

# Performance-Based Decentralization and Local Government Innovations in China

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# Motivation

- Common pattern in the change of inter-government relations between central and local governments in developing countries
  - Centralization→
  - Decentralization→
  - Recentralization→
  - Decentralization→...
- Huge disparities among areas in big countries like China and local governments vary tremendously in administrative capacity, but the same administrative structure , rules and procedure are applied
  - Innovative drive of the high-performers is undermined , and (or)
  - The low-performers are penalized due to capacity deficit
- The inter-government relations can be unstable and unpredictable because problems in a few areas would give rise the dramatic changes in the entire system
  - Potentially performance-enhancing administrative reforms might be short-lived

# New Approach to Decentralization: Performance-based Decentralization

- “Greater Autonomy to Counties with Strong Performance” (强县扩权) Experiment in Zhejiang Province in China
- Instead of decentralizing administrative power to all counties, greater administrative autonomy is given to selected counties with good performance
  - Greater administrative autonomy is matched with high capacity
  - Greater autonomy is used as reward for good performance

# Focus of the Research

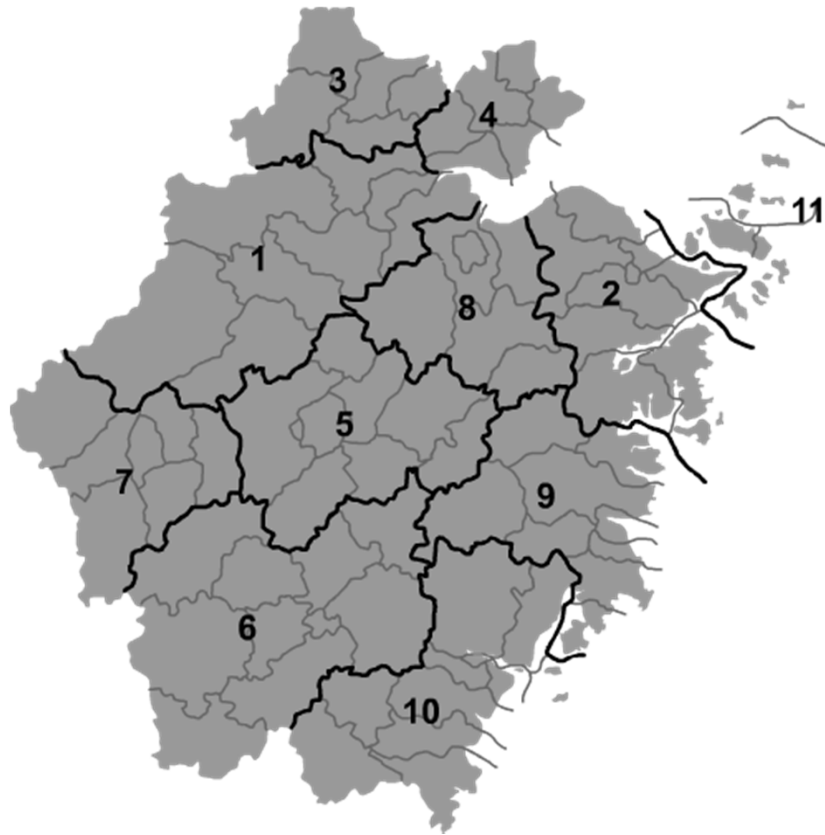
This research focuses on the usefulness of the performance-based decentralization in overcoming key obstacles facing decentralization and its effectiveness in promoting local government innovations

# Zhejiang Province



An East coastal province with fast economic growth over the last three decades. Its nominal GDP for 2010 was 2.72 trillion yuan (US\$402 billion) with a per capita of 44,335 yuan (US\$6,490) in 2009

# Administrative System



Provincial → prefecture-  
level → county level  
→ township-level

The eleven [prefecture-level divisions](#) of Zhejiang are subdivided into 90 [county-level divisions](#) (32 [districts](#), 22 [county-level cities](#), 35 [counties](#), and one [autonomous county](#)). Those are in turn divided into 1570 [township-level divisions](#) (761 [towns](#), 505 [townships](#), 14 [ethnic townships](#), and 290 [subdistricts](#)).

