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PPPs in China: Does the growth in Chinese PPPs signal a liberalising economy?

Abstract

This study provides insight into the nature of public-private partnerships (PPPs) in China, a country that has invested more in PPPs than any other over the last two decades. It is puzzling that China, as a state-led economy, has turned to embrace PPPs. Pundits have taken this as evidence of a liberalising Chinese economy. However, our findings suggest that PPPs in China do not reflect a break from earlier, state-centric modes of governance; rather, the state essentially uses such partnerships as a mechanism to strengthen its own hand. We argue that the difference between how PPPs are being implemented in China compared to the West reflects differences in political economic contexts, both materially and ideologically. In both cases, the ambiguity surrounding the PPP model has been used to advance particular interests, serving as a reminder of both the ways in which power shapes the character of such policy tools and the differences in the relative power underpinning state-market relations in each context. By challenging mainstream interpretations of what PPPs *are* and what their proliferation *means*, studying the political economy of PPPs in a rising China further exposes the Western-centric nature of prevailing wisdom in political economy scholarship.

Introduction

The modern field of political economy has been developed in the West.[1] Through theoretical and empirical investigation, core concepts have been forged in Western workshops. It is little wonder then that the meteoric rise of China and the concomitant scholarship on the subject has begun posing a challenge to accepted wisdom in the field (Breslin 2012, 2007; Zhang 2013). The emergence of China as an economic powerhouse is not only materially significant, but also theoretically, as the scholarship accompanying this development has the potential to disrupt the universalising theories of state-market relations developed within and focused on liberal-market democracies (Chin *et al.* 2013; Henderson *et al.* 2013). Such is the case with public-private partnerships (PPPs).

China has invested in more PPPs since 2000 than any other country in the world (PPI Database 2015). This is puzzling. Why has China, a state-run economy, embraced PPPs on such a large scale? And what does this turn to PPPs represent in terms of China's economic liberalisation, and Chinese state-market relations and the future of Chinese governance? Leading industry and government bodies have understood the Chinese uptake of PPPs to be evidence of a liberalising economy.[2] This aligns well with existing Western scholarship on China, where many view the Chinese regime as a 'temporary aberration', with liberalisation around the corner (Ang, 2018). But China continues to defy expectations, using the PPP model on its own terms. These analyses seem to be based on interpretations of PPPs developed in the West; there has been surprisingly little detailed scholarship on PPPs in China to date.

Based on the Western experience, popular and academic opinion of PPPs tend to understand these policy instruments in the context of three discourses that have remained dominant since the 1990s: *conceptual* debates surrounding the shift from government to governance and the reconstitution of the state, *ideological* considerations relating to the spread of neoliberal values and the rising power of the private sector, and *pragmatic* analyses that see PPPs as a universal policy tool for economic development. Building from these discourses, we develop a set of indicators to help evaluate the extent to which Chinese uptake of PPPs in infrastructure should be taken as a sign of a liberalising economy, one that is moving toward more market-led approaches to governance.

We find that in sharp contrast to prevailing understandings of PPPs in the West, Chinese PPPs are being used as a tool to strengthen the state. The Chinese context enables state officials to maintain primacy, using the PPP brand to access finances rather than sharing mutual benefits. We argue that these outcomes reflect the relative power underpinning state-market relations, as well as underlying beliefs about the appropriate role of the state in the economy, which are mutually reinforcing. This verifies the highly political and protean nature of PPPs in both China and the West.

Our findings are both materially and theoretically significant. Materially, they suggest that the uptake of PPPs in China is not a sign of a liberalising China but, rather, a mechanism to further consolidate state control over the economy. Theoretically, they challenge mainstream interpretations of what PPPs *are* and what their proliferation *means*, further exposing the Western-centric nature of prevailing wisdom in the field.

A note on methods

This is a case study investigating the emergence of PPPs as an infrastructure model in China. We chose the case for the puzzle it presents and opted for an exploratory approach due to the unique characteristics of the political economic context, which stands in contrast to the context where the model and our understanding of PPPs originated: states with developed liberal market economies. While there has been scholarship focused on the rise of PPPs in other emerging economies, China remains unique in terms of the strength of the state.

The main empirical evidence is drawn from academic journals across disciplines such as public management, project management and project finance, as well as primary documents relating to Chinese law, government memorandums, and newspaper articles. Reports gathered from intergovernmental organisations (IOs) and global consultancies are combined to further support the empirical evidence. We also obtained data from the World Bank's Private Participation in Infrastructure (PPI) database, which is used to highlight trends in PPP activity.

Building a framework

The term ‘PPP’ is hotly contested and used to describe a wide range of relationships. While sometimes referring to multi-stakeholder partnerships in health and sustainable development (Andonova 2014), it is most often associated with private financing in infrastructure. PPPs in infrastructure are a neologism for combining the public sector and private sector to deliver public services. The European Commission (2003, p. 128) define PPPs as ‘the transfer to the private sector of investment projects that traditionally have been executed or financed by the public sector.’ According to this definition, PPPs could involve anything from full divestiture to a traditional build-operate-transfer (BOT) contract, the most common form of PPP.[3] The conceptual fuzziness of existing definitions of the term has already received significant academic attention (International Institute for Sustainable Development 2012; Klein 2015; Vives 2008). As Zhang *et al.* (2015, p. 498) have noted, such arrangements are known as PFI in the UK, BOT in Asia-Pacific, concession in France and PPI in the World Bank, ‘each with possible relevance to the political, economic, legal, cultural and industrial backdrops.’ Although the fluidity of the term is key to our findings, a functional definition provides an important starting point, for which we turn to the IMF:

> An arrangement where the private sector supplies assets and services that traditionally have been provided by the government. In addition to private execution and financing of public investment, PPPs have two others important characteristics: there is an emphasis on service provision, as well as investment, by the private sector; and significant risk is transferred from the government to the private sector (IMF 2004, p. 6).

While public-private arrangements have existed since the beginning of organised government, their symbolic value has changed in the context of modern governance (Wettenhall 2010). In the 1970s and early 1980s, PPPs were originally championed as an instrument to increase governance effectiveness, part of the New Public Management (NPM) era, formulated in the United Kingdom (UK) and then spread far and wide (Yamamoto 2007).

