

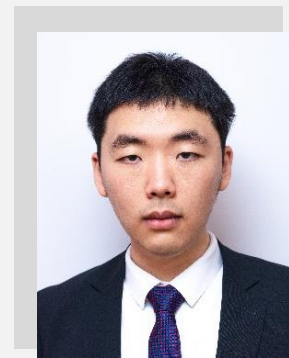
Student blog posts in the context of
“Sustainable, resilient, and inclusive
societies beyond COVID-19”

China going full speed ahead into institutional reform from the pandemic—why and how

Zihao Liu

May 2022

“Pandemic reemphasizes the need for efficient and accountable government to deliver services to preserve social resilience. The need for such a government is also recognized for a fair and accessible market to enable private players’ participation in diverse businesses to enhance economic resilience. As both needs are not sufficiently addressed in China, targeted efforts are critical in institutional reform, capacity development, new system design, and international experience utilization.”



What are the problems?

‘Inflexibility’ has long been a critical problem with the Chinese government. Its strong inertia of action due to [governance fragmentation](#) is particularly problematic in the aftermath of the pandemic and exacerbates difficulties. The crippled [autonomous action at its base](#) due to inflexibility and [asymmetric centralization in duties and rights](#) caused an unsatisfactory performance in pandemic control at its early stages.

The Chinese government is also aware of the problem. It has been pushing hard to ‘simplify procedures and release the power,’ improve duty reallocation, and create direct feedback channels. Its reform efforts aim to give local governments and other local interest groups more autonomy and communicate real-world practices to government bureaucrats. The Chinese government also continues to resort to ‘High-Quality Growth’ (HQG) as its guiding principle to address challenges to seek public benefits during the pandemic and into the future while maintaining government credibility and social stability.

However, bringing the reform to the next stage in line with HQG should be difficult for two reasons.

The first is governmental accountability and performance. HQG doesn’t come cheap. GDP used to be an overwhelmingly important performance indicator. But HQG focusing

on comprehensive social benefits would be much more advanced than the monotonic evaluation and require accountability and broad-based performance evaluation.

China's centralized fiscal system with decentralized service delivery mechanisms would likely create insufficient resource allocation with local governments. Local governments have long lacked the authorization to raise sufficient funds symmetric to the assigned duties. At the same time, the central-local transfer system is also not efficient. Examples include off-budget financing for unsustainable development projects, balancing the budget to compromise service quality, and difficulties in delivering services efficiently and equally to local people. Local governments' reliance on improper financing tools creates unsustainable debt, which adds to [the already significantly high debt levels](#).

The second is market access and competition. The '[Negative List for Market Access](#)' is a critical hindrance to the liberalized market. Although the objective is claimed to 'regulate all market entities' on market access, the list mainly forbids the private sector to participate in certain businesses. The 'approved entities' are mostly SOEs and certain private businesses with established connections with the government.

Obviously, the list is anti-competitive. Monopolies or, at best, oligopolies are naturally established, both of which are often detrimental to the market. This is mainly a concern. [Overwhelmingly strong SOEs can intervene in the central government decision-making](#), and SOEs that offer private products and services rely on government funding to secure their existence. In contrast, real private businesses cannot even join the business operations.

Yes, the list does have benefits. But even with continuous amendment, it is still too significant a constraint overall. It intends to ensure that the state controls certain production, transactions, and services. Still, it is becoming increasingly detrimental under economic pressure caused by COVID-19 and long-standing geopolitical tension. Besides, this list can also create barriers to '[dual-circulation with focus on domestic big circulation](#),' in which the Chinese Communist Party (CCP) emphasizes the domestic economy while keeping international trade.

Both aspects will trigger far-reaching repercussions against corruption and collusion—the notorious 'by-products' of the Chinese economic miracle that the entire Chinese society is highly concerned about. For example, the newer evaluation scheme will likely discourage corruption between government and companies, as pointed out in [Chinese land auctions](#). In the meantime, market liberalization and more vigorous competition could also remove the basis of collusion since local officials will not have the final say on market access. Thus, it is foreseeable that bringing changes down to locals is also a new round of resource and power struggles. In contrast, the good-old-fashioned 'trailblazing, carpetbagging, and rejecting' strategies are very likely to be re-used by local governments and interest groups to resist such changes.

What is the next step?

Fortunately, the Chinese central government is willing to make changes. Thus, Asian Development Bank (ADB) was requested to provide [technical assistance](#) (TA) on institutional reform for China's National Development and Reform Commission (NDRC).

For efficiency and accountability, a more texturized definition of the exact obligations of different levels of government and their powers should be in place. Operational efficiency and capacity development should ensure equal and high-quality service delivery. International experiences should be referred to where applicable to develop performance monitoring systems.

Enhanced accountability requires an overhaul of governmental bodies to address inefficiency and constraints in the public administration architecture. Resistance to change should be reduced through awareness-raising among officials. Financial sustainability should also be addressed with applicable regulations.

For market access, financial services could serve as a pilot industry to explore a new market access scheme. [International experience in unified market access will also be discussed and introduced.](#) Public-Private Partnership (PPP) schemes should be cautiously designed to bridge the public and private sectors, minimize the possibility of renegotiation and implementation difficulties, and, most importantly, avoid project failure with a consequent financial burden on the local government itself.

Considering the vast risk and uncertainties, the decisions and efforts should be made very cautiously. Both sides will cooperate closely to design and implement the best practices to benefit Chinese society. ADB will support NDRC with proof and suggestions derived from ADB's knowledge, experience, and portfolio for NDRC's efforts in pilot cities and industries. It can provide NDRC with policy suggestions in the eventual reform process.

Due to the tremendous complexity of the issue and limited transparency in the Chinese government, ADB's TA project and NDRC's institutional reform efforts may not be as successful as envisioned. But remember, 'A journey of a thousand miles begins with a single step.' It is now precisely the right moment for China to take a renewed reform step and move towards a resilient, sustainable, and inclusive post-pandemic future.

About the author

Zihao Liu is a first-year doctoral student at The University of Tokyo's Graduate School of Engineering (Department of Electrical Engineering and Information Systems), specializing in ultimately-scaled semiconductor nanoelectronics. He participated in Global Leadership Program for Social Design and Management (GSDM) 2.0. His academic interests are semiconductor engineering and the use of technology advancement for social benefits.

This blog post is deliverables in the context of the International Field Workshop in August 2021 and represents the author's personal views on the subject. The author benefited from a rich and insightful discussion with Mr. Hans Van Rijn, Principal Public Management Specialist, East Asia Department of ADB, at the virtual meeting on August 10, 2021. The author sincerely thanks Mr. Rijn for dedicating his time to the Field Workshop members with his precious insights.