# “Greater Autonomy to Counties with Strong Performance” (强县扩权) Experiment in Zhejiang Province

- Since 1992, Zhejiang provincial government has given greater administrative autonomy to selected counties based on GDP, GDP per capita, local tax revenue and other criteria.
- Greater autonomy has been given in two main ways
  - Roles and responsibilities of provincial level agencies are delegated to county level
  - Roles and responsibilities of prefecture-level governments to county level

# Five Rounds of “Greater Autonomy to Counties with Strong Performance” Experiment

- 1992: the first round. Counties included: Xiaosan, Yuyao, Yuhang, shengxuan, Cixi, Haining, Tong Xiang, Shaoxing, Huangyan, Jiaoshan, Pinghu, Haiyan, Jiaojiang. Greater autonomy given on the approval of infrastructure and FDI projects.
- 1997: the second round: Xiaoshan and Yuhang. They were given the administrative autonomy the same as the prefecture level in a broad ranges of administrative tasks related to economic development and commerce.
- 2002: the third round: Shaoxing, Wenling, Cixi, zhuji, Yuyao, Yueqing, Ruian, Shangyu, Yiwu, Haining, Tongxiang, Fuyang, Dongyang, Pinghu, Yuhuan, Lingan, Jiashan. 313 administrative tasks (items)
- 2006: the fourth round: Yiwu. 443 administrative tasks (items)



# The Fifth Round of the Reform

- 2008: the fifth round. It was changed from “Greater Autonomy to Counties with Strong performance “ to “Greater Autonomy to Counties to Enhance Performance” (扩权强县)
- The 443 administrative tasks (items) listed in the fourth round were delegated to ALL counties, and for Yiwu greater autonomy was expanded to 618 tasks (items)

# GDP, GDP per capita and Local Tax Revenue of Counties that were Given More Autonomy in the First Four Rounds of Reforms

	GDP (in 100 Million of RMB)			GDP per capita (in RMB)		
	1991	2011	Annual rate of increase	1991	2011	Annual rate of increase
Huangyan	19.18	267.44	14%	2068	44737	17%
Linhai	14.50	382.05	18%	1387	32724	17%
Dongyang	12.46	337.75	18%	1637	41102	17%
Tongxiang	17.84	483.78	18%	2842	71624	18%
Haiyan	9.90	273.76	18%	2813	73218	18%
Yuyao	23.19	658.77	18%	2865	78971	18%
Haining	18.13	532.67	18%	2902	80497	18%
Yuhang	25.01	738.17	18%	2873	84199	18%
shaoxing	29.41	931.80	19%	3135	128727	20%
Shangyu	16.25	523.66	19%	2169	67404	19%
Pinghu	11.81	393.43	19%	2520	80721	19%
Cixi	26.21	877.18	19%	2706	84330	19%
Jiashan	9.65	323.20	19%	2616	84015	19%
Ruian	14.72	521.71	20%	1306	43445	19%
Yinzhou	26.54	945.40	20%	3785	115696	19%
Jiaojiang	9.60	352.32	20%	2300	68883	19%
Wenling	17.91	678.62	20%	1651	56736	19%
Xiaoshan	35.58	1446.78	20%	3058	118176	20%
Fuyang	12.05	491.10	20%	2035	75320	20%
Yuhuan	8.51	361.52	21%	2271	85869	20%
Zhuji	16.48	740.02	21%	1610	69110	21%
Yueqing	12.45	571.17	21%	1200	45704	20%
Yiwu	12.89	729.68	22%	2062	98127	21%