This ‘new global paradigm’ ushered in the marketisation of the state through privatisation, decentralisation of functions, contracting out services, and the promotion of partnerships such as the Private Finance Initiative (PFI) (Osborne 2000). Initially promoted under the controversial PFI, the origins of the term 'PPP' was driven by UK Prime Minister Tony Blair, who wanted to make it sound 'friendlier' and play down its conservative origins (Wettenhall 2010). PPPs were not only gaining cross-party support in the developed world, but also proved popular in the developing world where financially challenged public sectors looked to the private sector to build infrastructure and drive economic growth (Esty 2004; Garvin and Bosso 2008). In the 1990s, multilateral lenders, such as the World Bank and IMF, were forcing through reforms in line with NPM doctrines, and so many cash-strapped, emerging economies embraced the model to meet their infrastructure needs without their balance sheets being affected (Chen 2010). Within thirty years, the popularity of PPPs within policymaking circles was unprecedented, with nearly all developing countries either flirting with the idea of PPPs, or already 'wed to it' (Estache 2006, p. 3).

This rapid proliferation of PPPs in infrastructure across the world has attracted scholarly attention from multiple disciplines, including public management, construction and project management, public administration, and project finance. Much of the focus has been functional, looking at critical success factors and how various aspects of infrastructure PPPs could be improved from a public management perspective, including in China (Liu *et al.* 2016 ; Chan *et al.* 2010).

Most pertinent to this study is the literature exploring the political and intellectual underpinnings of the PPP movement. Scholars have interrogated how power has influenced varying definitions and meanings of PPPs and how this, in turn, has impacted their functions (Linder 1999; Savas 2000; Teisman and Klijn 2002). With few exceptions, scholars have developed an understanding of PPPs by studying their implementation in liberal market economies. As such, the dominant role of the private sector has held the spotlight (Bitzer 2012; Miraftab 2004).

Drawing on the expectations of this rich scholarship, we develop indicators to help us evaluate the extent to which the uptake of infrastructure PPPs in China constitutes a shift from government to governance, a deeper acceptance of market-driven values, and an acceptance of a universal PPP model to delivery efficiencies and value for money in public projects.

The shift from government to governance

PPPs are seen as exemplary of the new 'steering' role associated with the movement from government to governance (Osborne and Gaebler 1992; Rosenau 1995). Through a governance lens, governments are no longer the sole service providers, but are increasingly service regulators (Stoker 1998). For example, HM Treasury (2015, p. 12) states that PPPs are expected to 'evolve the role of government' away from that of primary provider of services, towards a more developmental and regulatory market role.

The process of changing the role of the state and increasing private sector participation involves a series of reforms in policy formulation, risk allocation and the legal and regulatory framework. Some of these are highlighted in the UN Commission on International Trade Law's (UNCITRAL) legislative guide on privately funded infrastructure projects, where it suggests a review of national constitutions that exclusively reserve provision of public services to the state (UNCITRAL 2001).

Recent international experience has also demonstrated the need for a central unit within the national government's administration with the overall responsibility for 'formulating policy and providing practical guidance on privately financed infrastructure projects' (Ibid. P. 29). Many governments have established these central, specialised PPP units, which have played a 'catalytic' role in promoting and developing PPPs (UNESCAP 2014a, p. 1).

With funding from the World Bank, the Economist Intelligence Unit (EIU) has developed an index and learning tool to assess the capacities of countries in different regions across the world to carry out sustainable PPPs. This covers six different elements, but weights the legal and regulatory framework and institutional framework higher than others.[4] The index is typical of the shift from government to governance, with the EIU (2014, p. 4) explicitly stating 'an important feature of PPPs is the transfer of responsibility for service provision while maintaining a significant planning and governance role for government.'

- INSERT FIGURE 1 ABOUT HERE -

Undertaking these types of PPP-enabling reforms can be seen as part of a broader shift toward a new kind of 'regulatory state' (Majone 1997). These recommendations, highlighted in Figure 1, are followed by a wide range of countries, including the UK, Brazil, India, Bangladesh and Australia – and are broadly consistent with those offered across the construction management, project finance, and public management literatures. As such, we treat these recommendations as indicators to explore whether the PPP model in China is part of a similar shift by evaluating how closely the state has followed them in terms of both policy formulation as well as formalisation into laws and administrative units.

Infiltration of neoliberal values

Viewed through an ideological lens, PPPs have been interpreted as a neoliberal construction invented to increase the power of private actors in global affairs (Börzel and Risse 2005; Miraftab 2004; Zammit 2003). Indeed, PPPs find their roots in the neoliberal policy notions of privatisation and deregulation of the 1980s, and have been linked to the NPM agenda (Hood 1991; Osborne and Gaebler 1992; Stoker 1998). The logic of transferring responsibility to the market is advocated by many development agencies that were strongly driven by NPM at the time, alongside the concepts of economic adjustment, privatisation, and deregulation (Mitchell-Weaver and Manning 1991). According to NPM, governments should outsource functions to other actors with more experience and efficiency; with this comes a stronger emphasis on market mechanisms and the involvement of private actors (Hood 1995, 1991).

According to Savas (2000), the ambiguity of the term 'PPP' has evolved as a new language game in public management to cover older, established procedures involving private organisations in the delivery of public services. Where terms like 'privatisation' evoke sharp political and ideological reactions, 'PPP' avoids this 'inflammatory effect', and invites more 'people and organisations to join the debate' (Ibid. 2000, p. 1–2). As such, the vagueness of the term serves political objectives and obscures underlying ideological meanings. For example, PPP has been used to describe contracting-out schemes, private finance contracts and even full divestiture

(Hodge and Greve 2007, 2010; Teisman and Klijn 2002). Some fear that the private provision of infrastructure effectively represents the privatisation of public services (Ng and Loosemore 2007; Srivastava 2010) and the ambiguity of the term has facilitated this neoliberal agenda.

Whilst policymakers attempt to emphasize the utilitarian aspect of PPPs, the environment required to facilitate and deliver them has never been ideologically neutral or open. There appears to be an inherent acceptance of neoliberal values, such as increasing free market competition. Indeed, 'the driving force behind successful PPP programmes is *competition*. If PPPs are introduced without the essential element of competition, it is argued, the transformational effects […] are unlikely to be realised' (HM Treasury 2015, p. 13). The market structure, legal framework and regulatory bodies must therefore create appropriate conditions for the private sector to bid competitively for PPP contracts. Privatisation of state-owned enterprises (SOEs) is also well-documented as a strong precursor to encouraging the PPP process, as it enhances competition and is often accompanied by regulatory reform (Hamilton 2009; World Bank 2015).

In order to assess the extent to which the rise of PPPs in China signal a commitment to the core tenets NPM and a furthering of the neoliberal agenda we rely on two rough indicators: the level of outsourcing public services to the private sector and the maturity of competitive tendering.

Universal policy solution

PPPs have been hailed as a universal policy solution to tackle global problems, especially a lack of infrastructure. Organisations such as the OECD, the World Bank and the IMF are committed to a view of global convergence based on a single 'best practice' model, which they see as their institutional role to foster, helping the 'laggards' to catch up with the 'vanguard' (Hood 1995, p. 108). In a pragmatic sense, PPPs are put forward as an innovative best practice solution.

