Journal of Contemporary Asia

ISSN: 0047-2336 (Print) 1752-7554 (Online) Journal homepage: https://www.tandfonline.com/loi/rjoc20

Governance Reforms in China and Vietnam: Marketisation, Leapfrogging and Retro-Fitting

Martin Painter

Journal of Contemporary Asia, 2014
Vol. 44, No. 2, 204–220, http://dx.doi.org/10.1080/00472336.2013.870829

Governance Reforms in China and Vietnam: Marketisation, Leapfrogging and Retro-Fitting

MARTIN PAINTER
Department of Public Policy, City University of Hong Kong, 83 Tat Chee Avenue, Kowloon, Hong Kong

ABSTRACT *International good governance orthodoxy proposes a set of step-by-step governance reforms as a necessary component of development. However, this orthodox view is more a reflection of persistent myths of development than of its realities. Living examples of this are found in contemporary China and Vietnam. In these two authoritarian one-party states, much international orthodoxy of good governance reform and practice is deliberately contradicted in the reform and opening-up process. In uncovering the underlying political logic of persistent "lag" in governance reforms in Vietnam and China, we observe examples of leapfrogging and retro-fitting, rather than orderly sequencing of governance reforms. The case of rapid marketisation of public service delivery is used to illustrate the arguments. The lesson is clear: good governance can come later.*

KEY WORDS: Public sector reform, China, Vietnam, good governance, public service delivery, marketisation

China and Vietnam are both transition economies (that is, transiting from a command to an open market economy) but remain authoritarian states under Communist Party rule. Both governments score low on "good governance" indices while experiencing dramatic economic growth and impressive levels of poverty reduction. Meanwhile, administrative reform is high on the agenda but the intentions are ambiguous and the outcomes mixed. Measures such as anti-corruption, civil service and transparency reforms receive particularly unfavourable comments from international observers and good governance advocates. Even where there has been change, observers often note "missed steps" in the process and "incompatible" layering of new measures onto existing institutions, in particular the institutions of the communist one-party state.

The desirability of good governance reforms for developing countries has become a defining orthodoxy of contemporary international aid and development discourses. The package is familiar: rule of law, transparency and accountability, anti-corruption, merit-based civil service reforms and so on. But there are many reasons to doubt the relevance of some of these orthodox prescriptions to developing countries. One such reason is a lack of capacity and resources for implementing complex reforms; another stems from the many pitfalls, including cultural tensions or incompatibilities, of implementing

Correspondence Address: Martin Painter, Department of Public Policy, City University of Hong Kong, 83 Tat Chee Avenue, Kowloon, Hong Kong. Email: samartin@cityu.edu.hk

"decontextualised" models and prescriptions. These objections might be dealt with by lowering ambitions, paying more attention to local stakeholders and lengthening time-horizons, without jettisoning the basic model. But a more fundamental objection stems from the fact that Western experience tells us that good governance is not a pre-requisite for development. That is, underlying the good governance narrative is a sequencing fallacy.

Nowhere is this better illustrated that in contemporary China and Vietnam which, according to the orthodox model, are ignoring some good governance principles altogether and, rather than proceeding in an orderly, step-by-step manner, are deliberately leapfrogging. In this context, both the prevalence and persistence of bad governance in China and Vietnam are best understood as embedded in these governments' chosen development trajectories. A case in point is the aggressive marketisation of public service delivery mechanisms as part of the transition. From a good governance perspective this arguably was not a good idea – it was "premature" and "out of sequence." But this is increasingly well understood by local reformers and there are growing efforts to deal with the adverse consequences (uneven access, corruption and quality deficits). In sum, in terms of sequencing, good governance can be "retro-fitted."

In elaborating on this argument, we turn first to a more detailed exposition of the sequencing fallacies of the good governance model. Next, we look at the nature of the commitment to public administration reform by governments in China and Vietnam, before exploring the reasons for the reform strategies and the logics they followed in the case of public service delivery reforms. While these reforms bear a strong resemblance to recent New Public Management (NPM) prescriptions in the West, the details of the case show how the circumstances and pressures facing reformers were such that a "transition-specific" reform logic and agenda emerged: the priority was to use the market to unburden the command economy state of responsibilities, while accelerating service production. A decline in governance standards occurred in the process and was tolerated for the time being as a by-product of the reform strategy. Significantly, however, as the concluding section shows, there is now in motion a set of reforms that have grown out of the reform logics already in place, seeking to remedy some of the worst problems. Elements of good governance may be coming, but not until later.

Sequencing Fallacies and Good Governance

As Peerenboom (2009, 1) writes, "[s]equencing has recently become a bad word in development studies." He is referring specifically to the contention arising from debate on whether democracy or development should come first (Carothers 2007). Peerenboom focuses his discussion on rule of law and institutional reform (as distinct from democratisation) and we shall follow his example. Within the governance and development literature and among international development actors there is a strong presumption that good governance is a pre-requisite for development. Good governance is characteristically 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; and a strong civil society

participating in public affairs; and all behaving under the rule of law (World Bank 1994, vii).

The blueprint is perhaps best viewed as a doctrinal distillation of imagined Western, liberal-democratic historical experience (Painter 2002). It fails to depict reality in two main ways: first, it mistakes a model for the real thing (no developed country actually conforms to the good governance model); and second, it misreads history and makes unsustainable propositions about sequencing.

As to the first issue, Andrews (2010) has pointed out that no successful, developed economy is actually governed in the manner that the "best practice" good governance models advocate. What we observe in reality among the leaders in the "effective government" league tables is considerable variety, including in some of the core features of the model. For example, in some governments, political patronage in appointments to the bureaucracy or to key government agencies is rare, while in others political appointments are the norm; in some "exemplar" countries, legislators play havoc with rule-bound administration, while in others bureaucrats keep them at bay; some governments are highly open, others very secretive, and so on. With respect to financial management, where it has long been argued that there is a broad international consensus on what constitutes "best practice," effective governments are not any more likely to adopt these practices; indeed, they vary in their adoption or lack of adoption even more than do the laggards, many of whom have swallowed them hook, line and sinker (Andrews 2010). In a similar vein, Brinkerhoff and Goldsmith (2005) have pointed out that what they label "institutional dualism" – coexistence of both "good" and "bad" governance institutions and practices – is still plainly evident in most contemporary developed countries.