# The List and Ranks of Zhejiang Counties among the Top 100 Counties in China

1992	2001	2008	2012
Huangyan	Huangyan	Shaoxing	Shaoxing
Xiaoshan	Xiaoshan	Ciqi	Ciqi
Yuhang	Yuhang	Yuyao	Yuyao
Yinzhou	Yinzhou	Haining	Haining
Shaoxing	Shaoxing	Tongxiang	Tongxiang
Ciqi	Ciqi	Shangyu	Shangyu
Yuyao	Yuyao	Wenling	Wenling
Haining	Haining	Zhuji	Zhuji
Tongxiang	Tongxiang	Ruian	Ruian
Shangyu	Shangyu	Yiwu	Yiwu
Wenling	Wenling	Yueqing	Yueqing
Zhuji	Zhuji	Pinghu	Pinghu
12	Ruian	Fuyang	Fuyang
	Yiwu	Jiashan	Jiashan
	Yueqing	Yuhuan	Yuhuan
	Pinghu	Haiyan	Haiyan
	Fuyang	Dongyang	Dongyang
	Jiashan	Lingan	Lingan
	Yuhuan	Deqing	Deqing
	Haiyan	Yongkang	Yongkang
	Deqing	Linghai	Linghai
	Yongkang	Changxing	Changxing
	22	Shenzhou	Shenzhou
		Changnan	Changnan
		24	Ninghai
			Xiangshan
			Fenghua
			27

# Comparison of Counties with More Autonomy and Others

	1991-2008	2008-2011
GDP: annual rate of increase		
Counties with more autonomy	20.25%	14.14%
Other countries	17.93%	13.19%
T value	-4.84	1.82
GDP per capita: annual rate of increase		
Counties with more autonomy	19.73%	14.26%
Other countries	17.81%	12.59%
T value	-4.34	1.65

# Comparison of Counties with More Autonomy and Others

	1991-2008	2008-2011
Local Government Revenue: annual rate of increase		
Counties with more autonomy	17.78%	18.23%
Other countries	16.70%	18.86%
T value	-1.71	-0.54
Industrial Output: Annual rate of increase		
Counties with more autonomy	13.04%	13.35%
Other countries	11.36%	9.11%
T value	-1.69	1.67