Donor agencies have been involved in the design and implementation of regulatory reforms toward this end, which, according to some estimates, for over a quarter of their total development assistance (Parker and Figueira 2010). Considering the rapid scale-up of PPPs to be of 'high strategic relevance', the World Bank in particular has expanded its support through a wide range of instruments and services (World Bank 2015, p. vii). For example, from 2002 to 2012, its financial support for PPPs tripled, rising from $0.9 billion to $2.9 billion (Ibid.). The shift in World Bank policy followed the publication of the World Development Report (WDR) (1994), which promoted the expansion of PPPs and institutional reform in order to ensure efficient delivery of partnership projects. This report was arguably the first major work towards fashioning a space for PPPs as feasible policy options. They are now framed as a 'strategic necessity rather than a policy option', representing a 'unique and flexible solution to implement infrastructure projects' (UNECE 2002, p. 3). The latest figures suggest PPPs account for 20 per cent of total infrastructure investment in low and middle-income countries, which is approximately double the level in the late 1980s (Klein 2015, p. 5).

The World Bank (2015a) reports that over one billion people live without electricity, one billion live at least two kilometres from all-weather roads, 750 million do not have access to safe drinking water, and 60 per cent lack access to the internet. The infrastructure gap that 'constrains economic growth' is now estimated at US $1 trillion, with an additional $57 trillion in investment needed by 2030 (Mendoza 2016; World Bank 2015, 2011). The World Bank explains these gaps by highlighting government insufficiency, as they face 'capacity and financial constraints' and 'fall short of bridging the infrastructure gap' (Ibid.).

Multinational consultancies, such as Price Waterhouse Cooper (2010, p. vii), further this this line of argument: 'government budgets are under severe pressure […] more now than ever'. Deloitte (2007, p. 1) agrees: governments are 'turning to the private sector' in order to solve the infrastructure deficit. The private sector is thus framed as the expedient solution to a severe and growing problem. 'Underinvestment in infrastructure is one of the most highly interconnected risks, with potential systemic implications' (World Economic Forum and PwC 2010, p. vii; see also Earnst & Young 2015).

PPPs are framed not only as a solution to government fiscal constraints, but they are also a means to improve the quality and delivery of public services by tapping into private sector expertise. The private sector brings an 'entrepreneurial, results-driven approach to infrastructure', and whilst a shortage of government funding makes a difference, a more serious hurdle is 'a lack of know-how to develop infrastructure projects' (IFC 2012, p. 4). HM Treasury (2012), United Nations Economic Commission for Europe (UNECE) (2002) and PPIAF (2014) echo these statements, implying that the private sector is more innovative, creates incentives to maximise efficiency, and takes full advantage of business opportunities.

In sum, the pragmatic rationale for the rapid scale-up in support for PPPs is based on the claim that they have the potential to 'close the infrastructure gap by leveraging scarce public funding and introducing private sector technology and innovation to provide better quality public services through improved operational efficiency' (World Bank 2015, p. 5). They have been thus framed as a universal solution for governments facing infrastructure gaps, budget limitations, and a lack of expertise. To evaluate China's acceptance of a universal PPP model to tackle their infrastructure challenges, we explore the investment needs of the public sector and the extent to which the public sector draws on and benefits from the resources and expertise of the private sector.

These three debates capture the predominant ways in which PPPs have been defined and their broader significance understood. Table 1 summarises the framework.

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Applying the framework to China

Government to governance

Conceptually, we are looking for evidence of a move from government to governance, and whether the growth of infrastructure PPPs in China has signalled this shift. Whilst this remains a somewhat abstract concept, we use the level of maturity of the PPP-enabling environment as a proxy for the transformation, zeroing in on PPP policy formulation and formalisation.

Policy formulation

2014 was hailed as a 'landmark year' in Chinese PPP development both in terms of specific policy reform and political commitment (International Institute for Sustainable Development 2015, p. 2). The EIU Infrascope Index (2014) indicated China was experiencing the greatest improvement in political will toward this end. This change in commitment can be traced back to the third plenum of the 18th Chinese Community Party (CCP) Central Committee in November 2013. A policy agenda was announced with the aim of reducing central government interference in the economy and accelerating the improvement of the modern market system. The plenum stressed that the 'underlying issue is striking a balance between the role of government and that of the market' (CCP 2013). Later in 2014, Chinese government circular talks promoted 'the transition of [government's] role from direct 'provider' of public goods to 'partner' of private capital and 'supervisor' of PPP projects (NDRC 2014).[5] This policy reform programme launched by the CCP in late 2013 seems to suggest that PPPs in China are signalling a conceptual shift in state responsibility.

Furthermore, support for the PPP model has come from the highest levels of government, including Premier Li Keqiang and Minister of Finance Lou Jiwei. The latter, for example, has proclaimed PPPs as an important reform instrument that can leverage the reconstitution of government functions and allow the market to play a more important role in urbanisation and resource allocation (Foreign and Commonwealth Office 2014; Jiao 2014). New private investment rules came into force in 2015, symbolic of China's recent efforts to open public services to private investors and encourage PPPs (NDRC, 2015). Although it seems investors were initially wary about the level of risk, according to global law firm Pinsent Masons (2015a), after 1 June 2015, private investors were granted greater financial security and better credit support from local banks. It appeared both domestic and foreign private sector companies would be able to take advantage of these new investment opportunities, as Article 3 of the new law stipulated that the public sector would be allowed to enter into concession contracts with both domestic companies and those incorporated outside China (NDRC 2014; Pinsent Masons 2015b). PPP mechanisms were also the favoured model in public services, as they fall under both government responsibility and market-based operations (NDRC 2014). This converges with the wider CCP strategy as outlined above and seems to signal a conceptual shift in the role of government.

Policy formalisation

Whilst the political commitment and initial moves toward policy reform support the conceptual framing of PPPs as signalling a shift to regulatory governance, the actual formalisation of the PPP process in terms of establishing a clear legal basis and administrative units has been lacking.

Except for some ministries' regulations, such as the Ministry of Commerce, there is no national PPP law in China. The regulations issued by the State Council, its ministries, and provincial governments often pay attention to their own responsibilities rather than focusing on 'compatibility or completeness' (Ke and Wang 2015, p. 76). PPPs can therefore be implemented differently in different places in China; whereas in some provinces state reconstitution may be aided by stronger regulations, in others the investors still face great legal and regulatory risks.

The EIU Infrascope Index for Asia-Pacific (2014, 2012) provides a useful point of comparison. In 2011, China ranked 7th overall on the Infrascope scale (out of a possible 16 in the study).[6] It ranked 11th for legal and regulatory framework, and 13th for institutional framework.

