

The Status Quo and Trends in the Development of Public Services in China

Background discussion paper to inform the
Regulatory Reform review of China

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THE STATUS QUO AND TRENDS IN THE DEVELOPMENT OF PUBLIC SERVICES IN CHINA

THE DEFINITION OF PUBLIC SERVICES

The term public services is broad in scope and covers “strengthening of urban and rural public facilities, the development of employment, social security services and education, technology, culture, health, sports, public information and other public undertakings, in order to protect and create conditions for public life as well as participation in socio-economic, political and cultural activities” (from a graduation ceremony speech on “Establishing and implementing the scientific view of development” by Premier Wen Jiabao on 21 February 2004).

1. The status quo and problems of China’s public services

1.1. Overall low-level public services in China

A. From the perspective of total governmental spending on public services

The provision of public services in China is generally at a low level, and reflects the fact that the rate of growth in the provision of public services lags behind that of fiscal expenditures; the rate of public services development is lower than that of overall economic growth; and the supply of public services in both quantity and quality lags behind actual public demand. In terms of expenditure on education, science, health, social security, defence, geological exploration and basic public sectors, China spends far less than developed countries as well as some developing countries.

Table 1. Proportion of government expenditure on public goods (%)

Period	Allocation for public goods	Others
“first 5-year plan”	42.14	57.84
“second 5-year plan”	42.14	57.84
“seventh 5-year plan”	39.83	60.17
1991	43.92	56.08
1992	45.59	54.41
1993	44.02	55.98
1994	46.91	53.09
1995	46.28	53.72
1996	48.57	51.43
1997	44.96	55.04
1998	43.25	56.75

Source: *China Statistical Yearbook*, the China Statistical Press.

Table 2. Structure of expenditure for developed countries and some developing countries

Country / Region	Year	Public goods (%)	Others (%)
United States	1997	79.38	20.62
Japan	1993	65.93	34.07
UK	1995	66.80	33.20
Singapore	1997	78.59	21.41
Canada	1997	75.08	24.92
Australia	1997	72.39	27.61
Thailand	1997	81.78	28.22
Malaysia	1997	71.01	28.99
Korea, South	1997	62.12	37.89

Source: China Statistical Yearbook, china Statistical Press.

B. From the perspective of input on various public services areas

From the perspective of different areas of public services, there exist in varying degrees problems related to insufficient support for public services. In the field of education, insufficient governmental support is the main cause of the shortage of education funding. Data indicates that in 2000, the ratio of China's spending on education compared to GNP was roughly 2.9% lower than that of most countries in the mid-1990s, and did not reach the 4% level stipulated in the "China Reform Programme" for 1993. In 1996, China's public expenditure on education accounted for the lowest proportion of GNP among the 9 most populous developing countries. In the field of health, China's public expenditure accounted for 2.1% of GDP from 1990 to 1997, but averaged 6.0% in the high-income countries during the same period. In the field of public utilities, inadequate infrastructure and urban sanitation problems also exist. For example, the current Beijing municipal sewage system treatment capacity meets only meets 40% of demand whereas the same figure at the national level is only 10%. To achieve improvements in emissions standards, the government has plans to invest an average of RMB 200 billion annually through 2050, which will total more than RMB 1 trillion.

Table 3. An international comparison of China's spending on public services

Public services indicator	China	EU countries	High-income countries	Middle-income countries	Low-income countries
<i>Ratio of public education expenditure as a proportion of GNI (%)</i>	3.41	5.3	5.4	4.6	3.2
<i>Ratio of public pension expenditure as a proportion of GDP (%)</i>	2.7 (1996)	13.3 (1995)	7.2 (1995)	4.9 (Brazil, 1996)	
<i>Ratio of public health expenditure as a proportion of GDP (%)</i>	2.0	6.7	6.0	2.5	1.2
<i>Ratio of central government's total fiscal expenditure as a proportion of GDP (%)</i>	9.3	40.0	30.2	20.5	17.0

Source: World Bank, "World Development Indicators: 2001", the China Financial and Economic Publishing Press.

