

## Decentralisation, Transformation and the Drive to Sustain Local Government – China and Selected ASEAN Countries\*

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*“Heaven is high, and the Emperor is far away”  
(tian gao huang di yuan)*

(A Chinese Proverb)

### Introduction

Historical evidence shows that many Southeast Asian countries inherited from their colonial masters systems of government that tended to be centralised. The colonial empires depended upon the superiority of firepower to survive. Of necessity they had to be tightly knit and controllable from the centre. After independence, these countries still preferred to remain centralised. Centralisation was the logical consequence of the desire for natural unity and nation-building. Centralisation of power led to the imposition of rules and regulations even to the local government. Centralisation remains the framework of governance.

However, with the rise in population, declining service standards and quality of life, changing political dynamics and global economic volatility, these have precipitated a movement for more public participation and better governance. In other words, there is an impetus for change and a need for a paradigm shift in the administration of the nation. It calls for a re-look into the traditional rule-bound and bureaucratic oriented process of governance. But moving towards a system that is more flexible and open can only be possible with national transformation and reform of an unprecedented scale. The impact of such a transformation will have implications on the relationship between levels of governments, issues of centralisation-decentralisation and good governance. Obviously, any set-back to central-state-local governments' relations will affect the central government's ability to steer the process of economic growth and transformation of the nation. In this context, the paper probes into the phenomenon of decentralisation which remains the framework of governance and emerging re-centralisation. Amidst, this paradox of political and administrative transformation, local government stands as the link-pin to assess changes in the dynamics of relations between levels of government and its sustainability.

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The culture and evolution of history of a nation can significantly influence its political system and the way a country manages its government. However, external factors may also affect and change the way the country relates and deals with its society, economics and politics.

Domestic issues and external influences have often provided the impetus for transformation and reforms in administration and governance. The country's rate of economic growth, its natural resources, human assets, globalisation and foreign trade will combine and determine the extent of transformation and shift in intergovernmental relations. It is hoped that by embracing these reforms the country will be able to improve its domestic performance (service delivery, good governance) and enhance its global competitiveness. In essence, reforms within the country will arguably challenge the central government as it critically steers the nation to achieve the objectives of transformation. Central government will not only play the vital role of formulating and implementing but it has to adjust itself to changing circumstances which also involves assessing its relationship with its sub-national governments. Decentralisation thereby evolves as politics and economics spark changes in many nations and central governments re-look the dynamics of their relationship with state and local governments. This issue will be discussed by reviewing inter-governmental relations in selected ASEAN countries and China.

### **China's Call**

China continues till this day to be a country that displays decentralisation of administration while adhering to a policy of political centralisation. The notion of political reform is not new in China's history although it perceives the term 'political structural reform' as more appropriate. Since the 1970s, China had embarked on a process of structural reforms under the leadership of Deng Xiaoping's politics of modernization, but it has emphasised its differing opinion of the western concept of political reforms leading to change in political parties and hence the leadership. China's Communist Party leadership has never accepted this notion of rotation of party rule (it considered this as Western style democracy). Hence, its process of reforms have been structural and based on the concept of socialist modernization (Yiu-chung Wong, 2010). Evidently, it marked the importance of 'the Party, the army and the people....to work with one mind and one heart, enhance political stability and unity.....and make China a modern, powerful socialist country....'(Zhonggong zhongyang wenxian yanjiushi (ed.) 1987, p. 5.).

When Mao Zedong was still alive the Chinese Communist Party (CCP) governed China and exercised tight political control over the provincial and local governments as well. With a one party rule, centralisation was at its peak and it was possible for Mao to give and take powers from local government when he saw fit. It was only after the death of Mao in 1976 and with the advent of Deng into the economic scene that China moved gradually toward a market-based economy and with some semblance of relaxation of economic reins from the central government (Goh, 5 March, 1996; Swift, 2004). The drive towards economic growth started with the 'special economic zones' in the industrial cities of eastern China which brought forth economic success and a new breed of entrepreneurs (Zhou, 2010). Following the process of economic reform and restructuring of state owned enterprises, there was a movement away from central control of businesses to employee ownership of enterprises

especially in the provincial and local levels thus sowing the seeds of decentralisation (Swift, 2004). This process of decentralisation was an indirect result of China's rapid economic growth and its transformation from an insular economy to a highly open one. It realised that to encourage further economic growth more authority had to be delegated to the lower levels to carry out policies quickly and efficiently with less control from the central government. At the same time, these lower level governments, especially the provincial governments being less inclined to central control are able to improvise and negotiate massive business deals and economic projects. The idea was to encourage growth by delegating more authority to the lower levels and this was China's progression into administrative decentralisation. China still adheres to a one party system and political centralisation, but rapid economic development meant China had little alternative but to decentralise.