As to the second objection concerning sequencing, the reading of development underlying the good governance narrative ignores the fact that, in practice, the sequencing implied was not universally part of Western historical experience. For example, economic take-off in the USA occurred well in advance of the realisation of institutional reforms now associated with good governance (Goldsmith 2007). Only later did the progressive movement agitate for reform. An obvious example of this kind of "retro-fitting" of good governance was the "late" arrival of freedom of information legislation in the last decades of the twentieth century in most Western democracies (Sweden being a notable exception). Advocating transparency as a key part of the development agenda ignores a venerable tradition of opacity in the public administration of most rich countries.

Cross-national data on development and good governance drives this point home. Much effort has been devoted to developing indices that specify empirically testable "quality of government" attributes and their correlations with development. The indices include "voice and accountability," "rule of law," "control of corruption," "regulatory quality" and the like. Numerous cross-national studies have used these indices to investigate whether such attributes are associated with high growth, high income and well-being. One survey of this literature (Holmberg, Rothstein, and Nasiritousi 2008, 19) showed that a few measures (the World Bank's "Government Effectiveness" and "Rule of Law" Indices and Transparency International's "Corruptions Perception" Index) are highly inter-correlated and have "very strong" correlations with gross domestic product (GDP). But at the same time they have "positive but *surprisingly weak* (my emphasis) correlations with economic growth." Although rich countries score high on indicators of good governance, the role that was played by institutional reform in becoming rich does not come through from the data. Khan (2007) shows from his data that countries that grew fastest in the late twentieth century demonstrated no significant differences in terms of enjoying the benefits of having a range of "good governance" institutions. The effectiveness of rule of law or any other set of governance institutions cannot be claimed to be a causal factor from these cross-national data. Holmberg, Rothstein, and Nasiritousi (2008, 19) conclude that "the causality between economic growth and quality of government is more like a 'virtuous circle,'" where the institutional and developmental trajectories may be intertwined but no clear lessons can be drawn about causation or sequencing (see also Goldsmith 2007). Peerenboom (2009, 9) makes a similar point: rich countries tend to have institutions that are characterised by the "rule of law" label, but maybe they got that way after they grew, not before. Analyses of developmental success stories in East Asia show the importance of the role of the state for economic development, but just what the governance ingredients were was highly context-dependent, varying from case to case and depending on appropriate applications rather than a single template (Khan 2007). Moreover, many factors apart from public policy settings and institutional frameworks were important.

In sum, there is no firm basis in these data on which to recommend to any set of reformers a specific set of good governance reforms as a prerequisite for development. As Grindle (2004, 526) argues, the bundling together of a range of attributes of good governance, showing that they express positive correlations with various desirable outcomes, is of no help in telling reformers "what is essential and what's not, what should come first and what should follow…." Nevertheless, the search for temporal as well as logical relationships between good governance and development remains a feature of discussions in the international public administration and development community, where there is often a concern for the sequencing of reforms. On the one hand, the argument that "A" must come before "B" is often just good common sense – for example, you cannot introduce a sound system of financial audit without first training and employing some auditors. In the field of public finance, the orthodox approach is to distinguish between "basic reforms" such as complete budget coverage, consolidated Treasury accounts and adequate budget controls, and "advanced" reforms such as performance-oriented budgeting and fiscal transparency (Tandberg and Pavesic-Skerlep 2009). More broadly, the World Bank advised "choosing and sequencing public sector reforms carefully, in line with initial capacities, to create firmer ground for further reform" (World Bank 2003, 194).

Often, sequencing claims also depict governance reforms marching in step with wider social and economic developments. A classic and highly influential argument along these lines is Schick's (1998) contention that New Zealand's pioneering NPM reforms have only limited relevance to developing countries. Government by contract and "output steering" depend upon formality and legality prevailing, both in the public and private sectors so that accurate monitoring and effective enforcement are possible. In developing countries, informality is the norm: until the rule of law governs market transactions and government administration alike, contractualism as a basis for public sector reform will not work. Schick (1998, 129) proposes that reform in these countries should proceed through "a logical sequence of steps that diminish the scope of informality while building managerial capacity, confidence, and experience." He argues that developing countries need a rule-bound neutral, professional, centralised Weberian-style bureaucracy and firmly established basic public sector budgeting and accounting procedures *before* they can safely introduce more decentralised, market-mimicking models of public service delivery. Schick's conclusions have been echoed by the World Bank: "[f]irst stage reforms" should aim to achieve or strengthen "formality, discipline and compliance with the rules," while second-stage reforms (after a "formality threshold" has been reached) should aim to "strengthen flexibility, discretion and a focus on results." In the case of civil service reform, "first-stage reform" requires "creat[ing] a legally defined cadre with common terms and conditions," following which "second-stage" reforms can be introduced, such as "…devolv[ing] and diversify[ing] pay arrangements to provide flexibility to employers" (World Bank 2003, 194–196). The same message is delivered in the case of sectoral reforms such as telecommunications, where establishing pro-competitive regulatory regimes in advance of privatising state monopolies has been shown to produce better results (Wallsten 2002).

As it happens, reformers in China and Vietnam in addressing public service delivery problems seem to have ignored these words of advice and gone about things in the wrong order. As discussed below, this is part of a more general pattern of heterodoxy in relation to good governance doctrines. Nevertheless, some "corrective measures" are being taken to address the governance shortcomings of rapid marketisation in the public sector: the "wrong sequence" as it turns out may be just a *different* sequence to the one prescribed. That is, Schick may be basically correct in his common-sense statement of the need for certain capacities to be in place before a marketised public service delivery system can be effectively implemented, but wrong in suggesting that there is only one sequence in which this can be achieved. Leapfrogging and retro-fitting may in some circumstances be sensible reform strategies.

Public Sector Reforms in China and Vietnam

China began its "reform era" some years earlier than Vietnam, which launched its "renovation" programme or *doi moi* in 1986. Both countries embarked on a process of marketisation of their economies. The scope of reforms to the state sector associated with these changes has been far-reaching. On the one hand, they have involved economic restructuring – dismantling the command economy; and on the other hand they have involved administrative restructuring – creating new organisations and procedures for regulating the market sector. Important legal reforms have accompanied these changes. One basic governance issue lies behind the reforms: how to construct new kinds of state capacity in a market environment. While there are some differences in emphases and in implementation style between the two countries, there are strong similarities in prioritisation and sequencing.