With the expressed political commitment to move government toward service regulator and away from service provider and considering the operational maturity of PPPs in China, one would expect to see the legal and regulatory frameworks improving at the same rate or faster than other countries in the region.[7] From Table 2, it is clear to see this is not the case. China now ranks 8th overall; 16th for legal and regulatory framework, and 15th for institutional framework. These rankings, combined with key studies by the World Bank (2015a), Deloitte (2007), Ke (2014), Liu and

Yamamoto (2009), and Sachs *et al* (2007), corroborate the inhibiting nature of China's legal and regulatory framework when it comes to PPPs. This is a paradox: whilst the legal and regulatory frameworks remain weak, the state still maintains primacy in the PPP process.

- INSERT TABLE 2 ABOUT HERE –

There are certainly incentives to maintain the status quo. Without a strong regulatory framework, decisions can be made on a case-by-case basis to suit the personal goals of government officials, rather than the wider public interest. Indeed, risk factors identified by Sachs *et al.* (2007), Wang *et al* (2000, 1999), and Cheng and Wang (2009) substantiate this claim. Chang and Wang (2009) in particular show how personal ties and reciprocal exchanges of favours characterise many relationships between businesses and local government officials.

As with PPP laws, there are no national PPP-specific agencies in China.[8] PPP projects are treated in a similar way as traditional state infrastructure projects: the State Council and its ministries issue PPP regulations in the form of opinion, notice, and decision (Ke 2014). The National Development and Reform Commission (NDRC) and the Ministry of Finance (MOF) act as the main players, but there is no clear direction on the division of responsibilities between the two (Economist Intelligence Unit 2014). Both develop PPP guidance and set up local PPP centres, and neither wants to lose control over this rapidly developing sphere of influence.

The lack of a definitive centralised administrative structure for PPP development currently acts as a constraint on operations (Zhang *et al.* 2015). Responsibility for PPP governance is fragmented across industrial sectors while administrative processes differ across locations within China (OECD 2005). Most PPP contracts are granted at the local level and local government bodies have ended up vying for power with one another, inhibiting effective PPP implementation (Zhang et al. 2005). In fact, the need to consider broader institutional arrangements to regulate PPPs between local regions and the centre was something highlighted by HM Treasury (2015, p. 12) in their recommendations to the government of China. This political dynamic isn't uncommon in other areas of policy implementation across China, where there is often a gap between the central government's discourse and policies, and outcomes at local level (Teng and Gu, 2008; Kostka and Hobbs, 2012).

- INSERT FIGURE 2 ABOUT HERE –

Herein lies another paradox. The literature on PPPs suggests this transition from government to governance requires loosening state control. Yet PPPs also need powerful central regulatory control in order to push through the relevant legal and regulatory frameworks. According to KPMG China, central government's role should now be more about setting the regulatory framework and 'monitoring compliance and performance in a transparent way that is clearly codified', but this is simply not the case in many PPP projects (China Daily 2014). The weak frameworks have allowed the local state, to maintain primacy within the PPP operations, and it appears many are implemented on an ad hoc basis to suit local preferences. So, while China is often portrayed as the epitome of the strong central state, this particular nuance highlights a common feature of state-market relations in China; weak central frameworks, allowing for rent-seeking behaviour at the local level (Wank, 2009).

China is currently seen by those in the UK government as in 'transition', moving not only from a state-driven economy to a market-driven economy, but from state government to PPP governance (HM Treasury 2015, p. 9). The evidence from actual legal and regulatory framework formalisation brings this outlook into question.

Infiltration of neoliberal values

PPPs are often associated with creeping neoliberalism and rising private sector power. At a slightly lower level of abstraction, PPPs are framed as inherently influenced by particular political values, namely, a commitment to market competition and privatisation. Here we assess the extent to which this holds in China by evaluating the commitment to the NPM agenda, specifically by gauging the level of outsourcing public services to private actors and the maturity of competitive tendering.

Privatisation: level of outsourcing public services to private sector

Developed market economies have ostensibly used PPPs with the overall aim of achieving more effective and efficient management in public infrastructure provisions, in line with NPM doctrines. These doctrines favour the influence of private initiative in public services provision, and one would therefore expect to see an increase in private sector activity in relation to PPPs (Hood 1991). However, since the Chinese government began its promotion of the PPP model, projects that have proved popular have largely involved SOEs and other state-backed enterprises rather than truly private actors. Between 2007-2010, the majority of transport contracts, investment reaching $7.4 billion, were granted to SOEs (PPI Database 2015). Mu *et al* (2011) explain the shift as a result of private contractors' projects being abandoned, or eventually transferred to SOEs for completion. Many PPPs in China would be better defined as 'public-public partnerships.'

Large SOEs are often found in strategic sectors such as telecoms and transport; sectors likely to fit the PPP model. Although some firms have sold stakes to private investors, they operate 'more or less like government ministries' (The Economist 2011). The partnerships in telecommunications, attracting $10.6 billion investment since 1990, are all sponsored by China Mobile, China Unicom and China Telecom, of which all three are giant SOEs (PPI Database 2015). Genuine private interests do not support telecommunication PPPs. Nearly half of the projects in the top ten attracting the most investment are run by SOEs, including China Unicom, China Mobile, Longyuan Power Group and Daqin Railway (Ibid.) The Huaibei Power Plant, reaching financial closure in 1997 after a $333 million investment, was classified as a conventional build-operate-transfer model. It is owned by Chinese State Development and Investment Company (SDIC), Anhui Electricity Development Company (AEDC) and Huaibei Electricity Development Company (HEDC), of which all four are SOEs, owned by the central, provincial and local government respectively (Ibid., Smith *et al.* 2004). Local governments in particular are likely to view SOEs as safer partners than private investors, and SOEs are better placed to bear the risk that comes with partnering with local government. Suggesting that PPPs follow an NPM style of management doesn't seem to hold in China. The state continues to be the primary actor in many of the large investment projects, yet they are still framed as PPPs.

Part of the problem is the ambiguity in what constitutes a PPP, and this has an impact on the likely benefits and policy implications of pursuing a PPP-led development programme. Even within China, there exists a stark difference between the NDRC Guiding Options and the MOF notices in terms of how PPPs are defined. According to the NDRC Contract Guidelines (2014), an SOE can participate in a PPP arrangement by providing capital. However, according to the MOF notices (2014), only domestic and foreign private enterprises, not SOEs, may provide capital. The ambiguity in the term has allowed China to rework the model, defining concepts such as 'public' and 'private' to suit particular interests. Tracing the PPP model back to its roots in the UK, the Treasury (2013) defines sector classification as a matter of control. If a body is 'controlled by general government (central or local) or a public corporation, then it will be in the public sector', and 'if not […] it will be in the private sector' (Ibid., p. 11). There is a distinctive and important difference concerning PPPs in China. 'Public' still refers to government, but 'private' is equated instead to enterprise, including both private enterprises and state-owned. This has had a significant impact on the way in which PPPs operate in China.