Table 4. Comparison of public services indicators between China and developed countries

Public services indicator	UK	France	Germany	Sweden	Denmark	China
Human development index (HDI, 2001)	0.930 (13)	0.925 (17)	0.921 (18)	0.941 (3)	0.930 (11)	0.721 (104)
Public health expenditure as a proportion of GDP (%) (1998–2000)	5.9	7.2	8.0	6.2	6.8	2.0
Public education expenditure as a proportion of GDP (%) (1998–2000)	4.5	5.8	4.6	7.8	8.2	2.1
R&D expenditure as a proportion of GDP (%) (1996–2000)	1.9	2.2	2.5	3.8	2.1	1.0
Total social security expenditure as a proportion of GDP (%) (1996)	22.8	30.1	29.7	34.7	33.0	3.6

Source: 1.UNDP Human Development Report (2003); 2. World Bank "World Development Report 2003", "World Development Indicators: 2001"; and 3. ILO "World Labour Report 2000.

1.2. Uneven development in public services

Regional imbalance. Due to China's special conditions, development in the eastern and western regions is unbalanced, which results in a regional imbalance in public services, and the eastern is superior to the western regions overall. For example, in 2002, per capita expenditure on education, science and health in Shanghai was RMB 960 180; and per capita expenditure on social security and relief was RMB 204 128. On the other hand, the above two indicators were RMB 187 119 and 7 919 for GuiZhou in the same year, accounting for 19.49% and 3.9% of the levels recorded for Shanghai.

Urban and rural imbalance. China's long standing urban-rural "Dualistic Social Structure" leads to a huge gap between cities and countryside in per capita income as well as in public services. Shortfalls in the provision of public services in rural areas are serious. In 2005, China's nominal income gap between cities and countryside was 3.22:1. As regards basic public services, including compulsory education and basic medical insurance, the urban-rural income gap was 5-6:1

Imbalances in types of basic services. Compared to education and health problems, more attention needs to be drawn to the insufficient supply of social security, public safety and environmental protection.

1.3. Unsound public services systems and mechanisms

Since the reform, China's shortage of public services is no longer a problem of insufficient quantities and structural imbalances. The problems result from imperfect mechanisms.

Firstly, there are no standardized divisions of labour and accountability in the supply of public services, which is *de facto* causing the weakening of public services indicators.

Secondly, there is no sustainable financial support mechanism for public services. The majority of expenditures are still focused on economic construction.

Thirdly, the urban-rural dualistic social structure is further widening the gap between the cities and the countryside.

Fourthly, the formation of pluralistic social participation and the system for monitoring public services has not yet taken place. At present, in China's public services sector, multi-ownership structures on service suppliers appear. The administrative department acts as the producer, purchaser and regulator of public services. In addition internal monitoring of administrative departments and commercial monitoring against different ownership structures lag behind public services development.

2. *The policy orientation and trends in the development of China's public services*

2.1. *Public services-oriented government-building and policies*

A. Goals of public services-oriented government-building

To continue managing economic regulation and market supervision, but also paying more attention to fulfilling social management and public service functions including increasing emphasis on basic education, public health, environmental protection, social security and social assistance for the unemployed. Such efforts are compatible with the public service system of a socialist market economic system.

To strengthen financial accountability, the government must enforce a public finance system and improve public services infrastructure, while taking public services as an objective, harmonization as key focus, and standardization as principle, in order to provide a solid foundation and secure system for the development of an all-round prosperous society and a harmonious socialist society.

To promote an administrative monitoring system while establishing and completing a well-covered, highly efficient and fair public services system.

B The results of two major conferences, and policy documents on the definition of "public service".

In February 2004, the 16th National Congress of the Communist Party of China requested an "improvement of government economic regulation, market surveillance, societal management and public services functions."

