

# *Local Public Services Provision in China – An Institutional Analysis*

*Lisheng Dong*<sup>\*</sup>

*Qun Cui*<sup>\*\*</sup>

*Tom Christensen*<sup>\*\*\*</sup>

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The article reviews the institutional change of local public service provision in China. The emphasis is placed on the characteristics and reasons of the evolution process. The first part presents the characteristics and changes of local public service provision in five periods. The second part analyses public service provision through structural-instrumental, cultural, and environmental perspectives. The third part explores whether China has experienced “pendulum-type” movements like some European countries.

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<sup>\*</sup> Professor Lisheng Dong, Marie Curie Research Professor of the School of Political and Social Sciences, University of Glasgow, United Kingdom (gostujući profesor Fakulteta političkih i društvenih znanosti, Sveučilište Glasgow, Ujedinjeno Kraljevstvo, e-mail: lsdong1955@yahoo.com)

<sup>\*\*</sup> Qun Cui, Chinese Academy of Social Sciences, Beijing, China (Kineska akademija društvenih znanosti, Peking, Kina, e-mail: matilda\_leon@163.com)

<sup>\*\*\*</sup> Professor Tom Christensen, Faculty of Social Sciences, Department of Political Science, University of Oslo, Norway (profesor Fakulteta društvenih znanosti, Odsjek za političke znanosti, Sveučilište u Oslu, Norveška, e-mail: tom.christensen@stv.uio.no)

The institutional change of local public service in China is incremental. Although it shows some convergence with the trend of certain European countries, it retains special features.

*Keywords:* China, local public service, institutional change, remunicipalization

## 1. Introduction

In China, both state capacity and administrative professionalization have increased. Simultaneously, a tremendous economic development has taken place, reflected in an average GDP growth of 9.8 per cent per year for two decades until 2010. However, it is undeniable that prosperity has not spread across the whole society and some undesirable consequences have emerged, such as inadequate healthcare, unaffordable housing, the disparities between education in rural and urban areas, etc. For the Chinese Communist Party (CCP) and government the biggest challenge in the present-day China is to provide good governance and handle the challenging consequences of economic reforms (Saich, 2011). Who will face these challenges and address them?

“All Chinese politics is local” – it is often said (Zhou et al., 2007). The four levels of local governments in China (provincial, prefectural, county, and municipal) are involved in providing public services. Sub-provincial levels have considerable expenditure responsibilities; which makes China somewhat special in comparative perspective, and this is especially true at the county and municipal levels (World Bank, 2002). Therefore, it is necessary to focus on China’s public service provision at the local level, which is the main theme of this paper.

The key concepts of public service and remunicipalisation need to be clarified here. Although the terminology of public services differs from country to country, to make the comparative research more feasible, public utilities (water, energy, public transport) as well as the provision of social services (elder care, social housing etc.) and health services have been selected for analysis in this paper. Remunicipalization refers to the “reverse” process when functionally privatized (“outsourced”) functions and services are turned back into public/municipal operation or materially privatised assets are “purchased back” and returned to public/municipal ownership, be it entirely or partially (Wollmann, 2013). This new trend

has emerged in some European countries and generated considerable interest among researchers.

## 2. Changing Local Public Services Provision

### 2.1. Maoist Era: Cellular Structure and Self-Reliance (1949–1978)

There is a general perception that up until 1978 the Chinese system had performed well in terms of providing basic public goods and services (Sach, 2008), since it achieved universal and equal availability of public service (Yu, 2014). It is a good example of sustaining social development through public expenditure at low-income levels (Dreze, Sen, 1989). Although most scholars held the consensus that it was an egalitarian government taking care of the whole public service system (allocation system; Yu, 2014), it seems, however, that there were two distinctive features: localism instead of unified and centralized system, and a self-reliant system not entirely financed by the state.

The cellular structure existed in the local public service provision system based on the urban workplace (*danwei*) and rural communes. *Danwei* is a generic term denoting the Chinese socialist workplace and the specific range of practices that it embodies (Bary, 2005). Each work unit functioned as a self-sufficient “welfare society” within which an individual received employment and income protection, and enjoyed heavily subsidized benefits and services such as housing, food, education, recreation, child care, and social security benefits for sickness, maternity, work injury, invalidity and death, and old age (Leung, 1994). The commune system experienced an evolvement from mutual-aid group, an elementary cooperative, to an advanced cooperative system. The peasants were locked in a rural bondage of tight control, low productivity and bare subsistence (Selden, 1993) and got the most basic services from the collective group. Therefore, it would be correct to say that the job assignment, the distribution of grain, and other necessities were unified and central, but the provision of local public service was cellular and place-specific.

Self-reliance (*zi li geng sheng*), the primary principle for providing public services, demanded the lower level organizations to develop capacity in accordance with their own resources with minimal dependence on higher levels. This situation was same with what happened in the economy

area, when Mao promoted the principle of self-reliance, which essentially implied the establishment of a comprehensive, independent economic system not only at the national, but also at the regional and local levels, even down to the level of the communal and the individual enterprise (Chai, 2011). Since local governments could not control the revenue and expenditure of the local public services, municipalities in this period were operators without much financial support and state aid was limited to places too poor to carry out their duties.

*Public Utilities.* For cities, government had a top-down and state-centric approach to transport management. The transportation projects were financed mainly by the central state budget. Other tasks besides finance, including design, construction, operation, and management, were assigned to 100% state-owned enterprises (SOEs; Mu et al., 2011). For the countryside, those local entities, production brigades and communes, were responsible for mobilizing financial and human resources for public projects including water conservancy facilities such as ditches, irrigation channels and reservoirs, local roads, and buses.