To begin with, there have been successive re-structuring and downsizing reforms as part of the process of dismantling the Soviet-style state instrumentalities that directly controlled the command economy, resulting in a new focus on regulation and coordination, away from direct economic micro-management (Dong, Christensen, and Painter 2010a; Ngok and Chan 2003; Yang 2004). As well, new laws, ordinances, circulars and other documents have been written to regulate non-state activity. In the process of legal and institutional reform, steps have been taken to reduce the burden of unnecessary controls on the economy encouraged by the old "permissions" or "begging-and-giving" culture and to formalise and clarify administrative procedures. Due process and legality are seen as instruments for developing more reliable administrative controls under the party's leadership. At the same time, neither in China nor in Vietnam are legal institutions viewed as occupying an autonomous sphere separate from the party-state. In this, as in other ways, "rule by law" does not equate with Western notions of "rule of law" (Gillespie 2005, 2006; Peerenboom 2004).

State-owned enterprises (SOEs) have been restructured to enable them to act as commercially driven bodies in the market place. An increasing number have been "equitised," "socialised" or "privatised" (although this last word tends to be avoided in the local discourses). Subsidies and micro-management by the state have been curtailed, although many SOEs retain privileged access to loans, land and administrative clearances (Broadman 2001; Fforde 2005; Yang 2004). In parallel, public service delivery units of all kinds (particularly in the cities) have been "pushed into the market," required to charge user fees and set free to compete for customers. For example, many education and health services in China and Vietnam are now managed and provided by lightly regulated "para-state" entities with limited budget subsidy. Much of this process has been piecemeal rather than carefully designed, although reformers have paid lip-service to NPM models in their rationales (Gu and Zhang 2006; London 2006; Li 2011).

Closely related to these measures is extensive administrative and fiscal decentralisation. Local governments have had to "look to the market" for revenue rather than rely on central budgets or taxes, and as a result they have gained some autonomy from the centre. In this process, distortions in local tax regimes have occurred (Dong, Christensen, and Painter 2010b; Duckett 2001; Lu 2000). Financial management devolution has been motivated primarily by shifting the administrative and financial burden to the local unit and thence (via fees and charges) to the client or customer. Periods of "turning a blind eye" to informal off-budget activities alternate with clamp-downs to regulate abuses, such as the measures in China in the early 2000s to reduce the "peasant's burden" by abolishing rural fees and charges (Lu 2000; Wedeman 2000; World Bank 2005b).

"Civil service" reform has been high on the agenda in both countries, including new laws and regulations to formalise public employment. In both China and Vietnam the principle has been maintained that the ruling Communist Party is ultimately in full control of the appointment and promotion of all public officials. However, criteria for promotion among party leaders and state managers at all levels increasingly combine technical with political performance evaluations. Meanwhile, salary reform has "monetised" remuneration but not seriously attempted to link reward with performance (Burns 2001; Chan 2004; Painter 2003, 2006).

There have been extensive campaigns against corruption, largely using pre-existing Soviet-style inspection and enforcement machinery and citizen complaint mechanisms. However, the fundamental issue of tackling systemic corruption within the party remains unresolved. The party will not accept external, independent oversight and continues to control anti-corruption campaigns (Gillespie 2002; Gong 2006, 2008). But at the same time, steps have been taken to make local officials more accountable to citizens. "Citizen's Report Cards," "Citizen Charters" and "one-stop-shops" have promoted transparency and citizen accountability in the processing of routine business (Foster 2005; Li 2002; Oi and Rozelle 2000). However, official corruption and abuses of power at the local level remain major grievances, resulting in frequent protests which create continuing anxiety within the party in both countries.

Although this brief summary does not exhaust all the areas of reform and change, it encompasses the most significant. The reform agenda is comprehensive and generates frequent major announcements of new measures by the top leadership. Much of the reform discourse echoes global reform themes such as deregulation, devolution and transparency. Although borrowing is evident in China, much of it is at the level of myths and symbols and takes the form of "superstitious learning" (Dong, Christensen, and Painter 2010a). In Vietnam, an active donor community provides technical and financial resources, along with a stream of advice about good governance. However, good governance advocates are mostly disappointed with the record to date: for example, politicisation continues to trump impartiality and legality at many crucial points; transparency and public accountability are limited by party control; considerations of service quality, accountability and access are inhibited by the lack of a "service" or "performance" culture; and so on. In terms of what actually has changed, the outcomes do not show a steady or significant improvement in key governance practices. The implementation gaps and shortfalls are the biggest where the deficiencies are most glaring. Basic building-blocks of good governance practice are left unreformed amidst a hectic agenda of transformations in other aspects of public administration.

But these criticisms only make sense within a decontextualised frame of reference. The Chinese and Vietnamese reform programmes have their own logic when viewed in context. The events set in motion by the decision to dismantle the command economy and hasten the creation of markets have produced a set of circumstances, including unintended consequences, that shape and constrain the decisions of actors and hence what kind of reform is feasible. Where convenient and appropriate, reformers have called on external models to support the changes, but just as often they have found their own "home-grown" rationales. In many cases, they have been driven as much by bottom-up developments as by top-down models. The remainder of the paper takes as a case study one such field of reform where a mix of local circumstances, overseas models and home-grown solutions has driven the agenda: the privatisation of many areas of public service delivery.

Decentralisation and the Informalisation of Local Bureaucratic Power

The purpose of this section is to set out the wider context of the changing role of the state during the transition process, as a prelude to the analysis of service delivery reforms. The state has decentralised in two senses: first, because many former state entities have been "pushed into the market" and second because this has fed back into a growing dispersal of power to the periphery *within* the state. One important aspect of this has been the opportunistic behaviour of public officials when engaging as market actors. Public officials, acting at first from *within* the state, have occupied new economic and political roles *beyond* the state as they participated in and benefitted from the dispersal of the state's resources into the market economy. Gainsborough (2003) described how a "state business interest," with strong roots in provincial and local party-state circles, emerged as a powerful political force in Vietnam during the 1990s, with largely centrifugal effects (Beresford 2001; Fforde 1993; Gainsborough 2003, 72). Informal and illegal uses of state power and resources to facilitate economic accumulation have been evident during official programmes of state restructuring while, in turn, being major forces in shaping that restructuring. "Reform" has often been captured by local party-state economic actors for their own purposes, creating major challenges for the national governments of China and

Vietnam in responding to widespread public discontent over corruption and abuses of power.