In October 2005, the 5th Plenum requested governments at all levels to strengthen social management and the public services functions, but not to directly intervene in business activities.

On March 5, 2005, in the "Government's Working Paper", Premier Wen Jiaobao pointed out the need to "strive to build a service-oriented government, improve government's management capacities, and integrate services with management, in order to better serve the infrastructure, enterprises and the public."

In October 2006, the "Resolution on Major Issues Regarding the Building of a Harmonious Socialist Society" was adopted at the conclusion of the 6th Plenary Session of the Sixteenth Central Committee of the Communist Party of China. "Further improvements to the basic public services system and significant improvements to government administrative and service levels" were included among the nine major goals and tasks to build a harmonious socialist society by 2020.

C. Open policy in different fields of public services

In order to alleviate the insufficient supply in public services, the Chinese government promulgated a series of policies to encourage the involvement of non-state capital and to accelerate market-oriented reform.

Firstly, they encourage social organizations and non-governmental, non-commercial enterprises to provide public services. In August 1996, the Communist Party Central Committee and State Council officially issued a “Circular on Strengthening the Management of Social Organizations and Non-governmental, Non-commercial Enterprises”. The organizations mentioned above were together managed by the Home Affairs Office. It clarified their legal status and provided vast space for the development of public services.

Secondly, they introduce market principles into public services. In the field of infrastructure, public transport and urban health, many market-driven mechanisms, such as user-fees, licensing, outsourcing contracts, and vouchers systems have appeared in large numbers. In December 2002, the Ministry of Construction issued an “Opinion on Accelerating the Market-driven Development of Public Utilities”, explicitly regulating the openness of public utilities, promoting social funds, and foreign capital investment in public services development. Regarding commercial projects like water, gas or heat supply, public transport, and waste-water treatment, process of public bidding were adopted to select private companies. Daily maintenance and contracts for municipal facilities, landscaping, sanitation and other non-profit making items were selected by contracting.

Thirdly, they promote the development of civil education. In February 1993, the Communist Party of China (CPC) Central Committee and State Council issued “The Outline of China’s Education Reform and Development”. It recommended changing the situation of state schools, and gradually building a system giving priority to state schools managed with the rest of society. It also promoted policies on “strong promotion and great support, correct guidance, and effective management.” In December 2002, the committee of 9th National People’s Congress passed the “People’s Republic of China Private Education Promotion Law”. It established regulations on intellectual property, financial returns, and the internal management of schools. The launch of those policies legally secured the development of civil education management, and stimulated the rapid development of private education in China.

Fourthly, a competitive environment for health services will be promoted. In 2000, the State Council issued the policy document “Guidance on Urban Medical and Health System Reform” encompassing eight ministries. It clearly divided the health system into profit and non-profit categories. In terms of principles, it allowed for private medical institutions in accordance with the principle of “allowing for independent price setting and paying taxes as required” to support return on investment based on efficient operations. This allowed for a large influx of private capital into the medical market. The same year, the Ministry of Health and three other ministries issued “Opinions on the Implementation of Classified Management of Urban Medical Institutions”. It clarified how to undertake different financial, fiscal and management models for profit and non-profit medical institutions. Furthermore, it loosened the policy restrictions in order to actively encourage social forces to establish medical institutions.

Fifthly, cultural sectors gradually opened up to non-state investment. In August 2005, the State Council officially issued “Decisions Regarding Non-state Investment in Cultural Industries”, in which it mentioned the industries that were welcomed and supported for non-state investment, and required the Ministry of Culture, the State Administration of Radio, and the Press Administration of China to formulate concrete measures, define an industry catalogue including industries that were encouraged, permitted, restricted or forbidden by China, and further guided non-state cultural enterprises towards sustainable development. The decision has a significant meaning in that it allows for the full mobilization of the whole

society to participate in the cultural construction and provides further guidance and regulation for non-state investment in cultural industries. Following it, cultural industries will be gradually formed with public ownership as the mainstay, together with public-private structures, so as to increase the overall competence of China's cultural industries.