As a consequence, since China began its economic expansion that led to its astronomical growth, it is the local governments that have played an instrumental role in this (Zhou, 2010). It is emphasised that decentralisation was not formally planned in China but was an unplanned outcome of its economic policies. By the late 1970s China started promoting free enterprise, embraced globalisation and loosened central control (Zhou, 2010). Foreign investment and economic growth was fast expanding in many of these industrialised municipalities and provinces and when China became a member of the World Trade Organisation in 2001 it had to be officially more open in carrying out trade activities. Ultimately, it is the local government that will need to fulfil this task of executing economic policies at the local level to foster greater growth while simultaneously managing local affairs. With the rising importance of local government, and the central government relying on local government to carry out its economic policies at the lower levels, the relationship between local and central has to take on a more meaningful system of power distribution.

Notwithstanding, everyone is constantly reminded that (a)China is centralised politically and (b)the CCP will not allow itself to lose grip on power throughout the country. As long as this status quo is not challenged in any way, and local government adheres to the politics and policies of the CCP, local government is given ample autonomy to act as a relatively independent power to promote the progress of economic growth at its locality (UNESCAP). With the rapidly increasing rate of economic growth and development in China, local governments in China will have a greater share over administration and economic management, enhancing the concept of administrative decentralisation while maintaining political centralisation at the central level.

**Table 1: GDP (%) in Selected Countries (2006 – 2010)**

Year	China	Cambodia	Lao PDR	Malaysia	Vietnam
2006*	11.6	10.8	8.1	5.8	8.2
2007*	13.0	10.2	7.9	6.3	8.5
2008*	9.0	5.2	7.5	4.6	6.1
2009^	9.1	-2.7	7.5	-1.7	5.3
2010^	10.3	6.0	7.7	7.2	6.8

Sources: \*World Bank Indicators, 2009, ^UNCTAD.

### **Decentralisation Orientation: Country Perspective**

For many countries neighbouring China, for instance Malaysia, Cambodia, Lao PDR and Vietnam, their governments are also experiencing political, economic and social transformation although in different dimensions. In most instances, their lower tier governments, specifically the local governments have often been tasked to make good on the promises of the central government to the citizens. Obviously, central-local government relations may be strained within the parameters of decentralisation, and in this process, re-centralisation may emerge due to divergence in political beliefs and behaviour between the different tiers of government.

#### **Malaysia**

For instance, in Malaysia, the changes that have taken place in local government to render it more responsive to begin with was administrative but later became politicised after the 2008 general elections in the country. [(This election was held on 8 March, 2008 and yielded one of the worst results for the ruling coalition party which also did not win the necessary two-thirds majority in the Malaysian Parliament. This was required in order to pass amendments to the Malaysian Constitution. Five states were also won by the opposition party). (Wikipedia/Malaysian general elections)]. Malaysian local government too is managed in a central-state-local relationship, where local government is a state matter under the national Constitution (Federal Constitution, 2011). However, Section 95A (1) of the Constitution states that, “there shall be a National Council for Local Government” (NCLG) and 95A (5) emphasises that, “it shall be the duty of the NCLG to formulate from time to time.....a national policy for the promotion, development and control of local government throughout the Federation and for the administration of any laws relating thereto....” (Federal Constitution, 2011). Coupled with the fact that Section 75 of the Federal Constitution states that if any state law is inconsistent with the federal law, the federal law shall prevail, clearly demonstrates the nature of relationship that Malaysian local government has with the central government.

Since the 2008 elections, some states are now controlled by a political party different from the party in control of the central government. This situation has compelled the central government to re-examine its relations with the state and local governments. Indeed, the 2008 general elections have contributed to current sentiments in inter-governmental relations and raised concerns about local autonomy and decentralisation in Malaysia. Previously with central and state governments belonging to the same political party, some elements of decentralisation especially administrative decentralisation was present (Phang, 2011). The federal government allowed the state governments to deal with issues of its own local government, for instance, appointment of its Council President, approval of funding for development projects, and disbursement of financial grants to the local authorities from the federal government. However, current developments in federal-state matters indicate sentiment towards re-centralisation. An issue that is testing the relations between central-state-local is the attempt by some state governments to carry out local elections. With local government elections being abolished in the mid 1970s, local councillors are now appointed by the chief minister of each state government for a period of 1-3 years (Malaysia, Local Government Act, 1976). The local authorities in the two states of Selangor and Penang are under the control of a political party which is different from the federal government. These two states are trying to re-introduce local government elections. However, the federal government has disagreed and is reverting to Section 95A of the federal constitution as the basis of its right to refuse to change the law and allow local elections.