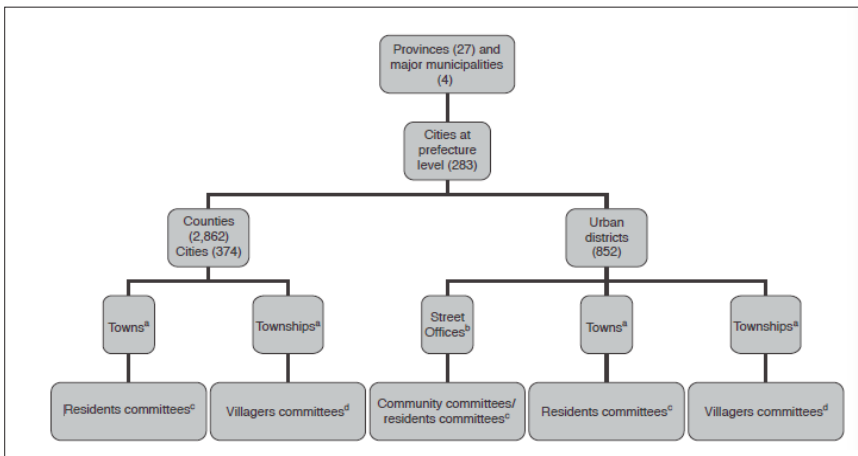
*Social Services.* Related to elderly care, for the privileged group and office employees, the state was responsible for financing pensions by determining the rates and then enterprises remitted three per cent of their payrolls as contributions to an enterprise pension fund (Frazier, 2004), which was collected by the trade union. For the village residents, as an alternative way of the absence of state responsibility, care for the seniors had been the sole responsibility of the family. Related to housing, the allocation system in the old-style public housing provision involved two stages: the state allocated public rental housing to work units, then the work units distributed the housing to individual households (Yang, Chen, 2014).

## 2.2. Opening up and Reform: Municipalisation Followed by Immature Marketization (1978–2001)

In the post-1978 era, state and collective institutions in rural and urban China that had previously carried much of the welfare burden, discarded many of their responsibilities and policymakers struggled to devise new policies and institutions to provide welfare services (Saich, 2008). Local public services provision in this stage had three distinctive features. First, the responsibility for social welfare was transferred from the workplaces to local governments and street offices. China operated a supply-side approach to policymaking in providing public services. The central govern-

ment set public policy goals but they were insufficiently funded mandates, with the burden of implementation falling on local government (Saich, 2008). Furthermore, there was the programme of community construction (*shequjianshe*, promoted by the Ministry of Civil Affairs since the mid-1990s (Figure 1). The street office was responsible for the provision of a variety of community services including both public and social services. Although it looked like the government had created new collective organizations to take over the collective aspects of work and service provision that had been provided by the workplace (Bary, 2005), modernization and urbanization weakened the service delivery model that was based on residence, workplace-oriented, and family provided welfare.

Figure 1: Organization of urban government



Source: Yusuf, Saich, 2008

Second, a diversity of service delivery provision emerged. The Deng Xiaoping's leadership proposed the slogan of socialization, which was termed "small state, big society" (*xiao zhengfu, da shehui*), but Wong argued that Chinese-style socialization was another form of privatization (Wong, 1994). The state was in clear retreat: its role in the provision, funding, and regulation of social care was curtailed. Following this, the public services arrangement was transformed from a wholly public one into a public-private hybrid one. However, with the rather immature marketization and commercialization, unaffordable access and low availability of public services was common because recipients had to pay for services in most welfare fields. This change was particularly evident in the area of social

insurance (pensions, medical care, and the newly created unemployment insurance) and higher education (Khan, Riskin, 2001).

Third, more inequality can be observed between urban and rural areas and among different social groups. There was no public service in the rural areas in the 1980s and 1990s (Yu, 2014). Besides, the urbanization and infusion of foreign investment brought new problems to the local government. Migrant workers did not have equal access to state-subsidized benefits provided by public agencies and/or their employers, and they had to rely primarily on their families for housing, healthcare, support services, and other necessities (Xu et al., 2011). This population created new challenges as China's towns and cities strived to knit fragmented social welfare provision into a more coherent framework of support (Yusuf, Saich, 2008).

*Public Utilities.* China's water sector suffered from poor operating efficiency and slow technological upgrades because of lack of operational expertise of government staff, due to traditional operating of water utilities at low levels of water tariffs established as part of welfare (Browder et al., 2007). In the late 1990s, these complex challenges led the Chinese government to allow private sector participation in the effective management and operation of water and wastewater plants earlier monopolized by the public sector (Choi et al., 2010). As regards the transport, many inefficient SOEs were closed down or privatized; new private enterprises (PEs) entered the transport sector engaging in project construction, financing, operation, and management. For the energy sector, private participation in infrastructure development in China was first seen for the power industry during the 1980s in the form of build-operate-transfer (BOT) (Ke et al., 2011).<sup>1</sup>

*Social Services.* Regarding elderly care, the 1990s witnessed an ongoing shift towards the mixture of social pooling and individual accounts for urban enterprise employees (World Bank, 1997). A three-pillar pension system consisting of a state pension scheme, a supplementary enterprise scheme, and a personal savings plan was established (Shi, Mok, 2012). In housing provision, China's employer-based welfare housing programme was formally abolished in 1998 and an overwhelming majority of the public housing stock was quickly privatized in the early twenty-first century

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<sup>1</sup> Shenzhen Shajiao B Power Plant, in operation since 1988, is regarded as the first BOT project in China (Qiao et al., 2002). Several state-approved BOT projects have been granted since late 1996, such as the Shanghai Da Chang Water Project, Changsha Power Project and Chengdu Water Project (Wang, Tiong, 2000).

