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Chapter 7

'Poor governance' for development in China and Vietnam

MARTIN PAINTER

China and Vietnam are both transition economies ruled by Communist Parties. Both governments score poorly on 'good governance' indices while experiencing rapid economic development. While administrative reform has been high on the agenda in both countries, the motives are unclear and the results mixed. Progress on issues such as anti-corruption, creation of a merit-based civil service and development of a service culture is disappointing.

The main argument of this chapter is that the incidence and persistence of poor governance are best seen as pragmatic responses to the problems of transition and development. Home-grown commercialization of public services is a good example of this strategy. Contemporary China and Vietnam have strong development records although good governance reform has not been the top priority. This is not the same as saying that good governance in itself is not a desirable objective as it is, nor is it to deny that some reformers in China and Vietnam share this view (at least as a long-run strategy). However, governance reforms are best seen as measures to mitigate the adverse consequences of successful development, not as a precursor to such development.

GOOD GOVERNANCE AND DEVELOPMENT

This section reviews the literature on the ambiguous connections between good governance and development. Governance has been defined broadly as 'the traditions and institutions by which authority in a country is exercised' (Kaufmann, Kraay and Zoido-Lobaton 1999: 1). For the Asian

Development Bank (1998: 16), governance is ‘the manner in which power is exercised in the management of a country’s social and economic resources for development’. In the ‘quality of government’ (QoG) discourse, it is associated with some key institutions; for example, ‘Good governance is epitomized by predictable, open and enlightened policymaking (that is, transparent processes); a bureaucracy imbued with professional ethos; an executive arm of government accountable for its actions; a strong civil society participating in public affairs; and all behaving under the rule of law’ (World Bank 1994). For Rothstein and Teorell (2008: 165), ‘the impartiality of institutions that exercise government authority’ is central.

Enthusiasm for governance reform has both ideological and empirical foundations. It can be seen as a doctrinal distillation of an imagined, ostensibly common, Western, liberal democratic historical experience (Painter 2002). It often presumes a universal trajectory and common objective of development in which acquiring good governance is necessary. In practice, however, such a trajectory was not a universal part of the Western historical experience, while good and bad governance institutions and practices still coexist in developed countries today (Brinkerhoff and Goldsmith 2005).

Measures to specify testable QoG features and their correlations with development have been developed. The indices include ‘voice and accountability’, ‘rule of law’, ‘control of corruption’, ‘regulatory quality’ and the like. Various cross-national studies imply such attributes are associated with high growth, high income and well-being. But even where the data are objective (many studies of the correlations with developmental outcomes rely on country data drawn from subjective perception surveys), most such studies suffer from the possibility of ‘unseen joint effects’ and ‘endogeneity or reverse causation’ (Goldsmith 2007: 167). They also ignore the exceptions and anomalies.

Some measures – for example, the World Bank’s Government Effectiveness and Rule of Law Indices and Transparency International’s Corruptions Perception Index – are highly inter-correlated and ‘have positive but surprisingly weak correlations with economic growth, while the correlation with GDP per capita is very strong’, implying that ‘the causality between economic growth and QoG is more like a “virtuous circle”’ (Holmberg, Rothstein and Nasiritousi 2008: 19).

No clear lessons can be drawn about causation or sequencing though the institutional and developmental trajectories appear intertwined. These findings provide no firm basis for any set of good governance reforms as a prerequisite for development. Grouping a range of good governance

attributes and positive correlations with various desirable outcomes does not identify 'what is essential and what's not, what should come first and what should follow' (Grindle 2004: 526).