In Malaysia local government depends on the support of higher levels of governments to fulfil its obligations to the public and to be seen to be carrying out their services and functions. This requires some form of decentralisation and autonomy to the lower tier governments to perform their activities to the standard required. There should not be a dilution of local autonomy because of differences in party affiliation between central and state governments. The code of power-sharing should be adhered to and as far as possible the process of devolution should remain to allow local government to deliver from a position of strength rather than from weakness. Decentralisation should not be compromised which can significantly influence the performance of local government and affect economic growth. Malaysian local government needs the support of the central government and some powers to carry out its functions yet it must not be seen to be outperforming the central government. Accelerating economic growth and productivity are necessary for the Malaysian government to achieve its economic transformation objectives and the central government realises that this is only achievable with the cooperation of lower tier governments regardless of their political affiliation. In Malaysia the central government faces a crucial dilemma in that continuous decentralisation may lead to the erosion of its powers vis-a-vis the lower tier governments. Current political events provide little avenue for local government to be transformed to a totally decentralised tier; or hope of more autonomy. Re-centralisation rather than decentralisation appears to be the trend in Malaysia and it is apparent that local government's sustainability depends more on politics rather than economics.

While the traditional relevance and position of local government in Malaysia remains, federal government's approach to it requires re-orientation in line with the needs for increased decentralisation rather than re-centralisation. Perhaps, this is one of the

intriguing paradoxes of globalization generating a new interest in relationship between society and governments whereby when society flourishes; there is a weakening of state institutions at the national levels (Stren, 2001).

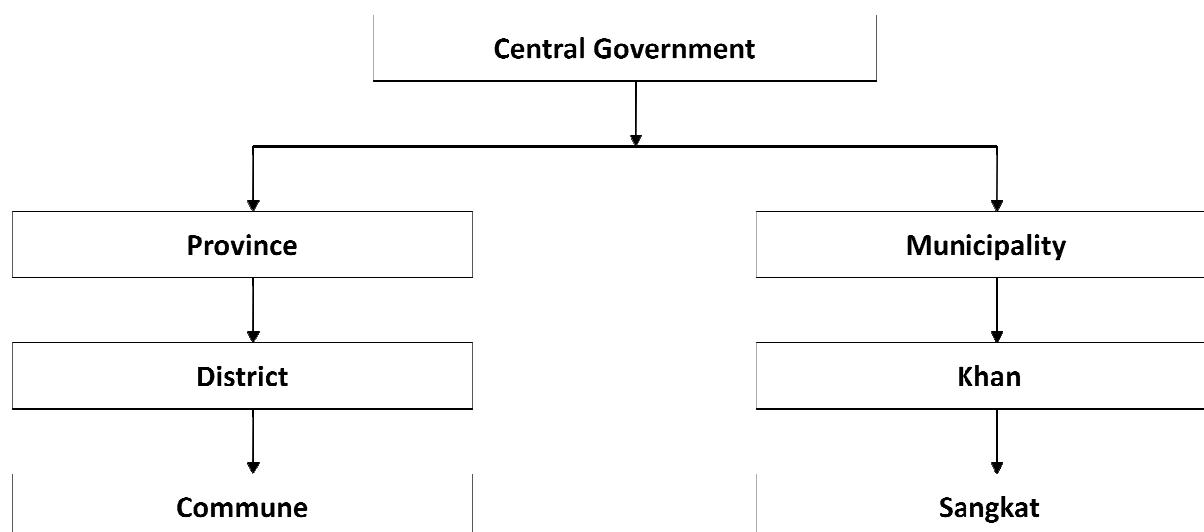
### **Lao PDR**

Elements of decentralization in practice have been observed in some other ASEAN nations. In Lao PDR, a country with a small population of around 6.5 million compared to China, 1.3 billion and Malaysia, 28.7 million (the-world-factbook, July 2011), started minor reforms in 1980 for socio-economic transformation which were an attempt at decentralizing the autonomy of the central leadership. In 1986 some structural and economic reforms were initiated where administrative decentralisation occurred but within the scope of controls on wages, production targets and private activities (St. John, 2006). Other reforms were also carried out that influenced the role of the state notably in revenue raising and civil service administration which became less inclined towards party politics pressures (Reyes, 1998). The Asian financial crisis did affect to a certain extent the Lao economy which inadvertently influenced the state's efforts in decentralization as the central government began to grapple with increasing financial and human resource constraints at both the central and local levels. To prevent further deterioration of the Lao economy, the central government began re-centralising most major functions and finances and the central government brought in interventionist policies and single party rule. Today, with improving macroeconomic conditions, (Table 1 shows, Lao PDR's GDP averaging 7.7%), the process of decentralisation and transferring of responsibilities to local government via a new budget law is again carried out. The Lao experience suggests that there are limits to decentralisation when the nation's economy is weakening and centralisation is legitimized to prevent bankruptcy.