(Zhao, Bourassa, 2003). Subsequently the SOEs' role was changed from housing buyers to housing sellers (Miao, Rajah, 2014), and then commercial housing became the main option for urban residents.

### 2.3. New Century: Deeper pluralism and Partial Demunicipalisation (2002–2007)

Fearing potential social unrest arising from general dissatisfaction with the State's ability to address social inequalities, the central government began to be increasingly involved in the public services delivery. The Hu-Wen leadership pledged a new approach based on the idea of a 'harmonious society', 'people-centred development', and 'service-oriented government', trying to build a new public service system with the aim of "equalization of basic public service". Another marked characteristic of this period was further development of the pluralism of public service providers and providing ways, including deeper marketization and non-profit participation. During the reform period, local governments were experimenting with service delivery through a variety of mechanisms: contracts and concessions to not-for-profit and for-profit organizations, public-private joint ventures, and informal and voluntary cooperation (Saich, 2008).

Referring to the for-profit organization, the 2002 Government Procurement Law allowed contracting to the private sector for the provision of support functions, social services, and public works projects. They utilized franchises for public services such as passenger transportation and garbage disposal, and vouchers for elderly home care (Teets, 2012). About the non-profit organization, the statistics of the Ministry of Civil Affairs (MCA) showed that before 1978 there had been only about 6,000 social organizations in China. By the end of 2006, their number had reached 186,000. Enterprises, social groups, and individuals had set up about 700,000 not-for-profit institutions to provide social services. This category included private schools, hospitals, community service centres, vocational training centres, research institutes, and recreational facilities (Yusuf, Saich, 2008). As multiple cities explored the possibility of contracting out government services, the purchase of public services by governments from NGOs became a new public service model.

*Public Utilities.* From 1993 to 2007, the provision of transport infrastructure services in China moved away from the realm of government to that of the private sector through PPPs. From roads to ports, and later to subways, state-owned monopolistic enterprises gave way to a wide range of

private players operating in a relatively competitive environment, but with far from complete economic regulation (Huang et al., 2009). New institutional framework consisted of independent regulatory agencies such as project tendering committees, competition law and amended property rights law. PPP water projects also gained increasing popularity in the market and more than 500 projects had utilized the build-operate-transfer (BOT), transfer-operate-transfer (TOT), and divestiture business models until 2009. For foreign investment, 2002 was a turning point, the entire municipal water service sector, including water distribution networks, were opened to foreign investment (Jang, 2014). Regarding the energy provision, the landmark Scheme for the Reform of the Power Industry was enacted in 2002 and was aimed at developing market-oriented electricity system. However, the serious power shortage during 2003–2004 made expansion of generating capacity more important than market-oriented reform. The central government invested huge amounts of treasury bonds in infrastructure construction, and was determined to clean up the illegal projects, which led to a fadeout of the first round of private investment (Shen et al., 2005). With the state advances, the private sector retreated and the state-owned enterprises became the biggest winners in expanding generation.

*Social Services.* China's new pension system, which has three separate programmes (for public employees, urban workers, and rural residents) covers about 50 per cent of urban residents and a limited number of rural workers (all three are contributory programmes, and the pension program for rural residents is voluntary) (Woo et al., 2002). From 2000 onwards, the central government has issued many policies and organized conferences that focused on setting up community-based welfare service systems. Furthermore, an increased number of private nursing homes improve care quality through the Elder Care Foundation sponsored by the government. The Beijing municipal government provides a 100-yuan subsidy for each bed per month as an incentive to encourage non-governmental organisations (NGOs) and the private sector to build and operate nursing homes (Wenyi, 2014). Between 2003 and 2007, housing prices increased 66 per cent nationwide, making affordable housing a more serious challenge and leading to public criticism. In response, the government launched the Price Cap Housing, also called double-cap housing, when developers acquired land and local governments set a cap in advance on the end price they could charge buyers for the land and the housing unit (Zou, 2014).

*Health care.* The outburst of the SARS crisis in 2003 exposed many problems existing in China's public health field, such as lack of governmental



functions, problems of marketization and imbalance of health resources between urban and rural areas, etc. Confronted with concern from the whole society, the government developed the Urban Employee Basic Medical Insurance System (UEBMI), the New Rural Cooperative Medical System (NRCMS) and the Urban Resident Basic Medical Insurance System (URBMI). A summary of characteristics of the three schemes with respect to revenue collection, risk pooling, benefit packages, provider payment methods and other features is provided in Table 1.