Sixthly, they restructure scientific research institutes in an orderly way. In 1999, the CPC Central Committee and State Council released a "Decision on Strengthening Technological Innovation, Developing High-technology and Industrialization" (CPC [1999] No. 4), which contributed to the restructuring of scientific research institutes. At the same time, they issued "Regulations on the distribution of high-technology company shares". In 2003, the State Council issued "Opinions on In-depth Restructuring and Reform of the Ownership of Scientific Research Institutes" (State Council [2003] No. 9) and other related policies, in order to further stimulate the restructuring of institutes based on ownership reform. A series of policies including an orientation policy, a supporting policy, a promotion policy and a standardization policy, helped structure orderly progress. In January 2006, Premier Wen JiaBao at the National Conference on Science and Technology indicated that "China needs to continuously promote the restructuring of scientific research institutes, management systems, national security systems and scientific macro-management systems." The restructuring of scientific research institutes was mainly targeted at market-oriented and applied technology-based research institutes. Support was needed for those institutes to become profit-making enterprises or to consider "market-oriented restructuring" that would contribute to reform.

Seventhly, they encourage non-state owned economy to enter the field of social undertakings. In 2005, State Council officially issued "Several Opinions on Encouraging, Supporting and Guiding the Development of Individual and Private Economy and Other Non-state Sectors of the Economy" (State Council [2005] No. 3), and formed a sound policy from seven perspectives such as market entry, tax and financial support, social services, governmental monitoring, and policy guidance etc. In terms of "market access", it permits investment by non-state investment in public undertakings and infrastructure, on improving licensing, standardizing bidding, and supporting non-state investment to become actively involved in investment, construction and operations, such as urban supply of water, gas and heat, public transport as well as waste water treatment. Under the precondition of standard attornment, eligible public undertakings and infrastructure may attorn towards non-state owned companies their ownership or operation rights. Non-state owned companies are encouraged to participate in the restructuring of ownership and operational measures of municipal public companies. Additionally, permission is also given for the non-state investment in social undertakings, by supporting, guiding and regulating non-state investment in education, research & development, health, culture and sports both for profit and for non-profit. While liberalizing market access, the government should enhance its supervision and societal monitoring in order to protect the public interest, to support non-state investment to participate in the restructuring of publicly owned social undertakings, and to encourage non-state investment to contribute to society through taxes or other related policies.

2.2. *Institutional reform and improvement of public services*

At present, taking institutional reform as core work, China is in the process of restructuring its public services. It is making redefinitions and readjustments to the range of measures related to governmental public services. Strengthening and improving public services mainly include three aspects:

Firstly, it clarifies the range of supply of public services provided by government, and to separate service provision from regulatory functions.

Secondly, it introduces non-state investment thus departing from the situation of state-led public service provision, and encourages the coexistence and competition among public services providers. To optimize and maximize the protection of public services, the Chinese government focuses on the adjustment and improvement of relevant regulation, price controls for public services and the auction of licensing.

Thirdly, it provides more freedom for consumers to choose among service providers, and to evaluate or monitor those providers so as to form a new public services system, under government control, but with the participation of associations and civil society.

2.3. *Situation of the market-oriented public services reform*

A Forms of market-oriented public services reform

Table 5. : Main performance of market-oriented public services

Internal government reform	Introduction of corporate management
	Creation of a quasi-market environment
	Changes in macroeconomic policy instruments
	Decentralization
Government authorization	Intergovernmental agreements
	Outsourcing contracts
	Licensing
	Subsidies
	Voucher
	Commissioned by the Act
Government divestment	Sale
	Donation
	Liquidation
Government fading-out	Private remedies
	Withdrawal
	Deregulation

B Progress on the public services reform

Currently, outsourcing contracts have been widely employed in China's public services provision, e.g. in public sector logistics services, public bidding for environmental services, etc.