Competition: level of competitive tendering

In recommendations to the Chinese government, HM Treasury (2015, p. 13) states the 'driving force behind all successful PPP programmes is competition'. The assumption is that for a Chinese PPP programme to be successful it may be necessary to change not only the way the contracts are written in terms of risk-sharing, but also how they are procured.

For PPP tendering, the procedures need to comply with existing legislation, such as the Government Procurement Law (GPL) 2002, Contract Law 1999, and the Tendering and Bidding Law ('Bidding Law'). The latter expresses commitment to creating a competitive procurement process; Article 18 stipulates 'a bid inviter may not restrict or exclude any intended bidder with unreasonable requirements and may not apply discriminatory treatment to any intended bidder' (NPC 2000). Loans provided by the Asian Development Bank (ADB) also require tendering processes to adhere to strict guidelines surrounding invitations to bid – 'domestic preferences are not applicable in the evaluation of bids' (Asian Development Bank 2015, p. 33).

It is difficult to determine exactly how PPPs are selected, as information related to shortlisting, negotiations, and appraisal is not typically available (Economist Intelligence Unit 2012). However, we can decipher that the legal frameworks across China are inconsistent, leading to confusion when planning and discrepancies between the actual law and implementation (de Jong *et al.* 2010; Liu *et al.* 2016). It is worth noting that irregularities in regulatory frameworks are not uncommon in other parts of Asia, where the PPP model has grown rapidly in popularity (Asian Development Bank, 2019).[9] In China, Article 43 of the Bidding Law stipulates that investors are not allowed to negotiate with the government on key issues such as the tender price (NPC 2000). However, interviews with government officials by Mu *et al* (2011, p. 799) reveal that strategic behaviour frequently emerges around (re)negotiation processes with bidders.

Bidding occurs in a kind of black box, and this does not encourage competition. Although the market is technically open to the private sector, entry for non-public actors is severely restricted. The demands for qualifications (e.g. certificated technical skills and experiences) over the enterprises have increased, which works against private sector actors as they struggle to access these qualifications (Mu *et al.* 2011). New regulations also stipulate that contractors must pay for the full project guarantee deposit in advance of project commencement, which again disadvantages private sector actors as few can afford this payment upfront (Ibid.).

Quite contrary to the popular understanding of PPPs as just another neoliberal policy notion, there is little evidence of NPM doctrines or rising private sector power in the implementation of the Chinese model. While it is inherently difficult to measure policy alignment with particular values, the lack of evidence linking Chinese PPPs to the core NPM principles of privatization and competition, using estimated levels of private outsourcing and competitive tendering, certainly suggests a lack of fit with the neoliberal values associated with PPPs in the West.

Universal policy solution

At the lowest level of abstraction is the pragmatic framing of PPPs as a globally convergent policy tool, used by 'nascent' economies to access private finance and expertise (World Bank 2015, p. vii). To assess the extent to which China has accepted a universal PPP model to solve its infrastructure needs, we look at investment needs and the degree of involvement of the private sector in both funding and knowledge sharing.

Investment needs

The World Bank estimated annual infrastructure spending in developing countries in 2008 at $800-900 billion, of which $138 billion was private participation in infrastructure (Fay *et al.* 2011). However, the World Economic Forum (2015) calculated a global infrastructure financing gap of approximately $1 trillion per annum, and infrastructure investment needs are unsurprisingly higher in emerging markets than in developed markets. Similarly, Bhattacharyay (2012) in his work for ADB found that 32 economies in Asia would need $8.2 trillion (2008 prices) over the course of 2011-2020; China would require more than half of the estimated amount. In other words, China has become the world's largest infrastructure market and leads all major economies in infrastructure investment as a proportion of GDP (McKinsey 2014).

- INSERT FIGURE 3 ABOUT HERE -

In China's 12th Five-Year Plan (FYP) (2011-2015), the annual GDP growth rate was expected to reach seven per cent and an urbanisation rate of 51.5 per cent. In response to the rising urbanisation, the government has continuously promoted the development of public transportation and other public facilities such as water supply, gas supply, and waste disposal (Ibid.). Key targets set in the FYP cannot be achieved if the government relies on public financing alone, particularly considering that the central and subnational governments are suffering from debts of RMB 123,814.04 trillion and 178,908.66 trillion respectively (Ke 2014). However, Figure 4 shows that public finance still dominates in emerging Asia, especially in China.

- INSERT FIGURE 4 ABOUT HERE -

Therefore, there have been significant efforts to shift the balance (Inderst 2016). The mobilisation of public funds and accumulating foreign debt has enhanced the interests of nascent economies in the provision of infrastructure projects through PPP schemes. Yangmin Yang, Deputy Director General of the Ministry of Finance, recognises this, having stated that the promotion of PPPs is 'consistent with our national development needs' (Asian Development Bank 2014, p. 3). Thus, it seems the increasing number of PPP projects on the market is unavoidable; the government has to rely on private finance to initiate the infrastructure projects (Sachs *et al.* 2007). This supports the argument that PPPs are needed in China in order to finance increasing demands for investment in infrastructure.

Resource and knowledge sharing

When it comes to sharing resources and knowledge, the debt burdens of local municipalities in China means private investors act less as 'partners' and more as mere funding sources. This idea is supported by Wang Baoan, Vice-Minister of Finance, who has noticed a certain 'blindness in selecting projects' and a hastiness to use the PPP model purely as a means to access finance (CDM Fund 2014). Whilst investment needs are dire, the promotion of PPPs as sharing mutual benefits and knowledge transfer has not quite entered the mind-set of the Chinese central government or the local authorities (Asian Development Bank 2014; International Institute for Sustainable Development 2015).

The main advantages of the PPP model for government officials seem to be purely centred on accessing finance. PPPs were listed by the State Council as one of the two major ways to manage local government debt (Zhang 2014). The Council listed 80 projects that would include private investment, again emphasizing the role of private capital as local governments' budget funds run low (Ibid.). In a study by Chan *et al.* (2009), the top driver for PPPs identified by Chinese respondents was public sector budget restraints. This has worked to the detriment of certain PPP projects. Real estate investor Ren Zhiqiang heavily criticised the PPP model; according to him, his investment in Line 4 of the Beijing subway turned out to be more of a 'generous donation' (Zhang 2014). Such complaints reflect a wider pattern of how PPPs are implemented in China. The government maintains the dominant role while private investors are regarded as 'cash cows' or 'automatic teller machines' (Ibid.).