Table 1: Comparison of characteristics of UEBMI, NRCMS and URBMI (Li et al., 2011)

|   | UEBMI                         | NRCMS                   | URBMI  |
|---|-------------------------------|-------------------------|--|
| Initiated in  | 1998                          | 2003                    | 2007   |
| Target population   | Urban employees               | Rural residents         | Urban unemployed   |
| Population covered (million)                              | 200                           | 815                     | 118  |
| Annual revenues collected (Billion RMB)                   | 304                           | 78.5                    | Unavailable  |
| Enrolment nature  | Mandatory                     | Voluntary               | Voluntary  |
| Risk pooling  | Municipal level               | County level            | Municipal level  |
| Benefit Package   | Outpatient and inpatient care | Focus on inpatient care | Focus on inpatient care and catastrophic outpatient care |
| Average reimbursement rate of inpatient care costs (in %) | 66.2                          | 36.4                    | 49.2   |

Source: Li et al., 2011

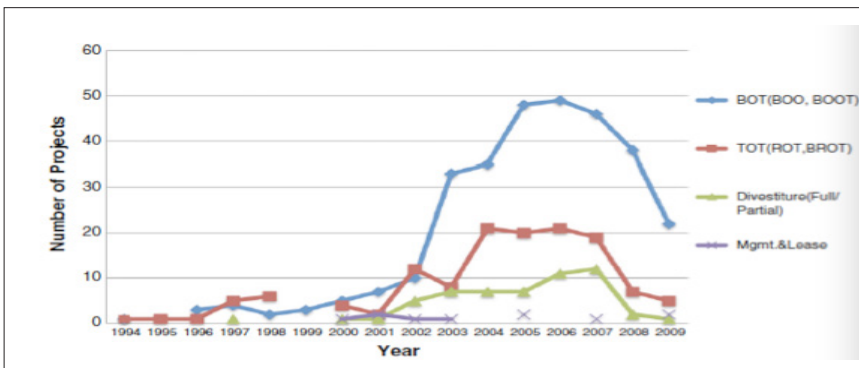
## 2.4. After Financial Crisis: Both Recentralization and Remunicipalization (2008-Present)

Since 2008, some renationalization or regovernmentalisation of services has become popular at the local level. Associated data and academic research about this new trend are still scarce because this phenomenon has just appeared. However, the media report that some private schools (run by the local people) have been converted back to public ownership; some buses, tunnels, and bridges have been gradually repurchased by the local government; and some private hospitals have become public hos-

pitals again.<sup>2</sup> Cases of repurchase of hospitals have occurred in Jiangxi, Shanghai, Zhejiang and other provinces. In 2010, in Zhejiang Province, Hangzhou Yuhang District Government announced that 28 hospitals, which had been sold to private businesspeople for 75 million RMB a few years earlier, were repurchased for 300 million RMB.<sup>3</sup>

*Public Utilities.* The private sector's contribution to the Chinese water market declined significantly during the global financial crises (GFC) of 2008 and 2009, partly because of the fiscal stimulus packages introduced by the central government, which eventually reversed the tendency of local governments to tap private financing (World Bank, 2009). It can be seen from Figure 2 that the number of BOT projects increased dramatically between 2002 and 2006, and the number of TOT projects increased rapidly in 2004 over the previous year, but it decreased sharply at around 2008. The similar phenomenon happened in the transport sector. The crisis caused the bankruptcy of many private construction companies. For example, some 90 per cent of small and medium-sized companies in Guangdong Province met financial problems. As a consequence, a lot of PPP contracts were terminated prematurely. Thus, a shift away from PPPs and toward the use of SOEs to provide transport infrastructure can be observed since 2007 (Mu et al., 2011).

Figure 2: Number of projects by different PPP schemes in China's water market



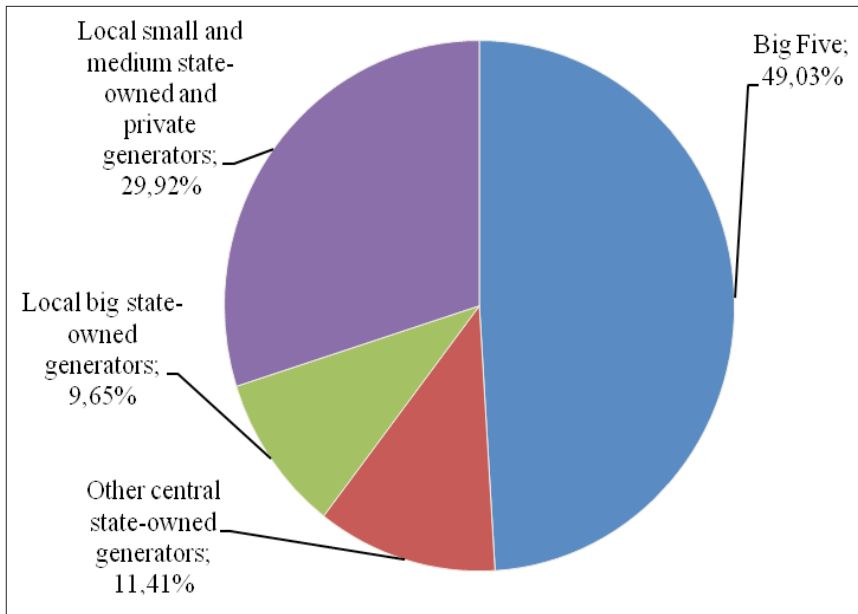
Source: Jang et al., 2014

<sup>2</sup> <http://news.163.com/11/0410/06/718PUG7S00014AED.html> (8.6.2014)

<sup>3</sup> <http://finance.ifeng.com/opinion/mssd/20101026/2770646.shtml> (15.7.2014)

In energy provision, Chinese market-oriented reform seems to have reverted to the starting point – from an absolute to a relative monopoly (Wang, Chen, 2012). As shown in Figure 3, the central state-owned generators accounted for 60.44 per cent of the total installed capacity in 2010, of which the Big Five (Huadian Corporation, China Guodian Corporation, China Datang Corporation, China Huaneng Group, and China Power Investment Corporation) made up 49.03 per cent (SERC, 2011). These Big Five and other central state-owned power generators are managed by a central government department, the State-Owned Assets Supervision and Administration Commission (SASAC).