Decentralisation has also entailed growth in the functions of sub-national government. In both China and Vietnam, there has been a trend towards a greater sub-national share in service delivery and expenditure. In China, sub-national expenditures rose from about 45% of the total prior to the economic reforms in the 1980s to close to 70%. The accumulation of such responsibilities at local level stimulated a rapid growth in local bureaucracies – in China sub-national official employment grew by nearly 80% between 1978 and 1987 (Shirk 1992, 85). At the same time, the taxing capacity of local governments did not keep up (Mountfield and Wong 2005, 97), with the result that local governments turned to "extra-budgetary" sources to make up the shortfall. Speculative land deals became a major source of local government revenue. In the process, the growing weakness of the centre in regulating local government behaviour was revealed. A plethora of fees, charges, levies and fines were imposed by local officials, many of them of dubious legality (Bernstein and Lu 2003, 107–109). The result was an escalation of extra-budget and off-budget revenues and expenditures, estimated to amount to up to half of total local government expenditures (Mountfield and Wong 2005, 98).[1] These sources of revenue were tapped through the use of local discretionary powers; were retained by the local bodies that collected them; and were available to reward local officials with jobs, bonuses and other benefits (Bernstein and Lu 2003; Gong 2006; Wedeman 2000). Local audit and tax offices took a forgiving view of irregularities and adopted a pragmatic approach to punishment (Oi 1999, 153–159). Clamp-downs by the centre did not always achieve the desired results. Similar processes of informalisation, coupled with half-hearted oversight and regulation, were evident in Vietnam (Painter 2006).

The growth of off-budget activity was directly associated with strengthening the autonomy of service delivery agencies and the spawning of new ones to manage development and to deliver services. These processes were particularly significant in the developing cities, rather than in rural areas, where state subsidies were still needed to maintain the viability of service providers (but were often not forthcoming). Again, this sounds like NPM but really was actually home-grown. Burgeoning numbers of entities on the fringes of the state in areas of rapid development gave new opportunities for employment, enterprise and profit, while not relying on state budgets. Legal personality has been endowed on a new range of "social organisations" under state sponsorship and regulation, many of them performing "state-like" functions. In the process, the state has created a complex array of state-cum-societal organisational "hybrids," some set up with a view to returning profits, others concerned more with "community construction" (Duckett 1998; Benewick, Tong, and Howell 2004). As discussed in the next section, large areas of public service delivery have shifted radically to this "para-state" sector.

Informalisation, Autonomisation and Marketisation

In both China and Vietnam, the administrative organisation of the state had three components: administrative agencies concerned with "state management" (ministries and departments); service delivery units (such as public hospitals); and enterprises. Here, we focus mainly on the second category. China had over one million service delivery units employing nearly 30 million in 2002, or 41% of the public sector workforce. Some 60% of China's professional classes worked for them; they owned two-thirds of “non-commercial” state assets; and they absorbed about one-third of the recurrent expenditures of all governments (World Bank 2005a, 1–2). In practice the way these organisations were staffed and managed differed little from administrative agencies: the same terms and conditions of “civil service” employment and pay scales applied to them (although one difference was that many of their employees were in professional or technical rather than administrative ranks) and party control and management was exercised. They were also likely to be funded (at least in part) from the state budget. Their service functions were diverse, but the largest sectors were education and health. Supervision rested with administrative departments at central, provincial or local levels. In China, 65% of their employees were affiliated with county and township governments. The control and management of service delivery units was a matter of vital interest to local governments, as many were repositories of significant state assets, important instruments of patronage and (increasingly) significant sources of revenue. Many of the burgeoning fees and charges levied by local government bodies referred to earlier were collected at the point of service delivery by these agencies. About half of the revenue of service delivery units in China by 2002 was raised through fees (World Bank 2005a, 3).

In China, reforms and “experiments on a vast scale” (Cheng 2001, 322) to unleash the productive potential of this sector included more flexible systems of recruitment and remuneration such as incentive schemes for employees; separation from government departments; delegation of enhanced management autonomy; and increased powers to levy fees or set charges and to borrow money for investment coupled with new regulations allowing for retention of revenues. In a similar vein in Vietnam, Decree 10 in 2002 formally granted public service delivery units a degree of formal financial management autonomy, including many of the same measures. A major driver of these measures was the need to find a way to cover the cost of retaining state employees in a context of fiscal restraint, as government budgets were increasingly made dependent upon new but limited systems of taxation of firms and citizens.

Thus, like state-owned enterprises, most service delivery units were “pushed into the market.” Even where they are supposedly “non-profit,” they were expected to recoup their costs and seek out revenue from the “customer.” The result is that a market for the service in question was created where one did not formerly exist. For example, in Vietnam, Hanoi schools were permitted to enrol so-called “Grade B” fee-paying students who did not meet academic or residential entrance requirements (World Bank 2005b, 110). All parents paid some fees, but Grade B students incurred a higher fee (on average some three to four times higher). Only a small proportion of the fees charged to enrol these “extra-plan” and “extra-budget” students had to be remitted to the central department. The surplus funds were mostly allocated to the school salary budget for “top-ups.” This semi-privatisation of secondary schooling was facilitated and encouraged in Vietnam under regulations which permitted not only “semi-public” classes in state schools but also “semi-public schools” and “people-founded” schools (London 2006). These developments closely followed those already implemented in China. In Shanghai, “publicly-owned privately-run” schools under a contracting-out system became an important part of the sector, with school managers having extensive autonomy in staff hiring, fee collection, student recruitment and so on. By the end of the 1990s government funding accounted for only about 50% of education expenditure in the city and there was a wide variety of organisational forms spanning public and private sectors. In 2003, a Ministry of Education circular sought to regularise a range of activities permitting service delivery units, private individuals and social organisations to set up and manage "independent colleges" as private institutions (Ngok and Chan 2003; World Bank 2005a, 5–6).