Nevertheless, the search for temporal as well as logical relationships between good governance and development is a strong feature of discussions about reform strategies in the international public administration and development community, where there is often a concern for 'what should come first'. Here, the possible detrimental effects of overzealous adoption of some new public management (NPM) ideas provide a good example. Allen Schick's (1998) 'correct sequencing' argument holds that developing countries need a neutral, professional, centralized, rule-bound Weberian-style bureaucracy and basic public sector budgeting and accounting procedures before introducing more decentralized, market-like models of public service delivery. The World Bank (2004: 194) has also advised 'choosing and sequencing public sector reforms carefully, in line with initial capacities, to create firmer ground for further reform'. In general, '[f]irst stage reforms' should try to achieve or strengthen 'formality, discipline and compliance with the rules', while second-stage reforms – after a 'formality threshold' has been reached – should 'strengthen flexibility, discretion and a focus on results'. For example, for civil service reform, 'first-stage reform' requires 'creat[ing] a legally defined cadre with common terms and conditions', after which 'second-stage' reforms – such as 'devolve[ing] and diversify[ing] pay arrangements to provide flexibility to employers' – can be introduced (World Bank 2004: 194–6).

REFORMS IN CHINA AND VIETNAM

This section looks at the public administration reforms in China and Vietnam in the context of global governance reform prescriptions. It is clear from this analysis that, with some qualifications, the trajectory of change has been due to imperatives and priorities for which good governance models are of limited relevance. This section offers a case study of public service delivery reform suggestive of NPM. A 'transition-specific' reform logic and agenda to use the market to accelerate growth, not to improve governance, have emerged, resulting in a decline in some governance standards. China began its 'reforms' from the late 1970s, some years before Vietnam, which launched its *doi moi* 'renovation' programme in 1986. Both countries have embarked on marketization of their economies. The scope of state sector reforms has been far-reaching – dismantling the command economy and

restructuring administration by creating new organizations, legal reforms and market regulations.

The basic challenge has been how to construct new state capacity while pursuing marketization. Despite some differences in emphasis and implementation between the two countries, there are strong similarities in prioritization and sequencing of public sector reforms. A concise stylized account follows:

- 1 *Administrative downsizing and reorganization* were early priorities to dismantle the command economy. Departmental reorganizing and restructuring have been a continuing process, particularly in China. In both countries, bureaucratic politics have been associated with gaining or losing status in the administrative and political hierarchy. Creation of 'super-departments' and new regulatory organs have appeared, while existing ministries and departments have been forced to focus on regulation and coordination, instead of direct economic micromanagement (Dong, Christensen and Painter 2010; Luo 2003; Ngok and Chan 2003; Ngok and Zhu 2007; Painter 2003a; Yang 2004).
- 2 *State-owned enterprises* (SOEs) have been restructured to act more or less autonomously in the market as commercial entities. A growing number have been gradually 'equitized', 'socialized' or 'privatized'. Other significant changes include freeing enterprises from the bureaucratic controls of state management. Subsidies have been reduced, although many SOEs still have privileged access to loans, land and administrative approvals. Regulation and coordination are now done by other, more indirect means (Broadman 2001; Fforde 2005; Li 2004; OECD 2005; Painter 2003b; Yang 2004).
- 3 *Marketization of public services*, requiring enterprises and service delivery units to charge user fees and compete for customers, has been introduced in both countries alongside SOE reforms. Education and health in China and, to a lesser extent, in Vietnam are increasingly commercialized, managed and provided by lightly regulated quasi-state, quasi-private entities, and funded by fees and charges, rather than by budget allocations. Much of this process has not been carefully designed, although reformers have paid lip service to NPM and other reform fads (Gu and Zhang 2006; London 2006; Mok and Painter 2007).
- 4 *Decentralization* has allowed sub-national levels of government to acquire new resources. Effectively, local governments now 'look to the market' for revenue, rather than rely on central budgets or taxes, as a result of which (if successful), they have gained autonomy (Duckett 2001; Lu 2000; Mountfield and Wong 2005; Painter 2008).