This can be traced back to government fiscal policy. 90 per cent of PPP contracts were granted at the local level where there is a lack of capacity to impose taxes (see Figure 2). This increases incentives to make extensive use of off-budget financing options for infrastructure (Ke and Wang 2015). In most PPP projects, private partners have sole responsibility for the financing component. Research suggests that the PPP model is a new label given to the government's previous practice of simply encouraging private capital to enter certain areas (Yun *et al.* 2015). So the lack of finance available at the local level suggests that what drives the opening up of the infrastructure market to the private sector is the pressure of inadequate fiscal resources.

However, while PPPs have been promoted as a way to assist local governments to cut debt, it appears that it is contributing to increasing local government debt in the long term, particularly in poorer areas such as Guizhou and Yunnan (Sheehan, 2017). These areas are building a pipeline of PPP projects, but racking up contractual obligations to, for example, fill the cash-flow gap for user-pay projects. This has put burdens on local level finances, which S&P Global estimated at $6 trillion in 2018 (S&P Global Insights, 2018). China's vice minister of finance, Shi Yaobin, has recognised PPPs role in this as a problem, explicitly saying they may 'increase local governments' debt risk' (Reuters, 2016). Similarly, a senior official from the MOF criticised the misuse of PPPs by local authorities, saying some 'chalk up debt for unsuitable schemes' (ibid.).

The temptation to simply use private sector money to fund infrastructure projects means subnational governments do not carefully consider the full range of requirements and benefits associated with the PPP model (Ke 2014). Through the pragmatic lens, PPPs should present a number of recognised advantages; whilst these include additional finance, they should also bring the private sector operational efficiencies and value for money (VfM) (European Commission 2003). Herein lies the discrepancy between the PPP model promoted by IOs and that by the Chinese government (Winch *et al.* 2012). The increased use of PPPs in China stems from the desire for additionality to the public funding capability.[10] VfM and sharing mutual benefits do not seem to factor into these arrangements in China, particularly given that no VfM assessment has been developed (Economist Intelligence Unit 2012; Sachs *et al.* 2007).

Discussion

Through the conceptual lenses, we have seen that the anticipated shift toward regulatory governance does not bear out China. Closer analysis reveals how the lack of formal PPP institutions and PPP laws enable projects to be implemented differently in China according to local circumstances, predominantly to the advantages of government officials.

Applying the ideological lens exposes a distortion in the definition of PPPs in China. Rather than increasing private sector power from the same starting point as a liberal market economy, PPPs have been employed strategically as a language game in order to manipulate the conventional definition. The MOF and NDRC define PPPs differently – one includes SOEs and the other does not – and no attempt has been made to clear up this definition. Keeping the definition vague allows the state to control the vast majority of partnerships via the involvement of SOEs. The lack of competition in PPPs also points to a deliberate manipulation; private investors are frequently denied entry to the infrastructure market. This provides an important check on the claim that PPPs are evidence of transition to a liberal market economy. Instead, our analysis reveals the fluid nature of the term and how it can be aligned to meet the expectations of the politico-economic context.

Applying the pragmatic lens shows us that the dire investment needs and lack of money at the local level in China have worked to skew the PPP model, where private investors are used as mere cash cows rather than entering into genuine partnerships. No VfM assessment has been developed, giving an impression that whilst the PPP model claims to bring several advantages, in China it serves one purpose – increasing public funding capabilities. Our analysis shows that the idea of PPPs as a partnership based on mutual exchange does not apply in China. Instead, our findings suggest that the main driving force behind PPPs in China is fiscal restraints.

Whether observed through a conceptual, ideological or pragmatic lens, Chinese PPPs are resulting in increased state control. This is either through a lack of legal basis and regulatory framework meaning state officials can manipulate the PPP process, through a lack of definition allowing SOEs to enter partnerships, or through the state using private actors as merely a source of funding.

Our findings suggest that China is not experiencing a transition to a neoliberal reconstituted state relying on private sector funding and expertise. In China, PPPs are used by the state solely to access funds rather than share expertise. SOEs are strengthened in the process, and there has been little commitment to formalising the PPP-enabling environment as encouraged by the World Bank and other global institutions. There is little evidence to suggest China intends to take the same route that other liberal market economies have. Theoretically, this poses a challenge to the existing debates in political economy scholarship, calling into question prevailing understandings of PPPs and what their proliferation means for China and beyond.

Conclusion

HM Treasury (2015, p. 10) regard PPPs in China as ‘transitional structures on the journey towards more market-based relationships’. Other reports similarly make it clear that China is simply low on the PPP ‘maturity curve’ (Deloitte 2007; Economist Intelligence Unit 2014), still working on its commitment to the PPP model. China is represented as a laggard, behind in establishing a viable legal and institutional framework that encourages competitive tendering and makes use of private sector expertise. A work in progress, if you will.

Based on prevailing understandings of the meaning and function of PPPs, one could be forgiven for concluding that the rise of PPPs in China represents a break from earlier state-centric modes of governance and further evidence of a liberalising Chinese economy. But, on the contrary, our findings suggest that the state remains the dominant partner in Chinese PPPs. In fact, our analysis suggests that the state actually uses PPPs as a mechanism for strengthening its own hand. So instead of supporting claims of a liberalising Chinese economy, our findings seem to support the idea that China is falling back to an older principle, moving away from privatisation, which it followed briefly in the 1980s, back towards the state taking full control, preferring investment from SOEs and a lack of competitive tendering.[11]

Through our analysis, we have revealed the significant ways in which the Chinese PPP model differs from the Western model in practice. Yet, evaluations of Chinese PPPs continue to be extrapolated from the Western experience. This, we argue, has contributed to a fundamental misunderstanding about what the dramatic rise in the number of PPPs in China signifies in terms of the direction of state-market relations in the country. And this misunderstanding, in turn, should serve as a reminder of the political and protean nature of such concepts and their intimate relationship to the context in which they have developed.

It is, however, important to note three caveats here. First, our study focuses on PPPs in infrastructure. This constitutes a strategic realm of the economy. There is evidence that China is indeed engaging in market liberalisation outside such 'commanding heights' of the economy (Breslin 2012; Pearson 2005). As such, our findings should be taken as limited to these large projects with any further generalizations subject to future study. Second, there is an on-going and lively debate over just how autonomous Chinese SOEs are from the party-state (Gonzalez-Vicente 2012; Jones and Zou 2017). While there is no consensus on the exact nature of SOEs in China, a daunting task given the level of variation among them, there is general agreement that the vast majority of SOEs remain at least under indirect control of the central government (Breslin 2012; Jones and Zou 2017; Zhang 2010), something that is echoed in our study here. Third, private sector actors, states, and international organisations have increasingly been advocating for the use of PPPs in the Belt and Road Initiative (BRI) (Ma 2019; Sugden 2017). While there has yet to be significant use of the model in the context of the BRI, it would presumably involve relationships with host country governments and the private sector that would differ from the Chinese infrastructure projects discussed here. This does seem to be pitched as a way to access finance, and will be something to watch closely as a potentially important area for future research.