Local governments were also encouraged to sponsor the take-up of public service delivery by non-government "social organisations." In China, this resulted in a special category of "civilian-run non-enterprise organisations." Under a set of 1998 regulations, they must register and be overseen by an official or professional "sponsor" organisation. Registration of such bodies has mushroomed. They have been popular, for example, for the provision of old-people's homes on a non-subsidised fee-paying basis, to the extent that the "non-state" sector has become the dominant residential elderly care provider. Residents pay fees and their standard of accommodation and care will depend on their ability to pay (or the benevolence of the owner). The viability of these self-financed entities is precarious but the state has steadfastly sought to avoid subsidy, with other kinds of official support also being minimal (Wong and Tang 2006).

The reform process has thus been a mixture of both informal, bottom-up stratagems and top-down encouragement. Marketisation has suited the interests of important professional groups and of producers, as well as local governments, which have been unburdened of some of the costs of provision. The bottom-up pressures came in part from employees, particularly technical and professional staff, seeking secure jobs and higher incomes. In both Vietnam and China, official remuneration for public employees was widely acknowledged to be inadequate, to be supplemented from other income-earning arrangements. Even before the official announcement of new regulations requiring greater self-reliance, local service delivery units were expected to look to their own resources to top-up official salaries, recouping the cost from consumers of services or running businesses on the side (Lam and Perry 2001; Painter 2006). In China, professional employees have been permitted under state regulations to provide fee-paying services to clients while in their official positions. Autonomisation was in many ways simply a formalisation of what was already happening "off-budget."

Subsequently, the service sector in becoming marketised has created an important set of economic interests in both China and Vietnam. Its capacity to extract fees and charges from households has created expanding business opportunities for a range of industries, from pharmaceuticals to textbook publishing. In the health sector, for example, opportunities for collusive practices (such as over-prescribing by doctors and use of public hospital facilities to set up for-profit ventures using high-tech medical equipment) have provided burgeoning opportunities for profit and for rent-seeking. For example, practices such as informal payments to doctors, over-prescribing and over-use of expensive clinical tests and equipment have been well documented in Vietnam and are in part the result of incentives built into the mixed public/private systems of funding, regulation and provision (Vasavakul 2009).

Governance and Service Delivery: Ideal and Reality

For Allen Schick and others, this headlong rush into service delivery marketisation would have rung alarm bells. Public sector discipline and accountability mechanisms of the kind familiar in highly institutionalised bureaucracies should have been implemented first, before embarking on autonomisation and deregulation; regulation of fees and charges and other budgetary control systems should have been put in place before giving service delivery agencies more discretion; and increasing the flexibility of employment terms and conditions without first enforcing those that already existed was a recipe for a range of abuses. As Schick argues, getting the formal bureaucratic rules and norms in place would seem to be the place to start, rather than giving delivery agencies more autonomy to operate in a commercial manner. If contracts or performance standards for public services were to be implemented in this new devolved system, enforceable rules and norms that would encourage compliance would first need to be in place. Instead, the commercialisation and autonomisation of public service delivery units increased the potential for various forms of "rent-seeking," abuse and corruption, resulting in growing dissatisfaction with many public services. For example, public hospitals have come in for some of the worst criticism on grounds of quality, affordability and profiteering (for example, over-prescribing of fake drugs at exorbitant monopoly prices) (Tam 2010).

However, in mounting such a critique, the underlying logic behind the actual steps taken needs to be understood. Framing of the problems occurred in a quite specific transition context, guided both by pragmatic concerns and also by traditions and patterns of socialist thought. The material to be worked with included a set of inherited party and state bodies, staffed by regime supporters and dependents whose livelihoods were at stake. Down-sizing was imperative, but wholesale redundancies unacceptable. In Vietnam (as in China) public discourse about development in a "market economy with socialist characteristics" lent legitimacy to the semi-privatisation of public services such as education and health at the local level. As the Vietnamese state emerged from the command economy, a distinction was drawn between state management on the one hand and the production of goods and services on the other. The former was seen as akin to "control and steering" and properly the business of the party and the state, while the provision or production role was seen as commercial or technical, to be left to the market and to society. The distinction was applied with the same meaning and consequences to the autonomisation of SOEs and of service delivery agencies alike, as both were viewed as production units (GSC 2000c, 8). As against the traditional style of "begging and giving" (or state subsidy), party leaders urged that enterprises and (in the same breath) public service delivery agencies should seek to mobilise "people's resources" in the form of a surplus derived from user fees and charges (GSC 2000a, 15). The term adopted was "socialisation," which was given specific local meaning and distinguished from the worldwide "privatisation" trend: "Socialization will be conducted under the principle the '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).

To sum up, quasi-marketisation of service production and delivery was partly a matter of pragmatic convenience and partly a logical extension of the wider market reform agenda. What were missing from this agenda were the "good governance" building blocks, for example, the need for "due process" and other public-regarding rules and norms of the kind embodied in the routines of Weberian-style bureaucracies. Access and equity questions of the kind inherent in applying a concept of public goods were also sidelined, as were basic "consumer protection" provisions of the kind that pro-competitive, market-based service delivery reform would ideally include.[2] The answers to the fundamental problem of expanding production while unburdening the state payroll lay in new forms of self-sufficiency in a market context and in more flexible management arrangements, within a lightly regulated environment so as not to restrain local initiative and enterprise.

Retro-Fitting Better Governance

As already intimated, a by-product of these reforms has been to encourage service delivery abuses, including widespread corruption, and highly unequal access due both to affordability issues and also to the commercially-driven incentives driving investment in and location of facilities. Reliance on market mechanisms and user charges meant that poorer regions and groups missed out. A number of forces and interests have put pressure on the governments of China and Vietnam to change course. First, citizens have articulated high levels of dissatisfaction with both the growing burden of providing for rising education and health costs out of household income and also the low quality of some of these services. Associated corruption has also been a cause of complaint. Pressure to improve services and to ease access has been strongly felt by local officials. This dissatisfaction has created challenges to the party's legitimacy, which relies in large part on its continuing ability to deliver economic prosperity and social stability. Second, making provision for meeting the costs of health and education (in addition to housing, which has also been increasingly marketised) has come to be seen by the national government as a brake on economic development. High levels of savings are seen as an impediment to the growth of a more consumption-oriented middle class, which is seen as a future engine of growth for domestic industry. Improvements in public safety nets and public services are viewed in part as a measure to improve China's future growth prospects.