Figure 3: The percentage of different ownership in China's total installed capacity in 2010



Source: SERC, 2011

*Social Services.* Regarding elderly care, in 2009 China introduced a nationwide, experimental rural social pension programme based on a number of pilot studies in selected rural areas. Government officials expected the scheme to cover 10 per cent of rural regions by the end of 2009, about 50 per cent by 2012, and 100 per cent by 2020. A major feature of this scheme is that, for the first time in China's long history, the government

will make direct contributions to a rural pension scheme (Shen, Williamson, 2010). Regarding the housing issue, Premier Wen Jiabao announced in early 2010 that China would provide 5.8 million Social Housing units. Then he went even further in the following year by expanding the Social Housing programme to 36 million units between 2011 and 2016, making it the largest affordable housing programme so far (Zou, 2014). The new institutions of public services provision are enlarging the scope of coverage as shown in Table 2, with the migrants being incorporated into the housing framework.

Table 2: Affordable housing programmes in China

| Programmes                                     | Period       | Housing tenure | Target groups   |
|--|--------------|----------------|---|
| Peaceful Living Project(PLP)<br>Social Housing | 1995–1998    | Ownership      | Low and moderate-income households  |
| Cheap-Rent Housing (CRH)                       | 1994-present | Rental         | Very poor households  |
| Economic and Comfortable Housing(ECH)          | 1998-present | Ownership      | Low and moderate-income households (before 2007)<br>Low-income households (after 2007)  |
| Price-Cap Housing(PLH)                         | 2007-present | Ownership      | Middle class who cannot afford market housing   |
| Public Rent Housing(PRH)                       | 2010-present | Rental         | Low and moderate-income households; new employees, and eligible migrants in some cities |

Source: Zou, 2014

### 3. A Transformative Approach

According to a transformative approach, public actors involved in reform processes are constrained and influenced by three sets of factors or contexts – polity features, historical institutional context and environmental pressure – seen through a structural-instrumental, cultural and environmental perspectives respectively (Christensen, Lègreid, 2001, 2007).

### 3.1. Structural Perspective

*Socialism and Neo-liberalism.* Structural, constitutional, and polity factors related to a structural-instrumental perspective go some way towards explaining how political governmental leaders control and handle reform processes (Weaver, Rockman, 1993; Olsen, 1992). After China's acceptance of contemporary ideas and strategies of neo-liberalism in the post-reform era and party leaders' embracing the "reform and opening up" policy that called for governing by market mechanism and autonomy, the simple and over deterministic description like "socialism" or "authoritarianism" is unable to capture the nature of this country adequately. Perhaps a hybrid neoliberal structural form has emerged in China (Elaine, 2009), or it can be called an authoritarian political structure combined with growing economic liberalization (Saich, 2004). From this perspective, the broad reforms and heterogeneous systems of China (Christensen et al., 2012) lead to a mixed delivery mechanism of public services, the hierarchy and market coexist in the process of institution evolution. On the one hand, China has moved further down the road of privatization and adopted policies to boost the role of markets in service provision. On the other hand, the CCP's commitment to socialist ideology means that it retains a state-dominant view (Saich, 2008).

*Control or Autonomy.* Although Chinese central and regional/local governments are often regarded as two groups of opposite and conflicting actors: principal versus agent, reformer versus stakeholder, and supervisor versus supervisee (Li, 2010), benign agents versus malign agents, the truth is far more complex. Policy deviation instead of flexibility is more common in Chinese bureaucracy. Local governments have a tendency to develop coping strategies in ways that often sidetrack state policies, or impose their own interpretation in the implementation process (Zhou, 2009). It can be vividly captured in a popular Chinese saying: "From above there are imposed policies, and from below there are evading strategies" (*shang you zhengce, xia you duice*), or "the heaven is high and the emperor is far away" (*tiangaohuang di yuan*). This kind of policy noncompliance occurs naturally within China's extremely hierarchical system (Wedeman, 2001). On the one hand, the top-bottom political control maintains the hierarchy system in the provision of local public services and ensures the overall framework is designed by the central government. On the other hand, however, local government has received greater powers over investment approval, entry and exit regulation, and resource allocation (Lin et al., 2005). The newly acquired autonomy leaves room for municipalities take

over the provision mechanism in accordance with their local conditions and interests. It also urges them to take initiative or make experiments to improve the provision of public services. Both privatization and remunicipalisation can be understood from this perspective.

### 3.2. Cultural Perspective

*Historical Legacy.* A cultural perspective highlights the constraints and possibilities lying within established cultures and traditions (Christensen et al., 2009). Political-administrative systems over time develop cultural-institutional features of informal norms and values related to gradual adaption to internal and external pressure (Selznick, 1957). One of the central mechanisms is path dependency (Christensen et al., 2012), which suggests that the institutional legacies of the past limit the range of current possibilities and/or options in institutional innovation. The first major legacy is Maoism, which emphasizes frugality, industry, self-reliance, and collective mutual help coupled with revolutionary stresses on sacrifice, the proletarian work ethics, and local self-sufficiency (Wong, 1998). Community service can be regarded as another form of collective organization for the mutual aid in urban areas. The concept of self-reliance or self-sufficiency, the idea that each locality should use its own resources and request only limited support from other levels of government, (Saich, 2008) remains an important principle for local public service provision. There are very few institutionalized channels for gaining support from high-level governments to provide public goods, especially in rural areas (Tsai, 2002). Additionally, social policies have reflected the bias of the official ideology, which has always prioritized the provision of social benefits to the privileged urban population like workers in the SOEs and in the government bureaucracy, rather than to villagers.