Beyond PPPs, the findings show how the rise of China has opened up conceptual space for a fuller understanding of the political and historical nature of policy instruments and our interpretations of them. On the one hand, with a history of state control and a centrally planned economy, China is using the PPP model much differently than the liberal market democracies in which it originated. This variation appears to reflect differences in the relative power underpinning state-market relations in each context, as well as differences in the ideologically driven understandings of how these relations should play out. It also indicates, yet again, that China is one to watch; consistently defying expectations and challenging existing scholarship on the relationship between economic liberalisation and democracy, and capitalism and authoritarianism. The outcomes of these partnerships in the Chinese context not only underscore just how powerful the state remains in China, but also remind us of the power of the private sector relative to the state in Western, liberal democracies. On the other hand, China is using the ambiguity surrounding the PPP model to serve particular interests, much like it has been used in Western economies for some time. This should serve as a reminder of the ways in which power shapes the character of such policy tools and the meanings we derive from them. Whether the Chinese PPP model will serve as an alternative model for other economies moving forward, or whether it is a temporary reckoning, will only be determined in time.

So the findings not only demonstrate the importance of the political-economic environment in determining the character of policy instruments and outcomes, but they also show just how steeped in context prevailing understandings of such policy instruments and their conceptual underpinnings have been. This should serve as a check not only on claims of a rapidly liberalising China, but also a check on the tendency to universalise inherently political policy instruments that were born at a particular time, in a particular place, and for a particular purpose.

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Figures and Tables

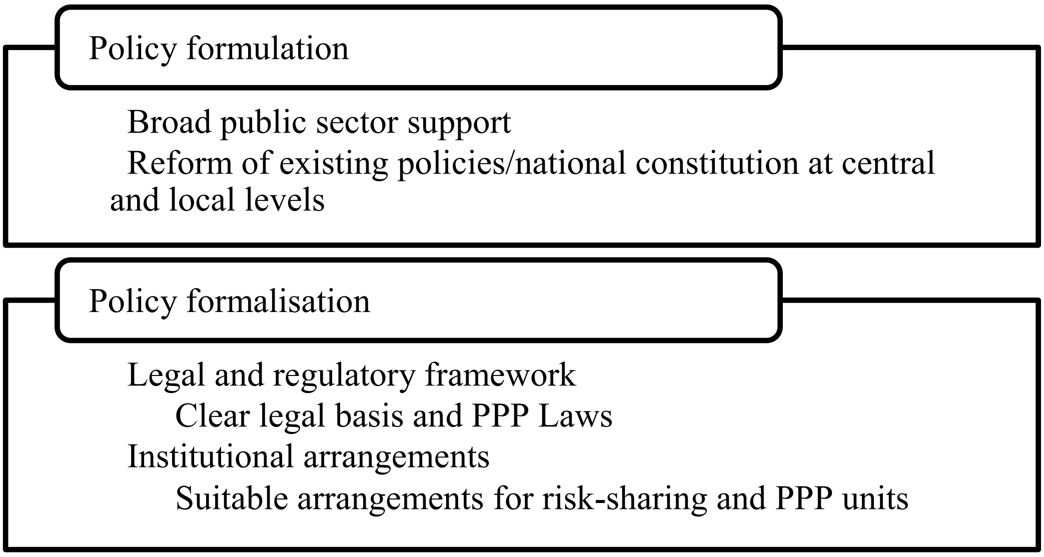

Fig. 1: Recommendations for a PPP-enabling environment. (Source: Economist Intelligence Unit, 2014; European Commission, 2004; OECD, 2015; PPIAF, 2009; UNCITRAL, 2001; UNECE, 2004; UNESCAP, 2014b; World Bank, 2015; World Economic Forum and PwC, 2010)

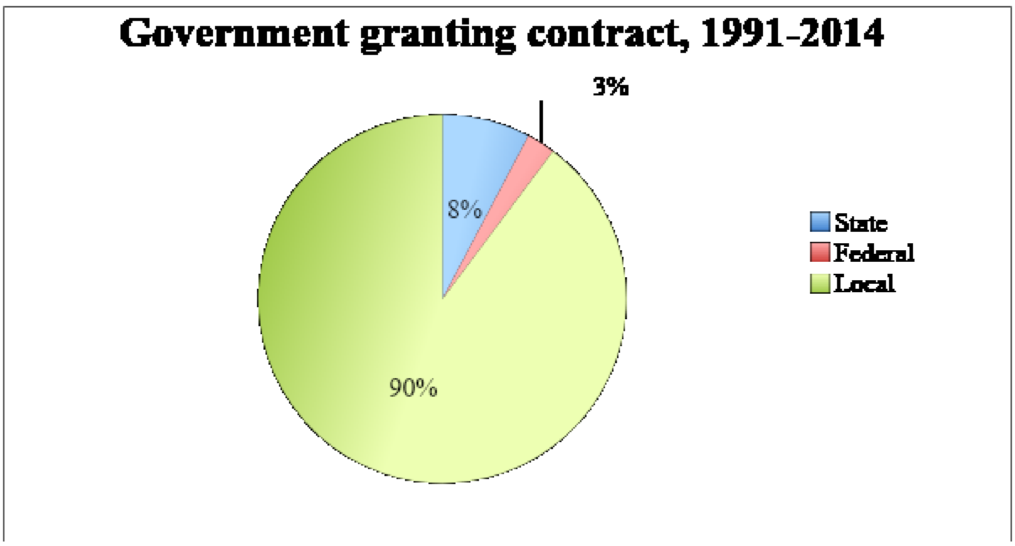

Fig. 2 Government granting contract.
(Source: World Bank PPI Database, 2015)