Licensing has been mainly used in infrastructures. In some regions and industries, it is well developed. For example, private capital has been introduced into network-based utilities, which was previously under sole government control.

Since opening reforms in users charges through price adjustments are ongoing in public services. Taking the examples of gas or water supply, especially water supply in agriculture, the scope of necessary reforms remains significant. The implementation of user fee policies is just at the beginning of reforms. The public sector must consolidate their own reforms such as budget reform with independent enterprise auditing, as well as the introduction of competition mechanisms, so as to effectively improve the level of public services.

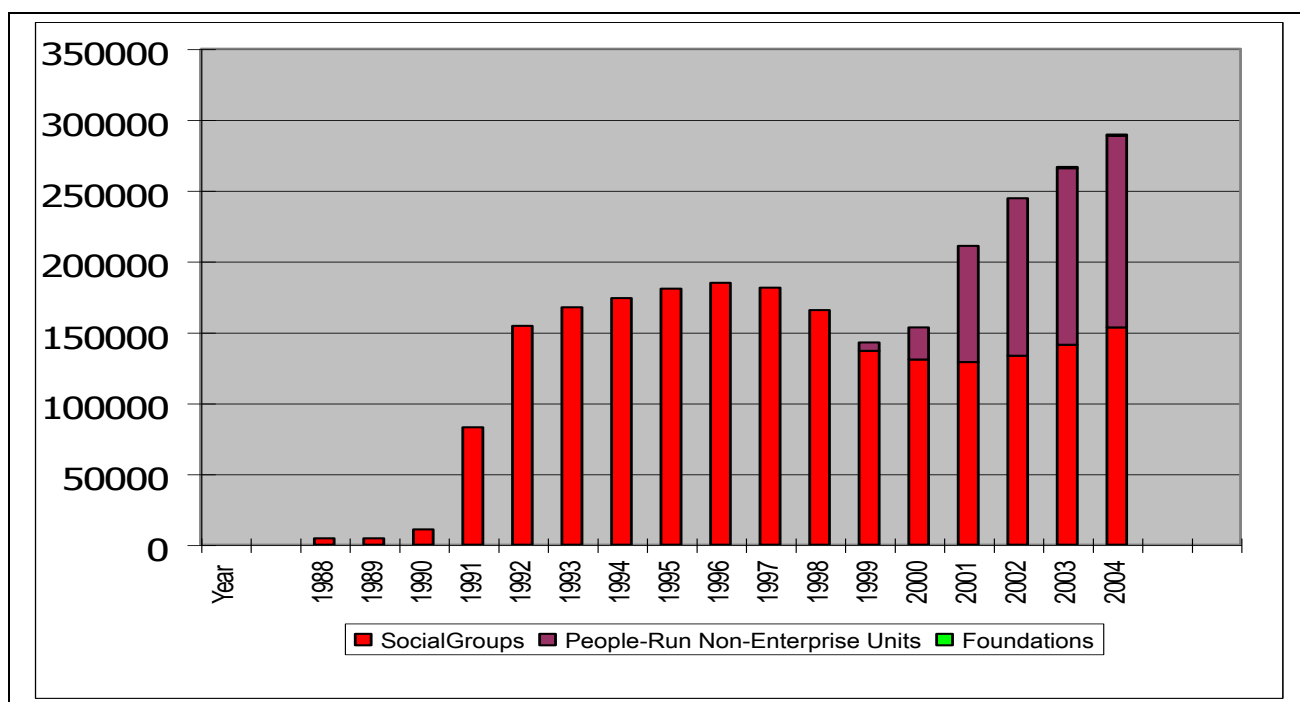
A “voucher system” is being tested in ZheJiang Rui’an and Changxing, mainly by promoting “education vouchers” in China’s education field. The goal is to solve problems of equity, and to promote private or professional education.

The promotion of these reforms is gradually breaking the government’s monopoly in public services thus accelerating progress in key elements of public services provision. The development situation is generally good. However, due to China’s overall low level in public services, many accumulated problems remain to be resolved. The task of reform is still very arduous.