### **Cambodia**

Cambodia, with a population of 14.7 million (the-world-factbook, July 2011) has a four-tier government comprising the Central Government, Province and Municipality, District and Khan, Communes and Sangkats as shown in Figure below.

**Figure 1: Levels of Government, Cambodia**



Source: Ministry of Interior, Cambodia, 2007.

Authority flows downwards where each level of government is responsible for the tier of government below it. The issue of finance clearly demonstrates this process of control. The ability of each level of government to carry out its functions depends upon the financial allocation provided it by that level of government directly above it. For instance, the expenditures of the Communes and Sangkats are confined to the ability of the provincial government to collect revenue and subsequently allocated to them. The central government provides an equalisation grant to the provincial government which is mostly insufficient; requiring the lower tiers of government to ensure efficient revenue collection. In 2001, the Commune/Sangkat Council Election was re-enacted and local elections were reintroduced in 2002 under the Commune Administration Law. The return of local election reignited the decentralisation process, and the local communities were able to decide on their own development activities and even sourced for their own revenue including collecting local taxes. Local government in Cambodia is a legal entity with respect to development and financial matters and can even obtain grants and loans by international donor and financial agencies (Ministry of Interior, Cambodia).

In reality the central government still maintains a semblance of control over local government because it still provides the bulk of revenue to local government and retains the right to tax. Even for implementation of development projects, the bulk of resources come from the central government. This is due mostly to local government's lack of professional and skilled manpower, underdeveloped land allocation and registration system plus poor collection of property tax. At the same time, local development plans must concur with the national plans of the central government (Phang, et al, 2009).

In Cambodia's case, elements of decentralisation can be observed with respect to financial de-concentration and sharing of administrative authority where lower tier governments can perform functions and activities relevant to their own communities. The country as a whole

is still developing and there is little choice but for the lower tier governments to depend upon the central government for support. (As Table 1 shows, Cambodia's GDP was growing by double digits until 2008 when it declined to 5.2% and -2.7% in 2009). In the same manner, the central government too needs to work closely with the lower tier government in an effort to implement development projects for the betterment of the nation as a whole. Thus with Cambodia, the observation is that central-local government relations is interdependent as the concern is the country's growth and economic wealth; decentralisation becomes a by-product of this process.

## Vietnam

The position in Vietnam is such that its local governments are considered de-concentrated agents of the central government and do not possess constitutionally mandated resources, responsibilities and legal status. As a unitary state with a centrally planned economy its central-local government relations reflect China's position where decentralisation is expressed in administrative terms. With a population of close to 90.5 million (the-world-factbook, July 2011), it has three different administrative levels; Provincial and Centrally administered cities, District and Communes as shown in Table 2.

**Table 2: Local Government, Vietnam**

Level	Type
Provincial/Centrally administered Cities	
District	<ul style="list-style-type: none"> <li>• Urban district</li> <li>• Cities belong to provinces</li> <li>• Provincial township</li> <li>• Rural district</li> </ul>
Communal	<ul style="list-style-type: none"> <li>• Commune</li> <li>• Ward</li> <li>• District township</li> </ul>

Source: Ministry of Home Affairs, Vietnam, (2007).

The primary responsibilities of local government in Vietnam are to provide education, health care and welfare services as well as to undertake development projects such as road and public building construction, irrigation works and maintenance. It is responsible for allocating and managing land matters and collecting central government taxes (Phang, et al, 2009).



As a centrally planned communist state, the Communist Party's branches are spread out to the local government units. Each level of local government has a People's Council, People's committee and branches of the Communist Party (CP) where laws and policies of the central government are filtered down to be implemented by these central agencies. Central government control is paramount whereby a higher level administrative unit has the authority to overrule the actions and decisions of the administrative unit below it. According to the "Law on State Budget", each local administrative unit has an independent budget and it can collect its own revenues. Generally, this is insufficient and central government still provides the main source of finance and the distribution ratio among various local government units. The quantum and distribution is decided by the Standing Committee of the National Assembly of Vietnam.