Remedial measures to cope with some of the adverse social and political consequences have begun to be taken by the Chinese and Vietnamese governments. In part, these measures reflect a shift in the balance of ongoing policy debates, with those arguing for a stronger role for the state in public goods provision gaining ground. More pertinently, they reflect a perception that the growing public dissatisfaction with the rising household costs of providing for housing, education and health (as well as the poor quality of many services) may threaten the future "performance legitimacy" of the ruling party. Three types of responses deserve brief mention: first, measures to deal with accountability issues at the "grass-roots" level; second, efforts to address some of the "market failures" of the privatised systems through regulatory reforms; and third, measures to restructure the finances of central and local governments so as to provide more budget support for public goods provision in poor localities.

On the accountability front, in both Vietnam and China, pre-existing citizen complaint mechanisms have been strengthened, albeit largely in forms that are consistent with exiting mechanisms for party management of dissent. This may enhance the capacity of party inspectorates and other disciplinary agencies to monitor and check abuses by local officials, while also affording local victims a safety valve for their grievances. In the case of "grass-roots democracy," in Vietnam new measures were introduced in the late 1990s in response to serious local unrest over local abuses of power and corruption. In both China and Vietnam, however, the capacity freely to choose local assemblies at village or commune level is constrained by mechanisms that monitor the nomination process, and uptake and implementation has been uneven from locality to locality (Levy 2003; Zingerli 2004). Moreover, the elected representatives are closely monitored and integrated into existing administrative hierarchies. In China, experiments with township elections were abruptly curtailed. In other words, these experiments in new accountability and "voice" mechanisms have sought primarily to contain and to deflect protest, without necessarily transforming the party's control over political mobilisation and interest articulation. By and large, despite some superficial similarities (*exempli gratia*, the adoption of so-called "citizen charters") these accountability mechanisms do not follow Western good governance models or practices.

With respect to directly addressing service delivery market failures and improving funding to local governments, the central government in China has begun to articulate a set of principles about the "welfare" role of government in assuring certain basic minimum standards and redressing inequalities. This is accompanied by new rhetoric about the "harmonious society," which deliberately echoes paternalistic Confucian doctrines. Modifications have occurred both in the ideological discourse and also in policy statements and outputs. Higher levels of financial support for the provision of infrastructure have been afforded to rural local governments and those in the western provinces; tougher regulation of fees and charges has been brought in; and there have been curbs on some forms of further privatisation. "Basic safety net" social insurance has been instituted to help overcome the exposure of citizens to the health services marketplace. With these measures, the pace of privatisation may be slowed while the state's role as basic provider, as well as regulator and guarantor, is being reassessed (Mok and Painter 2010).

Service delivery reforms in this context are in a state of flux. We may expect reforms to continue to be, by and large, incremental and reactive, particularly in the context of the strategic nature of political relations between central and local governments. In China's rural areas, some local experiments in commercialisation took place at first in a context of financial pressures following the clamp-down on local government fees and charges after 2003. Some local authorities went bankrupt and schools closed as a consequence of these rural tax reforms (Li 2007). Subsequently, central budget support and the shifting of service responsibilities to higher levels has been the preferred response, rather than yet more widespread autonomisation and devolution (Li 2008, 272). The official rhetoric is now focused more on fulfilling state responsibilities and on ensuring the equitable provision of basic public goods such as elementary education. While fees and charges remain a significant and indispensable element in the funding of such services, by the late 2000s these were more strictly regulated by higher levels of government, as were matters of service quality (Li 2008). The main elements in the reform agenda were increased financial transfers to local governments; assurances about guaranteed levels of funding; and measures to try to ensure local government compliance with central policies. Moreover, some recent evidence from the education sector suggests that local government officials have welcomed the new measures as offering them the means to fulfil their public service responsibilities, rather than (as critics might have expected) just pocketing the proceeds (Li 2011). In sum, reform is now arguably "back on track" in addressing core welfare and service quality issues.

Conclusion

Both in China and Vietnam, a commonly expressed metaphor to describe the style of reform in the transition era is: "crossing the river by feeling the stones." The unfolding of public service delivery reforms in China and Vietnam has been about resolving dilemmas associated with the transition from the command economy, one by one and step by step. The state was downsizing in numbers and withdrawing from micro-control, but expanding in policy reach. An emerging "middle class" demanded access to higher quality services and in order to meet this demand autonomisation and commercialisation were encouraged because public finances were inadequate for the task. This also in some measure solved the problem of how to pay public payroll wages and meet other costs. These developments suited local elites and gave new opportunities for patronage and profit. A distinctive socialist rhetoric of transition – "socialisation" and "self-sufficiency" – was used to justify the reforms. The "bad governance" consequences – to the extent that they have been recognised – were viewed by and large as a cost to be borne for the sake of expanding service production to serve both economic development and rising social expectations.

Most Western commentators on the progress of the Chinese and Vietnamese reforms have voiced a common set of criticisms of this experience, many of which can be summed up under the heading of "poor sequencing" (echoing the Allen Schick critique): autonomisation and commercialisation were encouraged before basic regulatory frameworks and policy coordination mechanisms were put in place; local personnel management was deregulated before a clear set of "reformed" public employment laws and regulations instilling basic civil service norms were instituted; local financial management experiments were initiated as a poor substitute for enhanced general revenue-raising capacity and before accounting controls and effective financial auditing were implemented; regulation and coordination of service access, affordability and quality were left for later, leading inexorably to service deficiencies; and so on.