- 5 *Budgeting* has become more transparent, and *financial management* more oriented to delivery. World Bank and OECD 'best practices' have become more influential. But budget opacity and data unreliability remain major problems. Tax administration reform remains a major priority in China and Vietnam. Financial management devolution has been driven by shifting the administrative and financial burden to local units, and thus (via fees and charges) to the client or customer. Periods of 'turning a blind eye' to informal off-budget activities are interspersed by clampdowns to check abuses (Lu 2000; Wedeman 2000; World Bank 2005b).
- 6 *Personnel management reform* aimed at creating a more professional, rule-regarding and output-focused body of public officials has involved new regulations to formalize public employment. Meanwhile, the ruling Communist Party remains in control of the appointment and promotion of all public officials in both China and Vietnam. 'Expertise' is valued, especially at senior levels, with upgraded qualification requirements and criteria for promotion that increasingly combine technical with political qualifications. But patronage and underemployment persist, with bloated payrolls including staff not clear about their public service duties or obligations. Salary reform has 'monetized' remuneration, but reward may not be well linked to performance (Burns 1993, 2001; Chan 2004; Lam and Chan 1996; OECD 2005; Painter 2003a, 2006).
- 7 *Rule by law* has required new laws, ordinances, circulars and other legal documents to regulate a growing non-state sector. Such legal reform tries to build administrative and state capacity on the basis of legality. Political mobilization through Party-state rule is insufficient, as citizens have greater autonomy in a market economy. Due process and legality are also meant for more reliable administrative controls *within* the state under Party leadership – for example, between levels of government. New laws seek to check the ability of local bosses to arbitrarily 'govern by decree'. *Judicial reform* has resulted in growing professionalization of the judiciary. However, the Party in both China and Vietnam has not significantly loosened its grip on legislators or judicial officers. 'Rule by law' does not coincide with Western notions of 'rule of law' (Gillespie 2005, 2006; Gillespie and Nicholson 2005; Peerenboom 2004).
- 8 *Regulatory* or legal and institutional reform steps have reduced unnecessary controls on the private sector associated with the old 'permissions' culture. Administrative procedures remain burdensome and are only being reformed slowly. Even if rendered irrelevant, they reappear in another form as administrative units seek to retain control.

'Service culture' has improved with more 'customer-friendly' forms of access and delivery, such as 'one-stop shops'.

- 9 *Anti-corruption* campaigns have used existing inspection and enforcement machinery (including Soviet-style inspectorates) along with citizen complaints mechanisms. Such campaigns target Party officials and may result in heavy punishment. While posing a real challenge to Party-state legitimacy, systemic corruption within the Party remains unresolved. Such corruption is largely associated with the participation of officials in private businesses based on the privatization of state assets or abuses of state powers. The Party will not accept external oversight, and continues to manage and control anti-corruption campaigns, including new anti-corruption bodies (Gillespie 2002; Gong 2006, 2008).
- 10 Steps for *grass-roots accountability* have sought to make local officials more accountable to their citizens and to promote transparency. Serious protests against abuse of state power by corrupt officials prompted 'grass-roots democracy' measures that encouraged citizens' participation in local administration and direct elections. These measures have been implemented and managed by 'people's organizations' directly associated with the Party (Foster 2005; Levy 2003; Li 2002; Oi and Rozelle 2000; Pastor and Tan 2000; Zingerli 2004).

Although not exhaustive, this list encompasses the most significant areas of reform and change. The reform agenda is comprehensive and given high priority, with frequent new measures by the top leadership.

There appear to be many similarities between the issues prominent in China and Vietnam, and those significant in other countries. The reform discourse reflects NPM reform themes such as privatization, deregulation, devolution and transparency. But the combination of items on the local reform agenda and the manner in which they are conceived, rationalized and implemented follow their own logic. From a good governance perspective, there are contradictions: for example, politicization continues to trump impartiality and legality at many crucial points; 'grass-roots democracy' is strictly limited by Party controls; considerations of service quality, accountability and access are swamped by reliance on badly regulated markets; and so on.