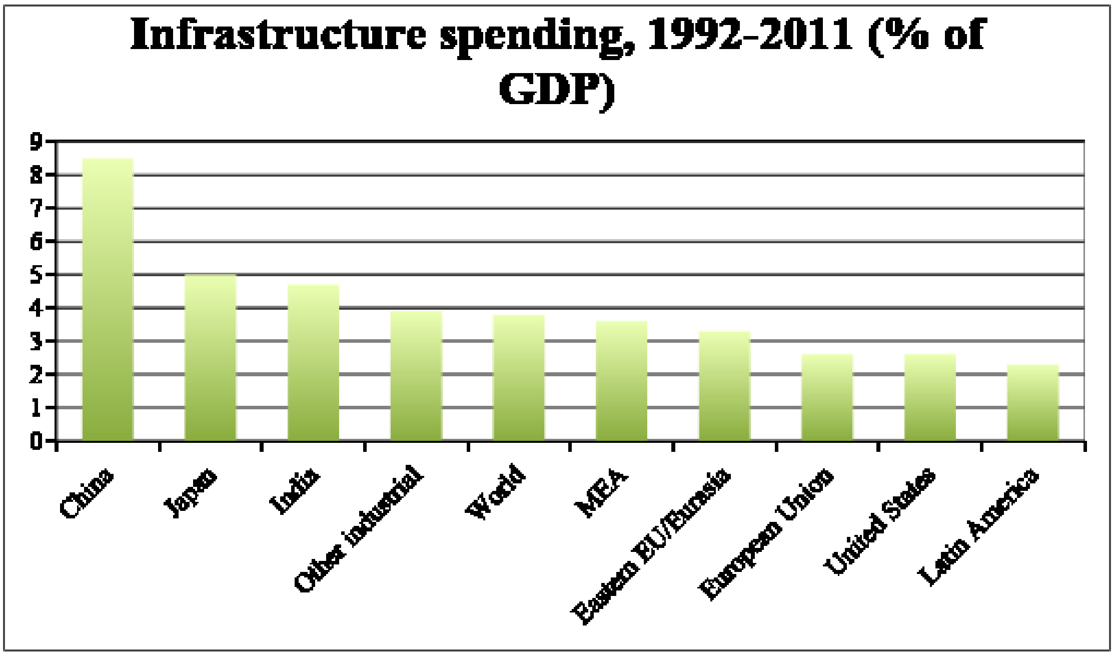

Fig. 3: Infrastructure Spending, 1992-2011 (% of GDP). (Source: Inderst, 2016; McKinsey, 2013)

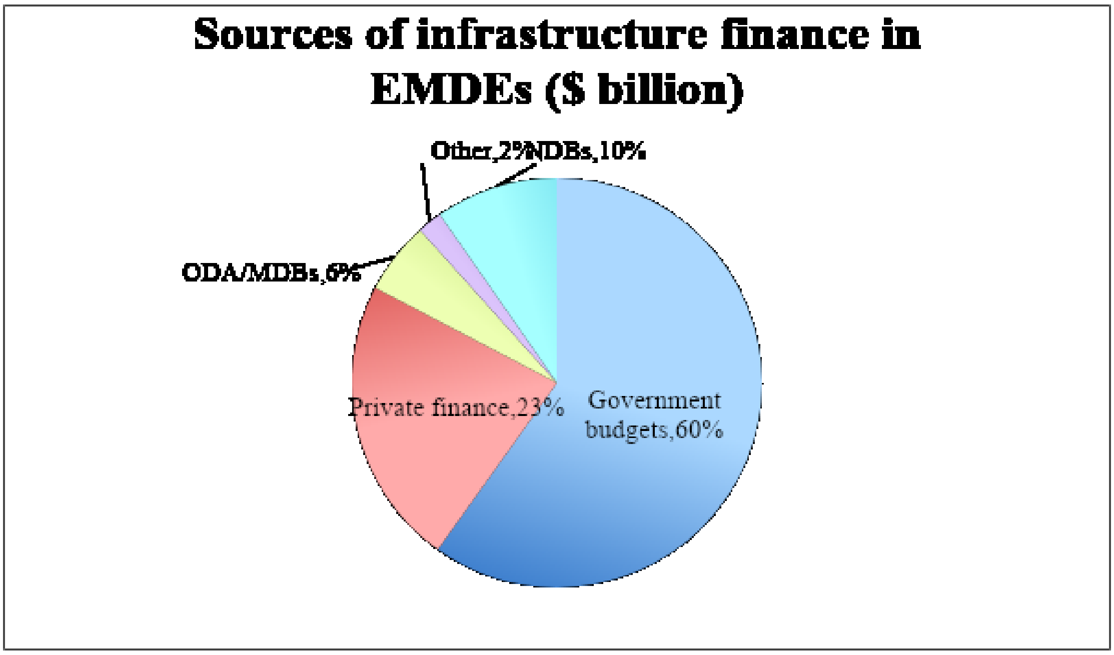

Fig. 4: Sources of infrastructure finance in emerging markets and developing economies (EMDEs). (Source: Bhattacharyay, 2012; Inderst, 2016)

Lens	Claims	Expectations	Indicators
Conceptual	Shift from government to governance	Service provider to service regulator as evidenced by PPP environment	- Policy formulation: broad political commitment and reform of existing policies - Policy formalisation: existence of PPP laws and PPP units
Ideological	Infiltration of neoliberal values	Public administration broadly aligned with NPM agenda	- Privatisation: level of outsourcing public services to private sector - Competition: level of competitive tendering
Pragmatic	Universal policy solution	Use of private sector resources and expertise to meet infrastructure needs	- Investment needs: infrastructure required versus rate of infrastructure growth - Private sector resources and expertise: level of private sector additionality and knowledge sharing

Table 1: A framework of expectations with indicators

Indicator	2011 ranking	2014 ranking	Rank change
Legal and regulatory framework	11	16	-5
Institutional framework	13	15	-2

Overall	8	7	-1

Table 2: EIU Index positions for China (Source: Economist Intelligence Unit, 2014)

End Notes

[1] While scholarship on political economy is obviously broad, historiographies show that the modern field of political economy and its sub-disciplines, for example IPE, are built on Eurocentric foundations (Hobson 2013; Cohen 2007).

[2] See, for example, Deloitte (2007); Economist Intelligence Unit (2014); HM Treasury (2015).

[3] A BOT Project is typically greenfield in nature, where the project company or operator obtains its revenues through a fee charged to the utility or government rather than tariffs charged to consumers (PPIAF 2014a)

[4] Other elements included in the EIU Infrascope Index (2014, 2012) are operational maturity, investment climate, financial facilities and sub-national adjustment factor.

[5] Translation from HM Treasury (2015).

[6] This is behind Australia, UK, Korea, Gujarat State, India and Japan. Two countries out of the sixteen were used as benchmarks of best practice cases, but are not located in the Asia-Pacific region (UK and Australia).

[7] China ranks highly for operational maturity in the EIU index, as it commissioned 529 PPPs, the second highest over the study period.

[8] This is in contrast to other countries - for example both India and Australia have Public-Private Partnership Units. The latter has a PPP agency in each state.

[9] For example, in Indonesia, there are discrepancies in PPP procurement procedures, where one regulation stipulates a minimum of five bidders, and another three (Asian Development Bank, 2019).

[10] Additionality in this context is the ‘provision of private capital, additional to that available from public sources, for investment in public infrastructure’ (Winch *et al.* 2012, p. 12)

[11] Mu *et al.* (2011) trace the movement from the centrally planned economy to privatization and eventually through to the PPP model.