Meanwhile, civil service reform, strengthening of legality and developing a service culture (all, according to good governance orthodoxy, necessary building blocks) have proceeded along different tracks at a much slower pace, constrained by politics and other circumstances. It is possible that some of these other reform agendas will also now gain more attention and receive more urgency. As markets in health and education have developed in order to boost production, the detrimental effects have given some producers and most consumers a financial interest in better regulation and more effective public accountability. Angry purchasers of expensive, fake drugs and worthless college degrees demand measures to stamp out corruption and regulate standards, while purveyors of higher quality products (such as the elite universities) want to restore the public's faith in their industry through similar reforms. In China and Vietnam, the entanglement of the service provision industries with local government and the prevalence of corruption and rent-seeking in these sectors means that the pressures for reform are meanwhile largely absorbed by the state. A range of legal, regulatory and financial rules are now being retrofitted: Chinese and Vietnamese governments are responding to market failures and political pressures in the health and education sectors by clarifying rules of subsidy, increasing transfer expenditures and better regulating the charging of fees and the provision of services. These measures might be expected to be accompanied by heightened levels of legality, accountability and transparency. In sum, good governance can come later.

Notes

1 The distinction between "extra-budget" and "off-budget" funds is that the former are permitted under financial rules, the latter are not.

2 A World Bank report on public service unit reform in China includes a chapter on state financing and organisation of public service provision in the West, trying to drive home the "lesson" that the public sector has a role in some "core" service provision functions (World Bank 2005a, 19–21). Cheng Siwei (2001), writing as a party intellectual and vice-chairman of the Standing Committee of the National People's

Congress, also criticizes reform efforts for not drawing upon a clear conception of "public goods" or the proper role of government in their provision.

References

Andrews, M. 2010. "Good Government Means Different Things in Different Countries." *Governance* 23 (1): 7–35.

Benewick, R., I. Tong, and J. Howell. 2004. "Self-Governance and Community: A Preliminary Comparison Between Villagers' Committees and Urban Community Councils." *China Information* 18 (1): 11–28.

Beresford, M. 2001. "Vietnam, the Transition From Central Planning." In *The Political Economy of South-East Asia*, 2nd ed. edited by G. Rodan, K. Hewison and R. Robison, 197–220. Melbourne: Oxford University Press.

Bernstein, T. P., and X. B. Lu. 2003. *Taxation Without Representation in Contemporary Rural China*. Cambridge: Cambridge University Press.

Brinkerhoff, D., and A. Goldsmith. 2005. "Institutional Dualism and International Development: A Revisionist Interpretation of Good Governance." *Administration and Society* 37 (2): 199–224.

Broadman, H. 2001. "The Business(Es) of the Chinese State." *The World Economy* 24 (7): 849–875.

Burns, J. 2001. "Public Sector Reform and the State: The Case of China." *Public Administration Quarterly* 24 (4): 419–436.

Carothers, T. 2007. "The 'Sequencing' Fallacy." *Journal of Democracy* 18 (1): 12–27.

Chan, H. 2004. "Cadre Personnel Management in China: The Nomenklatura System, 1990–1998." *The China Quarterly* 179: 703–734.

Cheng, S. 2001. "Strategic Directions and Policy Implementation for Reforming China's Institutional Units." In *Studies on Economic Reforms and Development in China*, edited by S. Cheng, 319–346. Oxford: Oxford University Press.

Dong, L., T. Christensen, and M. Painter. 2010a. "A Case Study of China's Administrative Reform – the Importation of the Super-Department." *American Review of Public Administration* 40 (2): 170–188.

Dong, L., T. Christensen, and M. Painter. 2010b. "Housing Reform in China: Rational Interests Gone Wrong or Organizational Design Failure?" *Journal of Asian Public Policy* 3 (1): 4–17.

Duckett, J. 1998. *The Entrepeneurial State in China: Real Estate and Commerce Departments in Reform Era Tianjin*. London: Routledge.

Duckett, J. 2001. "Bureaucrats in Business, China-Style: The Lessons of Market Reform and State Entrepreneurialism in the People's Republic of China." *World Development* 29 (1): 23–37.

Fforde, A. 1993. "The Political Economy of 'Reform' in Vietnam – Some Reflections." In *The Challenge of Reform in Indochina*, edited by B. Ljunggren, 293–326. Cambridge: Harvard Institute for International Development, Harvard University.

Fforde, A. 2005. "State-Owned Enterprises, Law and a Decade of Market-Oriented Socialist Development in Vietnam." In *Asian Socialism and Legal Change, the Dynamics of Vietnamese and Chinese Reform*, edited by J. Gillespie and P. Nicholson, 239–266. Canberra: Asia Pacific Press.

Foster, K. 2005. "Chinese Public Policy Innovation and the Diffusion of Innovations: An Initial Exploration." *Chinese Public Administration Review* 3 (1): 1–13.

Gainsborough, M. 2003. *Changing Political Economy of Vietnam: The Case of Ho Chi Minh City*. London: Routledge Curzon.

Gillespie, J. 2002. "The Political-Legal Culture of Anti-Corruption Reforms in China." In *Corruption in Asia: Rethinking the Governance Paradigm*, edited by T. Lindsey and H. Dick, 167–200. Sydney: The Federation Press.

Gillespie, J. 2005. "Changing Concepts of Socialist Law in Vietnam." In *Asian Socialism and Legal Change, the Dynamics of Vietnamese and Chinese Reform*, edited by J. Gillespie and P. Nicholson, 45–76. Canberra: Asia Pacific Press.

Gillespie, J. 2006. *Transplanting Commercial Law Reform: Developing a 'Rule of Law' in Vietnam*. Aldershot: Ashgate.

Goldsmith, A. 2007. "Is Governance Reform a Catalyst for Development?" *Governance* 20 (2): 165–186.

Gong, T. 2006. "Corruption and Local Governance: The Double Identity of Chinese Local Governments in Market Reform." *The Pacific Review* 19 (1): 85–102.

Gong, T. 2008. "The Party Discipline Inspection in China: Its Evolving Trajectory and Embedded Dilemmas." *Crime, Law and Social Change* 49 (2): 139–152.

Grindle, M. 2004. "Good Enough Governance: Poverty Reduction and Reform in Developing Countries." *Governance* 17 (4): 525–548.

GSC (Government Steering Committee for Public Administration Reform). 2000a. *The Overall Report: Review of Public Administration Reform*. Hanoi: Government of Vietnam.

GSC. 2000b. *Report of Group 1: Stances and Guidelines of the Party and the Sate of Vietnam on Public Administration Reform*. Hanoi: Government of Vietnam.

GSC. 2000c. *Report of Group 3: Review of Public Administration Reform in the Field of Organizational Structure of the Government Apparatus and State Management – Roles, Functions, Responsibilities and Structure*. Hanoi: Government of Vietnam.