# A Case Study of Yiwu City, Zhejiang Province

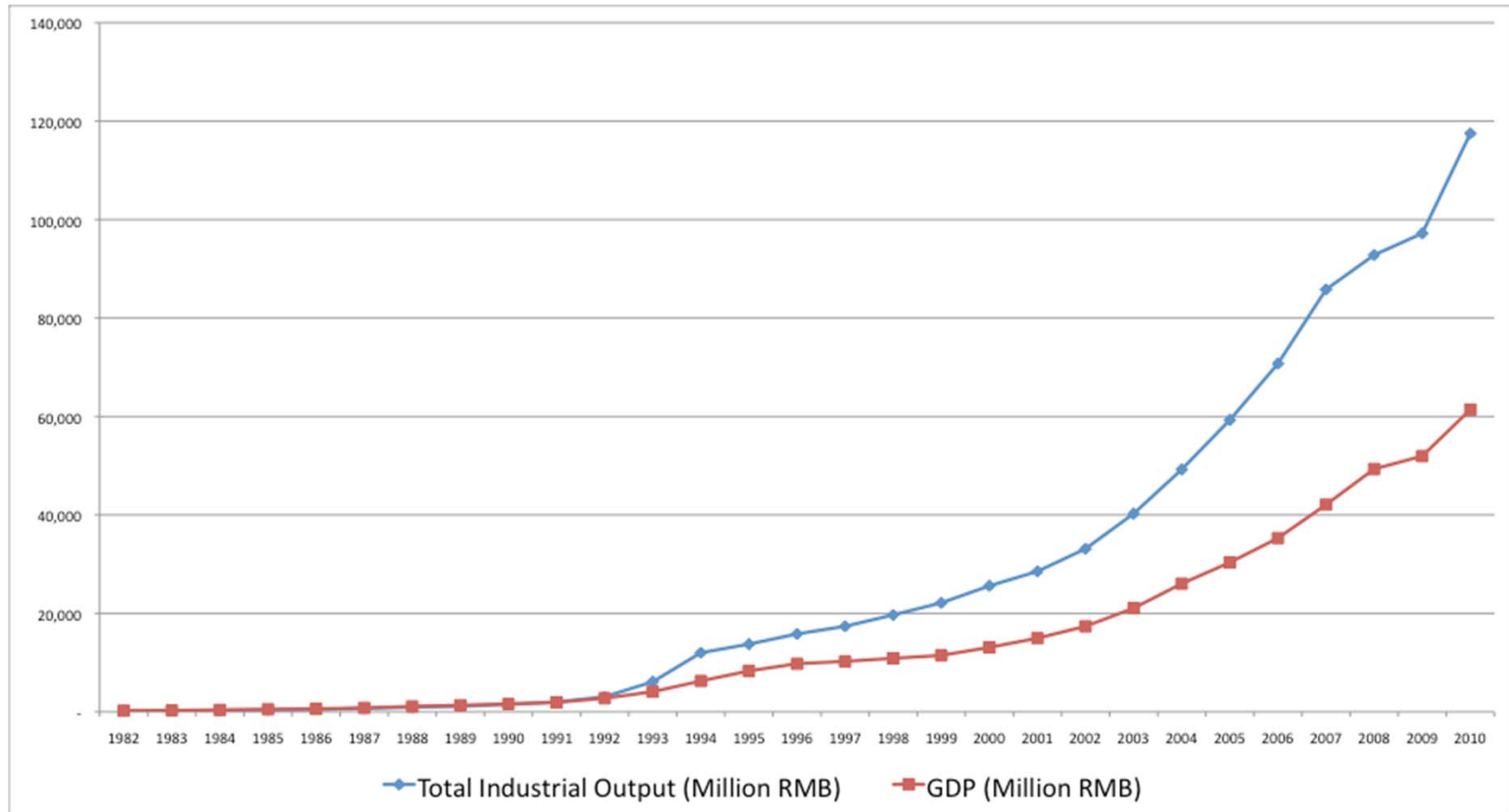


A city (county) with about 1.2 million people in central Zhejiang province

It was among the poorest counties in Zhejiang province when economic reform started in 1978

Its economy was agricultural based, and it had no comparative advantage for industrial development.

# Industrial Development and GDP



1982-2010

Average annual growth rate of GDP: 22%

Average annual growth rate of industrial output: 27%

# Greater Autonomy and Economic Development in Yiwu

- Yiwu was included in the list of counties in the third round and it was the only county included in the fourth round
- Yiwu is under Jinhua Prefecture, and after the reform Yiwu has autonomy over 618 out of more than 1000 administrative tasks typically requiring prefecture-level approval.



# Selected Industrial Clusters in Yiwu

Industrial clusters	Description
<i>Hosiery</i>	The largest hosiery production hub
<i>Apparel</i>	One of the four shirt production hubs; 1,200,000 shirts per day
<i>Jewelry</i>	70% of market share in the country; over 8000 firms
<i>Zippers</i>	25% of market share in the country
<i>Artcraft</i>	60% of market share in the country; over 1300 firms
<i>Stationary</i>	Major production hub for ballpens, pencils, and
<i>Printing</i>	Largest production hub in the country; over 600 firms
<i>Wool textile</i>	30% of market share in the country

# ROLE OF YIWU CITY GOVERNMENT IN the Upgrading of Industrial Clusters

- Finance discount for investments in technological upgrading: 3% to 6%
  - In 2010, Yiwu city government spent 356 Million RMB on finance discounts to support firms' investments in technological upgrading
- Energy saving and pollution reduction technologies:
  - 40% of the investments as subsidies for projects for the collection and reuse of the wastewater over 60%, or projects with annual reduction of SO<sub>2</sub> emission above 100 tons (capped at 3 Million RMB per project)
  - 30% of investments as subsidies for projects for the reduction of the emission of other pollutants (capped at 2 Million RMB per project)

# ROLE OF YIWU CITY GOVERNMENT FOR Brand Building

Yiwu city government provides the followings to firms in Jewelry industry:

- Rewards for brand building
  - National brand: One million RMB
  - Provincial brand: 200,000 RMB
  - Successful application of trademark abroad: 50% of the expenses incurred, capped at 100,000 RMB
- Marketing expense in brand building: 100,000 RMB for every 5 million RMB spent
- The purchase of the famous foreign brand: support and financial rewards

# Conclusion Remarks

- Performance-based decentralization can help to overcome some key barriers of decentralization
- A virtuous circle of decentralization
- Performance-based decentralization allows for more time for the development of administrative reforms

# Virtuous Circle of Good Performance and Local Autonomy