2.4. *The development situation of China’s privately owned public services*

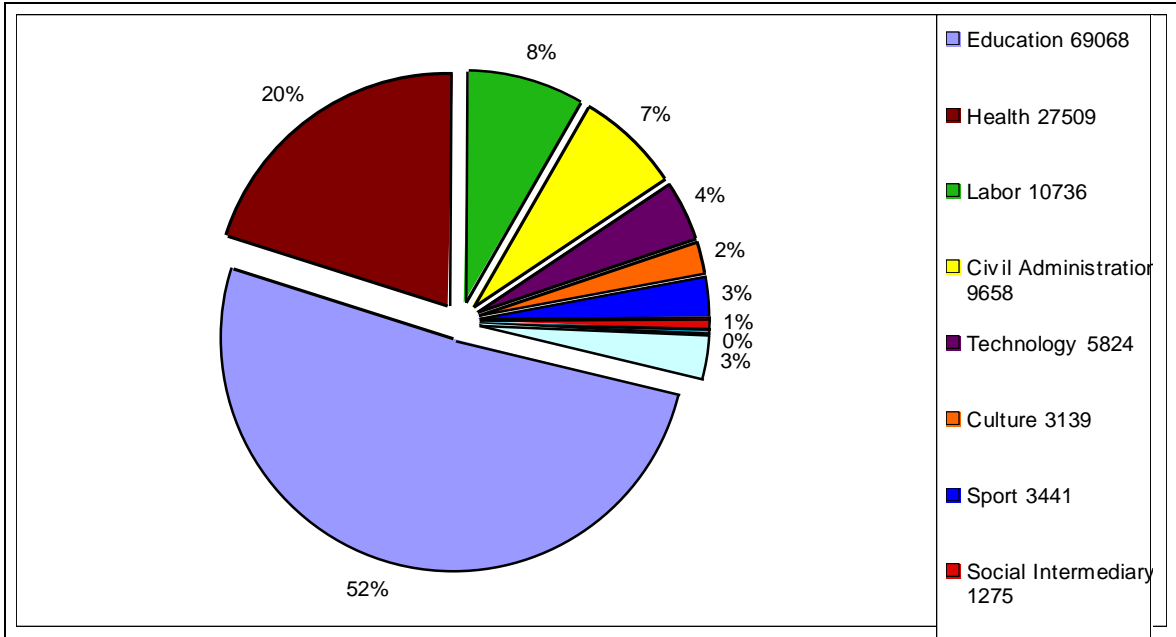
Since reform and opening up, China’s social groups, foundations, people-run non-enterprise units and other non-governmental organizations (NGO) or non-profit organizations (NPO) have been developing steadily. By the end of 2004, various civil society organizations throughout the country had grown to more than 289 000, in which social groups accounted for 153 000, foundations for 936 and people-run non-enterprise units for 135 000. To date, these new groups are still developing at an annual growth rate of 10% - 15%. Civil society organizations have already spread throughout the country in various fields, such as poverty reduction, culture, education and environment. The following table describes the change of NGO/NPO numbers between 1998 and 2004.

Chart 1: The change of NGO/NPO numbers between 1988 and 2004



Among the 135 100 NGO/NPO, 69 068 related to education, 27 509 related to health, 10 736 related to labor, 9 658 related to social welfare and charity, 5 824 related to technology, 3 139 related to culture, 3 441 related to sports, 1 275 related to social intermediaries, 546 related to legal services and 3 985 related to others (see sub-category in the following chart).

Chart 2 Sub-category situation of people-run non-enterprise units



Various non-profit organizations are geographically extensive and raise social funds amounting to several billion Yuan annually. These funds are used in poverty reduction, disaster relief, culture and education, social welfare, community service and other charity areas. Their activities make up in part for insufficient government investment, by meeting expectations regarding public participation and provision of public services, and support social harmony and prosperity in different fields such as education, technology and culture.