Gu, E., and J. Zhang. 2006. "Health Care Regime Change in Urban China: Unmanaged Marketization and Reluctant Privatization." *Pacific Affairs* 79 (1): 49–71.

Holmberg, S., B. Rothstein, and N. Nasiritousi. 2008. "Quality of Government: What You Get." Gothenburg: Quality of Government Institute, University of Gothenburg, QOG Working Paper Series 2008, 21.

Khan, M. 2007. "Governance, Economic Growth and Development since the 1960s." United Nations, DESA Working Paper No. 54.

Lam, T., and J. Perry. 2001. "Service Organizations in China: Reform and Its Limits." In *Remaking China's Public Management*, edited by N. Lee, and W. Lo, 19–40. Westport: Quorum Books.

Levy, R. 2003. "The Village Self-Government Movement: Elections, Democracy, the Party and Anticorruption – Developments in Guangdong." *China Information* 17 (1): 28–65.

Li, L. 2002. "The Politics of Introducing Direct Township Elections in China." *The China Quarterly* 171: 704–723.

Li, L. 2007. "Working for the Peasants? – Strategic Interactions and Unintended Consequences in the Chinese Rural Tax Reform." *China Journal* 57: 89–106.

Li, L. 2008. "State and Market in Public Service Provision: Opportunities and Traps for Institutional Change in Rural China." *The Pacific Review* 21 (3): 257–278.

Li, L. 2011. "Strategic Action and Local Fiscal Policy: How Cadres Manage Scarcity – or Abundance?" Paper presented at the International Workshop on Politics and Autonomy in China's Local State – County and Township Cadres as Strategic Groups, Tubingen University, Germany, July 1–3.

London, J. 2006. "The Political Economy of Education in a 'Socialist' Periphery." *Asia Pacific Journal of Education* 26 (1): 1–20.

Lu, X. 2000. "Booty Socialism, Bureau-Preneurs and the State in Transition: Organizational Corruption in China." *Comparative Politics* 32 (3): 273–294.

Mok, K., and M. Painter. 2010. "Reasserting the Public in Public Service Delivery: The De-Privatization and De-Marketization of Education in China." In *Reasserting the State in Public Services*, edited by M. Ramesh, E. Araral, and X. Wu, 137–158. London: Routledge.

Mountfield, E., and C. Wong. 2005. "Public Expenditure on the Frontline: Toward Effective Management by Subnational Governments." In *East Asia Decentralizes: Making Local Government Work*, edited by World Bank, 85–106. Washington, DC: World Bank.

Ngok, K., and H. Chan. 2003. "Guest Editors' Introduction." *Chinese Law and Government* 36 (1): 5–13.

Oi, J. C. 1999. *Rural China Takes Off: Institutional Foundations of Economic Reform*. Berkeley: University of California Press.

Oi, J. C., and S. Rozelle. 2000. "Elections and Power: The Locus of Decision-Making in Chinese Villages." *The China Quarterly* 162: 513–539.

Painter, M. 2002. "Making Sense of Good Governance." *Public Administration and Policy* 11 (2): 77–100.

Painter, M. 2003. "Public Administration Reform in Vietnam: Problems and Prospects." *Public Administration and Development* 23: 259–271.

Painter, M. 2006. "Sequencing Civil Service Pay Reforms in Vietnam: Transition or Leapfrog?" *Governance* 19 (2): 325–348.

Peerenboom, R., ed. 2004. *Asian Discourses of Rule of Law: Theories and Implementation of Rule of Law in Twelve Asian Countries, France and the US*. London: Routledge Curzon.

Peerenboom, R. 2009. "Rule of Law, Democracy and the Sequencing Debate: Lessons from China and Vietnam." Accessed on 12 August 2011. http://ssrn.com/abstract=1447051.

Schick, A. 1998. "Why Most Developing Countries Should Not Try New Zealand Reforms." *The World Bank Research Observer* 13: 1123–1131.

Shirk, S. 1992. “The Chinese Political System and the Political Strategy of Economic Reform.” In *Bureaucrats, Politics and Decision Making in Post-Mao China*, edited by K. Liberthal, and D. Lampton, 59–91. Berkeley: University of California Press.

Tam, W. 2010. “Privatising Healthcare in China: Problems and Reforms.” *Journal of Contemporary Asia* 40 (1): 63–81.

Tandberg, E., and M. Pavesic-Skerlep. 2009. “Advanced Public Financial Management Reforms in South East Europe.” International Monetary Fund, Working Paper, WP/09/102.

Vasavakul, T. 2009. *Corruption in the Health Sector: Management of Service Delivery and Impact on Poverty Reduction in Vietnam*. Hanoi: Embassy of Sweden.

Wallsten, S. 2002. “Does Sequencing Matter? Regulation and Privatization in Telecommunications Reforms.” Work Bank, Development Research Group, Policy Research Working Paper 2817.

Wedeman, A. 2000. “Budgets, Extra-Budgets and Small Treasuries.” *Journal of Contemporary China* 9: 489–511.

Wong, L., and J. Tang. 2006. “Non-State Care Homes for Older People as Third Sector Organizations in China’s Transitional Welfare Economy.” *Journal of Social Policy* 35 (2): 229–246.

World Bank. 1994. *Governance: The World Bank’s Experience*. Washington, DC: World Bank.

World Bank. 2003. *World Development Report 2004: Making Services Work for Poor People*. Washington DC: World Bank.

World Bank. 2005a. *Report No. 32341-CHA: China Deepening Public Service Unit Reform to Improve Service Delivery.* Washington, DC: World Bank.

World Bank. 2005b. *Vietnam, Managing Public Expenditure for Poverty Reduction and Growth – Public Expenditure Review and Integrated Fiduciary Assessment (Volume 1: Cross Sectoral Issues)*. Washington, DC; World Bank.

Yang, D. 2004. *Remaking the Chinese Leviathan. Market Transition and the Politics of Governance in China*. Stanford: Stanford University Press.

Zingerli, C. 2004. “Politics in Mountain Communes: Exploring Vietnamese Grassroots Democracy.” In *Rethinking Vietnam*, edited by D. McCargo, 53–66. London: Routledge Curzon.