Indeed, the outcomes do not show steady or significant improvement in key good governance practices. Implementation gaps and shortfalls are greatest where deficiencies are most glaring – for example, failures in the anti-corruption field and in regulatory reform, the realization that behind

the 'rule by law' remains the hand of the Party in controlling the state and managing the judiciary, and the continuing absence, for the most part, of a service culture in a professional, merit-based civil service.

None of this is particularly surprising. For example, dismantling the command economy gives 'downsizing' a different meaning in China and Vietnam; likewise, while 'deregulation' and 'reregulation' are familiar themes in the West, there is no parallel with the regulatory task confronting governments in China and Vietnam seeking to create governed markets, rather than just 'tweaking' existing ones. Similarly, taken-for-granted building blocks of administrative capacity, the subject of reform in the West (e.g. to make them more 'customer-friendly'), may be absent to begin with.

In this context, the reforms described above have their own logic when viewed in context and in combination. The events set in train by the decision to hasten the creation of markets produced circumstances, including unintended consequences, that have shaped what has been feasible. Where convenient and appropriate, reformers have called on external models, such as NPM, to support the changes, but just as often, they have found their own 'home-grown' rationales.

DEVOLUTION AND LOCAL POWER

The rest of this chapter considers the privatization of public service delivery as one such field of reform, where a mix of local circumstances, overseas models and home-grown solutions has driven the agenda. This section sets out the context of the changing role of the state during the transition before analysing service delivery reforms. The state has devolved in two senses: first, many state entities have been 'pushed into the market'; second, this has led to growing dispersal of power within the state. Rocca (2003: 14–15) refers to the 'societalization' of the unified, centralized socialist state.

Instead of transforming society from 'above' or 'outside', the state has become involved in dealing with the societal consequences of marketization, including new legitimacy challenges. One consequence has been more opportunistic behaviour by public officials as market actors. First acting from *within* the state, many public officials have new economic and political roles *beyond* the state as they participate and benefit in the market economy. Informal, illicit and illegal uses of state power and resources to facilitate economic accumulation have typically taken advantage of official state restructuring initiatives. State capacity in regulating society and market has

been weakened by these moves as administrative reforms have sought to strengthen it. 'Reform' has often been captured by local leaders for their own purposes, creating new challenges for the central government, both to control local development and to respond to widespread public discontent over corruption and abuses of power.

Devolution has also entailed increased powers for sub-national government. There has been a trend in both countries towards a greater sub-national share of service delivery and expenditure. First, state enterprises and collectives shifted the burden of welfare provision to local government, and with rising incomes and aspirations, the demand for public services has also risen. With the growing weakness of the centre in regulating local government behaviour, regulation and management of local economic development has also largely become the responsibility of local government. In China, sub-national expenditures rose following the economic reforms of the 1980s, stimulating rapid growth of local bureaucracies.

As the tax capacity of local governments has not kept up, local governments are increasingly relying on 'extra-budgetary' sources. New fees, charges, levies and fines were imposed, many of dubious legality (Bernstein and Lu 2003: 107–9), resulting in the rise of extra-budget and illicit off-budget revenues and expenditures (Mountfield and Wong 2005: 98). Such revenues were tapped through discretionary local powers, often used to reward local officials with jobs, bonuses and other benefits (Bernstein and Lu 2003: 84–6; Gong 2006; Wedeman 2000). The boundaries between 'legal' and 'illegal' fees were blurred, with more discretion, weak regulation and system abuse (Bernstein and Lu 2003) as local audit and tax offices overlooked irregularities (Oi 1999: 153–9), and clampdowns by the centre did not always achieve the intended results.

Increased off-budget activity has been directly associated with the autonomization of existing and new service delivery, creating new opportunities for employment, enterprise and profit without having to rely on state budgets. Many new social organizations under state sponsorship and regulation perform 'state-like' functions. Thus, the state has created a variety of new 'hybrids', mainly for profit (Duckett 1998; Benewick, Tong and Howell 2004). Thus, public service delivery has shifted almost entirely to this 'quasi-state' sector.