As the core traditional culture, Confucianism has an important influence on social services. Most individuals obtain their physical care and material, emotional, and social needs in the family. This basic pattern has remained largely intact by the reform (Wong, 2005). When professional programmes such as childcare, aid to the handicapped, job placement, counselling, and home help remain undeveloped, families bravely take over without compensation (Wong, 1998). For example, elderly care is rooted in Confucianism, which has always made care for older family members, parental devotion (filial piety), and ancestor worship normative family duties (Zhan, Montgomery, 2003). Despite the tremendous

increase in elder care institutions, the proportion of older people in them remains small compared to the total number of people who need it. One reason is family feelings of responsibility and the related guilt for placing one's parents in an institution (Zhan et al., 2006).

*Modernization Concepts.* By 1992, agencies such as the United Nations Development Fund, the World Bank, and the Asian Development Bank had all been working in China on various development programmes for more than a decade. Despite the apparent ideological differences between these institutions and that of the Chinese Party-state, the scope for cooperation and the transfer of technologies of government was considerable insofar as they shared a common discourse of developmentalism. Although the Chinese governmental structure might seem far removed from the UK and New Zealand, there are the same kinds of pressures that have resulted in the terms of “New Public Management” or “Reinventing Government”, impacting on institutions and policies (Kamarck, 2004). Local service provision focusing of efficiency reflects this trend, as do privatization of hospitals and schools, competitive tendering, or PPP (Alfen et al., 2009). The last decade or so has partly added to and partly modified this trend in local service provision. One of the doctrines is “New Social Governance”, which was extensively used in western scholarly and government writings and later taken up in China. The other is “Post-NPM”, emerging first in New Zealand and Australia in the late 1990s and focusing on recentralization and increase coordination (Christensen, Lègreid, 2007). This reform wave is empirically exemplified in central government or provinces trying to increase control in different ways – either structurally, through new policies, or economy-related, through local service provision.

### 3.3. Environmental Perspective

The reform and its participants have to cope with complex environments. The technical environment generates mechanisms or pressures for change caused by political, economic, technological, or social changes. The institutional environment comprises ideas and beliefs about practices that are communicated through organizational processes such as myths and symbols shared among organizational leaders about what is “modern” or “best practices” (Christensen et al., 2012).

*Central-Local Relationship – Fiscal Structure.* Changes in the fiscal system have had an important impact on the local public service provision through

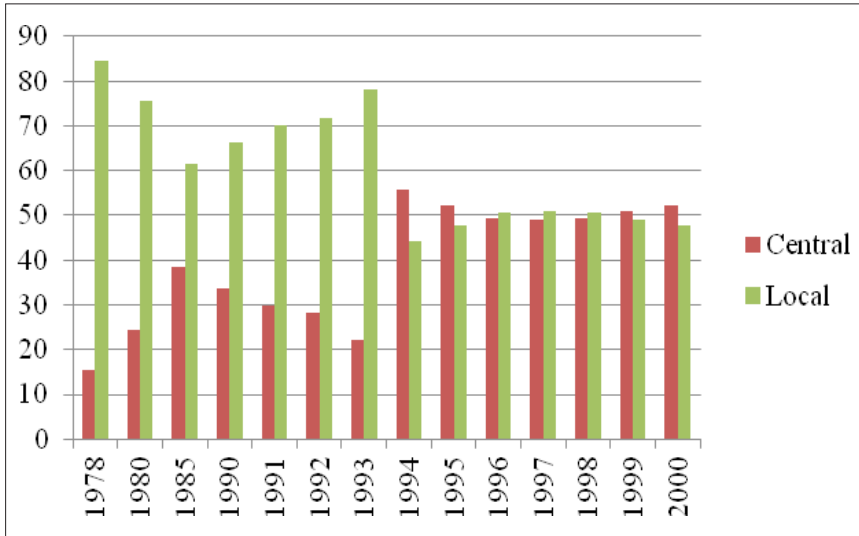
the incentives for and constraints on local government. China dispersed its highly centralized fiscal management system (1949-1978) with various forms of fiscal contracting systems (1979-1993) and later a tax sharing system to recentralize the financial sources (1994-present). Prior to 1978, fiscal revenues and expenditures had been centralized in the Chinese state bureaucracy. Profits and taxes collected by local governments were handed over to the centre (Peng, 2001). With the introduction of fiscal contracts in 1988, provinces were allowed to retain a specified proportion of revenues collected, over a targeted amount. Provinces had such agreements with counties and small cities, which in turn made similar agreements with townships and small towns (Walder, 2007). Therefore, the central government's share of budgetary revenues decreased dramatically (Wong, 1997). By 1993, the sub-national share of total fiscal revenue had reached 78.9 per cent. A tax sharing system (*fenshuizhi*), which established central and local government tax bases, has been implemented since 1994 as a measure of recentralizing fiscal management.

The conflict between shouldering more financial responsibility for social services and dramatically decreased revenue (Figures 3 and 4), the lack of financial capabilities and adequate incentive for public services stimulates a strong urge in local governments to pursue financial resources and transfer the responsibilities of public services to the market and the individual. Even if the central government initiates a new programme, which is beneficial for the public interests, local governments sometimes show little enthusiasm about it. Take the PCH programmes for example. Local governments did not want to allocate land that could be developed in the ways that yield greater benefits, and were worried that the PCH programme could jeopardize the local housing market. As a result, only those cities with strong fiscal capacities enacted the programme (Zou, 2014).