Since the end of the Vietnam War and the late 1990's efforts in economic reforms (*doi moi*), Vietnam has experienced rapid economic growth and development. With continuing economic growth it is inevitable that outlying government units have to be involved and this has spurred progress in central-local relations. Sub-national governments especially the Provinces are increasingly given more administrative powers to carry out their functions and less subject to expenditure controls. Although there is delegation of responsibilities to local governments, however, Vietnam remains a one-party state with a centrally driven system. Similarly as in China's situation, Vietnam's central government's option is to allow some elements of local autonomy and to work closely with its local units to expand the nation's services and infrastructure. Vietnam's progress in intergovernmental relations and decentralisation may be uneven, but since the Vietnam War, the country has moved forward economically.

### **Observation and Conclusion**

Despite some of these nations sharing similar experiences in their route to decentralisation, there are some differences in the outcomes. Comparatively, Malaysia's decentralisation process in the form of devolution can be deemed to have a long tradition with regular local elections. Subsequently, local elections were abolished and the privatisation of many of its functions and continual reliance on federal government for financial aids has circumvented decentralisation and diluted the powers of the lower tier governments. The 2008 general elections exposed the fragility of inter-governmental relations in Malaysia and changed the status-quo of central-state relations. Politics and political factors thwarted the progress of decentralisation in Malaysia which reverted to re-centralisation. This is a significant outcome considering that the other nations discussed thus far are effectively building a framework for decentralisation although none of them have a formal decentralisation policy. Although considered less developed than Malaysia, Lao PDR, Vietnam and Cambodia have some form of local elections; even China with a long history of central control has allowed elections of its village officials.

Today, Asia has been identified as a region where the next phase of economic growth and trade activities will occur. These countries have all experienced increasing productivity especially China followed closely by Vietnam and in the process have undertaken public sector reforms. Due to the region's rapid growth, it is inevitable that these countries have

begun to 'open-up' and economic transformation necessitates cooperation of all levels of government and even handing more powers to sub-national governments as experienced by China. Indeed, Vietnam and Cambodia appear to be following China's pattern of transformation where decentralisation in the form of de-concentration has been established. On the other hand, Lao PDR, due to the country's weak economy and political instability, decentralisation was clearly not an option and the central government had no choice but to assume powers again.

Overall, Malaysia appears to be the only country whose decentralisation process is based on a constitutional basis with a set of laws and clearly defines its sub-national governments as devolved units of administration. For the rest, de-concentration seems to be the framework for operating decentralisation. In Malaysia due to political consequences there is continuous erosion of local government autonomy that signals the emergence of more central control. Meanwhile, China and Vietnam with a centrally controlled and planned system appears to be moving towards greater autonomy for their sub-national governments. Cambodia with a constitutional monarchy is progressing towards the early stages of decentralisation, albeit modestly due to its recent emergence from a period of civil war.

Observation of China and Vietnam indicates that rapid economic growth appears to be the driving force for decentralisation enabling local government to have more autonomy. This progress in decentralisation takes the form of administrative decentralisation rather than political decentralisation. China and Vietnam are also countries of great size compared to Lao PDR, Cambodia and Malaysia which makes central control difficult. As economic growth increases and the country opens up progressively, some degree of decentralisation becomes inevitable. In China's situation decentralisation was essentially a by-product of economic transformation (Smoke, 2003) and similarly in Vietnam where economic prosperity has loosened central control over its sub-national government.

The countries of Lao PDR, Cambodia and Vietnam have experienced periods of political instability and wars which have influenced the present type of regime and government. In Vietnam, the Vietnam War devastated Vietnam's economy; Cambodia experienced extremes with the Khmer Rouge and a civil war and Lao PDR faced internal security threat from resistance groups. These countries are presently experimenting with free market economies and foreign trade with China, which is the world's second largest economy today. China's economic progress and development will be closely monitored by the ASEAN nations because of its impact on their own market economy.

A persistent trend among these nations is the tendency for central governments to control their sub-national governments (political centralisation), whether in the case of a democracy and multi-party system like Malaysia or single party system in China. The power of control lies in central government's grip on resources, lucrative financial sources and human capital. The consolation for sub-national governments is that rapid economic growth and increasing wealth of the nation supports better central-local government relations and administrative decentralisation. Putting aside politics, so long as there is economic prosperity and need to open-up the country, there is hope that local government will be sustained for the continued development and growth of the nation. This will also be in line with the need for good governance which emphasises strengthening local government as an important part of democratisation.

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