The nature of the administrative and structural arrangements has shaped new administrative forms emerging with the informalization of quasi-public local finances. Reshaping public administration organization in both China and Vietnam has had three components: (1) administrative agencies involved in 'state management' (ministries and departments), (2) service

delivery units (e.g. public hospitals) and (3) enterprises. Here, we focus mainly on the second category.

State reform has involved a mix of informal, bottom-up, local initiatives with top-down encouragement (World Bank 2005a). Bottom-up pressures came from employees, particularly technical and professional personnel seeking more secure jobs and higher incomes. In both countries, official remuneration for public employees was widely seen as inadequate, to be supplemented by other income (Painter 2006). Even before the new regulations requiring greater self-reliance, local service delivery units had to find their own resources to top up official salaries with supplementary charges on consumers of services or by running businesses on the side (Lam and Perry 2001: 26–7; Painter 2006). Professional employees in China have been permitted to provide fee-paying services to clients while retaining their official positions. In many ways, autonomization simply formalized what was already happening 'off budget' (Painter 2006).

GOVERNANCE AND SERVICE DELIVERY

For Schick (1998) and others, with service delivery marketization and flexible reward arrangements, NPM has trumped good governance. This argument might go as follows: reward and incentive schemes for public sector workers and professionals are not just remuneration packages but also instil and reinforce norms and standards. They can be important for capacity building for governance reform. For the Weberian bureaucratic ideal type, provision of a standardized package of rewards to office-holders and functionaries is based on objective qualifications of merit, separating the office from the person, and aligning individual job and career incentives with organizational and service objectives, including public norms and practices.

In the situations that have evolved in the public service delivery sector in China and Vietnam, pay, tenure and other conditions of service are dependent on both market incomes and budgetary funding. Remuneration has come to depend less on efficient performance of official duties and more on available income-generating activities. Local-level patrimonialism, based on access to and control of organizational resources, has developed, involving highly fragmented, localized employment arrangements, rather than a unified system. This situation has also created great potential for various forms of private appropriation of the public sector employee, that is, corruption.

It should be remembered how the Chinese and Vietnamese governments got to this situation. In Vietnam and China, the public discourse about development in a 'market economy with socialist characteristics' has legitimized the indiscriminate quasi-privatization of public services at the local level. With the transition, a new conception of the state emerged as one of manager/funder, that is, no longer provider/producer. The distinction between state management on the one hand and production on the other emerged, with the former role akin to 'control and steering' as provision or production became seen as purely commercial or technical. The distinction has had the same meaning and consequences for autonomization of both SOEs and service delivery agencies, both viewed as production units (GSC 2000c: 8). Unlike old-style 'begging and giving' (or state subsidy), party leaders urged enterprises to rely, for their survival and expansion, on profits, while public service delivery agencies should mobilize 'people's resources' (GSC 2000a: 15).

'Socialization' is the term used for co-financing and co-production of public services, instead of the worldwide term 'privatization', and in fact, the denial is deliberate.

The stance and viewpoint of Vietnam is that socialization of some activities in the public sector, as well as equitization of a proportion of SOEs, *can be by no means considered as privatization*. Socialization will be conducted under the principle that 'the work is shared between the State and the people', and the State will take the principal role, exercising State management functions. (GSC 2000b: 18, italics added)

Significantly, the 'people's resources' have been defined individually as well as collectively. Particularly at the local (commune or ward) level, there was a tradition of in-kind provision of household labour and other resources for public works. By extension, the expectation developed that each household would contribute a portion of its income in the form of fees to fund public services. The application of a 'user pays' logic also flowed directly from the 'salarization' of in-kind benefits under post-socialist salary reforms: once this occurred, in principle, households had the means to pay for previously free benefits (Painter 2006). To sum up, the quasi-marketization of service production and delivery was not only a matter of pragmatic convenience but also a logical extension of the wider market reform agenda. Much of it was spontaneous.

