem of policy enforcement noted in several chapters lies in strengthening the associated administrative and judicial enforcement bodies, and adjusting relations between levels of government. But the focus should not stop there. Regulatory governance implies a paradigm shift in which application and enforcement of regulations are based primarily on voluntary compliance. The deterrent effect of possible sanctions is only one element which contributes to create attitudes of voluntary compliance. Other elements are the quality of the regulation and of the regulatory process, sound public management processes, streamlined administrative procedures, adequate resources and overall access to information and public participation.

Adjusting the relations between levels of government is equally important. Devising means to ensure that local governments act in accordance with national objectives, and with resources corresponding to their responsibilities, is a major governance challenge. The main recommended lines of action include: i) improving co-ordination between the central and local levels; and ii) bolstering this with a new framework of fiscal relationships across levels of government.

Finally, further steps should be taken to consolidate the institutional framework for market forces. High growth will be necessary to meet social development objectives. Fixing the institutional framework for market forces is necessary to facilitate technological upgrading and further market integration. The main recommended lines of action include: i) supporting the enforcement of labour policies; ii) revising the social insurance system with a view of actual mobility patterns in the labour market; iii) further reforming the tax system to provide a level playing field to all actors; iv) adopting a competition law; v) strengthening the enforcement of intellectual property rights; and vi) improving corporate governance structures of listed companies, SOEs and banks. A sound competition policy approach would facilitate progress on many of these fronts.
Governance reforms, in China as everywhere else, happen incrementally, when favourable political circumstances coincide with technical capacity. On all the identified governance weaknesses, China will need to ensure that it has the technical know-how to proceed as and when the circumstances allow. Although the overall Chinese context remains very different from that of OECD member countries, much can be learned from these countries’ reform experience. For instance, OECD member countries have also experienced the need to adjust for too much devolution to the local level or to arm’s-length agencies, and have looked for means to consolidate accountability while increasing flexibility and performance. Through extended exchanges with OECD practitioners and experts, China could draw lessons on various technical aspects of the system of governance as well as on implementation strategies. A comparative and critical review of the experiences of different OECD member countries allows for understanding the conditions necessary for a governance reform to produce the wished results. Therefore, if this study has identified the governance challenges facing China, it is also a summary of the areas in which China would benefit from increased exchanges with OECD member countries.

Notes
1. The synthesis was written by Irène Hors, Public Sector Management and Performance Division, Directorate for Public Governance and Territorial Development, OECD, with the help of Charles Pigott, Consultant, and research assistance by Isabelle Gras, Consultant. It draws on all the chapters of this study and benefited from comments from authors of the different chapters.
2. See Annex 0.A1.
3. See Annex 0.A2 for an overview of the Chinese political system.
4. The Armed Forces employed 2.5 million people in 2002.
5. The domestic fault lines such as looming social instability as well as examples of weak governance capability of ruling parties abroad and inner-Party problems in fact also made the Communist Party of China (CPC) put its own governance capability on the agenda for the first time. In September 2004, the Fourth Plenary Session of the Sixteenth Central Committee of the CPC adopted a 36-page Decision on the Enhancement of the Party’s Governance Capability. The document defines the Party’s governance capability as its ability “to put forth correct theories, guidelines, principles, policies and tactics, lead in the formulation and enforcement of the Constitution and laws, adopt a scientific system and mode of leadership, mobilize and organize the people to manage state and social affairs, economic and cultural undertakings according to law, effectively run the Party, the state and the military, and build a modernized socialist country”. According to the Decision, the CPC aims at improving the effectiveness of its governance by strengthening leader’s capabilities; co-ordinating interests of different social groups; introducing institutional mechanisms to ensure leaders take into account the interests of the people, including private investors; changing decision-making mechanisms from top-down to bottom-up and by governing according to law.
6. Groups of 30-40 households (remnants of production teams of the collective era), often de facto collective owners of land.
Bibliography