Now local governments rely on transfers from the central government to balance their budgets. Transfers are in the form of tax rebates, general transfers, fixed subsidies or submission under the old system, budgetary subsidies, and appropriations for special projects (matching grants) (Li, Lin, 2011). With the central government giving priority to public social welfare, remunicipalisation generates a new financial stimulus for local governments. Nevertheless, the lower the level of government, the less money is available for transfer, and the main burden still falls on underfunded local governments, leading to great variation in provision of services, so the county and township level governments are in a difficult fiscal position.



Figure 3: Change in income of central and local governments related to tax distribution system



Source: Data compiled according to China Statistic Yearbook 1978–2000

Figure 4: Change in expenses of central and local governments related to tax distribution system



Source: Data compiled according to China Statistic Yearbook 1978–2000

*Political Structure.* The evolution of performance evaluation has had a profound effect on the provision of local public services. It can be divided into three stages. Prior to 1978, the Chinese performance appraisal process had become politicized, resulting in appraisal findings that were actually political outcomes. At the second stage, with the focus on economic growth and structural adjustment and stabilization, insufficient policy attention to public services provision persisted through the 1980s and into the first half of the 1990s. The motivation from cadre responsibility system, performance contracts and political contraction system can be institutionalized as “pressure system” (*yalixing tizhi*), or “the tournament system” (*jinhiaosai tizhi*). This evaluation system not only distracted the local bureaucracies from improving social services, but also took the risk of the PPP projects in public utilities. Since local governments devoted far too much attention to their career achievement, it was quite natural for them to make wrong decisions such as inaccurate predictions of demand for the projects.

In September 2004, Hu Jintao proposed building a harmonious society and called for conducting reform measures to stimulate social vitality, promote social justice and fairness, enhance the sense of law and the sense of integrity in the whole society, and safeguard social stability and unity. This move clearly signalled a shift in the CCP’s focus from exclusive promotion of economic growth to solving increasing social tensions (Gao, 2010). Following this, some local governments implemented a modified performance measurement system and gave higher priority to the performance of public services, especially social services.

*Local Government and Enterprise.* The changing relationship between the municipalities and enterprise has influenced the degree of privatization and the mechanism of local public services. In the 1990s, financial decentralization and property rights reform promoted a tendency of local government to be entrepreneurial for increasing revenue, and local actors were more concerned with participating in the economic activities and providing an attractive environment. Some new terms were generated, like “entrepreneurial state” (Blecher, 1991), “industrial firms” (Walder, 1995), “local state corporatism” (Oi, 1999). They reflected the government intervention in the private areas and private enterprise dependence on the governments. This intertwined relationship distorted the marketization of local public services provision and limited the use of some measures such as contracting. After the Ninth National People’s Congress in March 1998, the leadership began to promote the separation between government and enterprise. Local governments were forbidden to involve

in enterprise activities and began to become the independent regulators. There was a shift from the old “command and control” forms of regulation to the one characterized by contracts and covenants between public and private actors, and to information management (Saich, 2008).

However, it is still essential for private investors to strive for the governments’ cooperation and assistance, but this may substantially increase the cost of such cooperation and assistance due to the corruption of some local government officials (Wang, 2002). In addition to money, project companies have to spend a lot of time and effort in dealing with the government, which also has a negative influence on the efficiency of the companies’ operation, management, and profits (Ho, 2006). Local governments still tend to transact with the divested SOEs, service units, or supervised NPOs with which they still have financial, personnel, or personal ties (Teets, 2012). Yongjian Ke’s research about the probability and consequence of risks in China’s PPP project has shown that the top ten risks are government’s intervention, poor political decision making, financial risk, government’s reliability, market demand change, corruption, subjective evaluation, interest rate, immature judicial system, and inflation (Ke et al., 2011). Apparently, it is still a way to go before local governments are able to provide a stable external environment and become a mature regulator for the PPP Corporation.

*Local Government and Civil Society.* In the post-reform era, Chinese citizens’ demands for public services are increasing comprehensively and rapidly, which also affects the institutional environment, i.e. local governments have to be increasingly sensitive to how the public see their activities. However, the authoritarian political system has so far thwarted the development of ‘voice’ mechanisms vital to the demand-side information; policies are often decided behind closed doors without researching and documenting the need of the public for public services (Li, 2008). As a substitute to the formal institutions, public demands are expressed in different ways, usually through protest. In dozens of cities in the early 1990, dissatisfied pensioners (Hurst, O’Brien, 2002) engaged in protests over unpaid benefits, over unfair remuneration in the distribution of severance pay from bankrupt firms, and so on. These protests highlighted the failure of the reform to provide adequate retirement incomes to the millions who entered the ranks of urban retirees in the 1990s (Frazier, 2004). Consequently, they pushed a new pension reform and the government started to increase its participation and investment in this area.