Paradoxically, emergent home-grown doctrines of socialist reform and renovation were more important as sources of ideas to rationalize these changes than neoliberal NPM-style, foreign models of privatization. Key to the reform process was that the issue of public services was defined first and foremost in production rather than consumption terms. Access and equity questions, of the kind inherent in considering 'public goods', were sidelined, as were basic 'consumer protection' provisions of the kind competitive market reform might include. Expanding production would, thus, involve new forms of self-sufficiency in a market context and more flexible management arrangements within a lightly regulated environment which would not restrain local initiative and enterprise.

CONCLUSION

In both countries, a commonly expressed metaphor to describe the reform approach in the transition era is 'crossing the river by feeling the stones'. Public service delivery reforms were about pragmatically addressing dilemmas of the transition from the command economy. An emerging 'middle class' demanded access to higher quality public services. To meet this demand, autonomization and commercialization were encouraged, as public finances were inadequate for the task, and this also solved the problem of paying wages and meeting other service costs. These developments suited local elites, giving new opportunities for patronage and profit. A distinctive transition vocabulary – 'socialization' and 'self-sufficiency' – was used to legitimize the reforms as well as 'imported foreign' policy reforms such as NPM. The 'poor governance' implications have been viewed, by and large, as unavoidable for economic development.

This is not to say that foreign experiences of privatization and welfare reform were not studied, but it is clear that many lessons from such experiences were ignored. Most Western commentators on the Chinese and Vietnamese reforms have invoked similar criticisms of 'poor sequencing' (echoing Schick's critique): devolution, autonomization and commercialization were encouraged before basic regulation and policy coordination were in place; personnel management was deregulated before new public employment laws and regulations were adopted; reformed public financial management was approved without adequate accounting controls and auditing; regulation and coordination of service

access, affordability and quality were deferred, leading inexorably to service deficiencies; and so on.

Remedial measures by the Chinese and Vietnamese governments have been of three types: first, to deal with accountability at the 'grass-roots' level; second, to address some 'market failures' of privatized systems through regulatory and financial reforms; and third, to redefine the respective roles of central and local governments. These responses reflected the need to sustain Party legitimacy in the face of citizen dissatisfaction. In both Vietnam and China, pre-existing citizen complaint mechanisms have been strengthened, providing mechanisms for monitoring and checking abuses by local officials, while giving local victims safety valves for their grievances. Elected representatives are closely monitored and integrated into existing administrative hierarchies.

To directly address service delivery market failures and to improve funding for local governments, the central government in China has articulated principles about the 'welfare' role of government in ensuring certain basic minimum standards and redressing inequalities. This has involved new rhetoric about inclusive growth and building a 'harmonious society', which deliberately echoes paternalistic Confucian doctrines. More financial support for infrastructure has been provided to rural local governments and to the western provinces together with tougher regulation of fees and charges and curbs on some forms of privatization. The pace of privatization may be slowed, while the state's role – as basic provider, regulator and guarantor – is being reassessed (Mok and Painter 2007).

Broader capacity-building processes – such as civil service reform, strengthening legality and developing a service culture – proceed more slowly, constrained by circumstances. The adverse consequences of the rush to unregulated marketization have offered important lessons. Other reform agendas may now gain more urgent attention, as they are interconnected. As markets in health and education to stimulate supply have developed, the harmful effects have generated greater interest in better regulation and more effective public accountability. Market forces may thus stimulate demand for good governance. Angry purchasers of expensive fake drugs and dubious college degrees have demanded measures to enforce standards, while higher quality suppliers want to restore public confidence in the industry. Better governance may thus emerge once people appreciate, from bitter experience, the adverse consequences of badly governed markets for the quality of public goods – as in the West. In sum, good governance can come later.

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