Besides citizens, non-profit organizations also play a positive role. One of the reasons why the provision public of services has become more diversified is that local government leaders are more willing to cooperate with non-governmental organizations. Li Jiang, secretary general of Hunan province contends, “The government can’t manage, shouldn’t manage, or doesn’t manage well...of course, in the development of social organizations there is the need for a process of adjustment, this is a new task for our country” (Ng Tze-Wei, 2011). However, many factors hinder China’s civil society development and its influence on the services delivery, including exogenous factors such as the regulatory system and ideology, as well as endogenous factors such as the lack of professional competences among NGOs themselves (Wang, 2014). Local governments keep imposing constraints on the autonomy of civil society organizations. Legal requirements and layers of governmental bureaucracy thwart many organizations that are too small and have too few resources to meet the registration requirements (Xu, Chou, 2011). The work strategy of most NGOs that have already been registered is based on maintaining close government relations to ensure their continued existence and political acceptance. Some may even nest within government bodies using official personnel and resources to carry out their programmes (Saich, 2008). For example, the service centres for elderly care are independent of the government and run as partially non-governmental organisations. However, as the government is seen as the chief programme designer, the service centres merely play a role of policy implementer. Due to government intervention, community service providers enjoy limited autonomy and have to shoulder part of administrative burden transferred to them by the government (Wenyi, 2014). Thus, although the non-profit participation is being increased, we are still far from creating the networks or governance structure in the public services provision, because civil society is weaker and more immature than the hierarchy system and the market.

#### 4. Comparison between Europe and China

The development path of service delivery in Europe and China has many commonalities as well as differences. In the first stage, due to the standard communist system, the provision of local public services in China was similar to that in central-eastern European (CEE) countries, public utilities were in state ownership, and provision of social services was based on workplace or families. The fact that public utilities were owned by the

state but established and operated by local governments, which lacked the financial power and resources, was not of importance. After 1978, with the process of both financial and administrative decentralization, almost all responsibilities of public service were transferred to municipalities. However, this situation did not last long. Local governments had to fulfil the GDP growth assignments, which was vital for their promotion by the superior governments. Furthermore, the new financial reform of recentralizing fiscal management had made many localities take too many expenditure responsibilities that were out of their financial capabilities. Those circumstances stimulated local governments to initiate a pro-market reform to transfer their burden to enterprises influenced by neoliberal economic policies and Deng Xiaoping's famous Southern Tour of 1992. Thus, the provision of local public services in China showed the convergence with that of European countries in the 1990s, which was featured by marketization and privatization intending to replace the 'in house' and administratively integrated provision of services with 'outsourcing' them to private sectors. The privatization in this stage was rather immature.

At the beginning of the new century, there was partial demunicipalisation, featured by the increased state involvement and deeper pluralism in the delivery of local public services. Specifically, central government put equal access to basic public services on the work agenda and increased its investment in social services provision, particularly in rural areas. Regarding public utilities, there was a new trend of public-private partnership model replacing common privatization. Diversification of social services providers increased further by the emergence of civil society-type formations. A larger number of services, such as elderly care, have been outsourced to a larger number of organizationally distinct providers.

In 2008, the global scale financial crisis affected both European countries and China. The private sector's contribution to the public utilities market declined significantly. Some local governments attempted to 'remunicipalise' the previously 'outsourced' or (asset) privatized services, such as buses, tunnels, and bridges, partly because of the fiscal stimulus packages introduced by the central government. At the same time, "recentralization" also occurred, a shift away from PPP adoption towards the use of SOEs to provide transport infrastructure. A new type of monopoly was developed in energy sector – the state advanced, the private sector retreated. Compared to public utilities, social services were more divergent than in most Europe countries. Although the 'marketization' and 'diversification' are still going on, both central government and local governments

get a momentum and invest more in the provision of social services, the situation is highly hybrid.

Has public service provision in China experienced “pendulum-type” movements? A clear distinction needs to be made between the provision of public utilities and social services. For public utilities, the answer seems to be positive. For social services, the answer is different.

## 5. Conclusion

The institutional change of local public service in China is incremental. Although it shows some convergence with the trends in certain European countries, it retains special features shaped by disequilibrium and instability. China’s four-legged stool of welfare support is operating with two long legs (state and family) and two truncated legs (civil society and the market), thus creating imbalance in the system and perpetuating existing inequalities (Saich, 2008).

However, there is no doubt that public service provision in China has undergone a fundamental shift, an increase in government capacities as a prerequisite for an effective market and civil society to function. In a situation when most local governments around the world try to create new partnerships with society and market to provide better public services, China is no exception.

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## LOCAL PUBLIC SERVICES PROVISION IN CHINA – AN INSTITUTIONAL ANALYSIS

### Summary

*The article reviews the institutional change of local public service provision in China. The emphasis is placed on the characteristics and reasons of the evolution process. The first part presents the characteristics and changes of local public service provision in five periods. The second part analyses public service provision through structural-instrumental, cultural and environmental perspectives. The third part explores whether China has experienced “pendulum-type” movements like some Europe countries. The institutional change of local public service in China is incremental. Although it shows some convergence with the trend of certain European countries, it retains special features.*

Keywords: China, local public service, institutional change, remunicipalization

## PRUŽANJE LOKALNIH JAVNIH SLUŽBI U KINI – INSTITUCIONALNA ANALIZA

### Sažetak

*U radu se analizira institucionalna promjena u pružanju lokalnih javnih službi u Kini. Naglasak je na karakteristikama i razlozima procesa evolucije. U prvom se dijelu prezentiraju karakteristike i promjene u pružanju lokalnih javnih službi u pet faza. U drugom se dijelu pružanje lokalnih javnih službi analizira iz strukturalno-instrumentalne, kulturološke i okolišne perspektive. Treći dio istražuje ima li razvoj pružanja lokalnih javnih službi u Kini značajke krucijalnih promjena nalik na one u europskim zemljama (npr. remunicipalizacija). Institucionalna promjena lokalnih javnih službi u Kini je postupna. Premda postoje određene sličnosti s trendovima u nekim europskim zemljama, ona ipak zadržava svoje specifične osobine.*

Ključne riječi: Kina, lokalne javne službe, institucionalna promjena, remunicipalizacija