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Lessons in decentralisation from China

In the past 40 years since the reforms of 1978 under Deng Xiaoping, the local governments in China have played an important role in the growth story. The Chinese political structure is distinctively unique with decentralised local governments within the confines of central political guidelines. The system may not be as representative but is effective in the sense that it gives enough fiscal and policy leeway (economic and administrative decentralisation) to the lower tiers of the government.

The political experience of China though is not democratic in the western sense but there has always been space for

self-correcting mechanisms. In the late twentieth century, as the economy was transitioning towards rapid industrialisation and urbanisation, changes were brought in to devolve powers to provinces and then to townships and counties. Most of the public service delivery responsibility was decentralised to sub-provincial governments, the expenditure of which, today roughly accounts to 60% of total government budget spending in China.¹

To finance this expenditure, fiscal reforms were introduced in 1984 allowing lower levels of government to retain locally generated revenue. This

¹ OECD Report
<https://www.oecd.org/regional/regional-policy/profile-China.pdf>

incentivised the local officials to pursue economic reforms and promote growth locally. It would not be an exaggeration to say that fiscal decentralisation in China went hand-in-hand with economic decentralisation.

The outcome of the fiscal and economic decentralisation was emergence of Township and Village Enterprises (TVEs) which became the engine of growth for years to come. TVEs are publicly owned, market oriented economic units. The decentralisation of fiscal revenue in the 1980s created an incentive for local governments to support local businesses, and make key investment and production decisions. The result was that by 1995, TVEs accounted for approximately a quarter of China's GDP, two-thirds of rural output and more than one-third of China's

export

earnings².



On the administrative side, incentives were altered for the local officials as the promotion to upper ranks within the party was tied to the experience gained in regional development, dominant criteria being growth itself. Acknowledgment of efforts incentivised the officials to put in their diligent effort. Needless to say, meritocracy based promotion fuelled competition

² From Revolution to Reform: A comparative study of China and Mexico
<https://books.google.co.in/books?id=oytP9pGNq9wC.&pg=PA95&lpg=PA95&dq=TVEs+accounted+for+appoximately+a+quarter+of+China%E2%80%99s+GDP,+two-thirds+of+rural+output+and&source=bl&ots=OlsYpT10yv&sig=ACfU3U0U4uDRwOyexT7qil7Wrv0QsLNeTg&hl=en&sa=X&ved=2ahUKEwiU7PXztYnjAhUiH48KHVd3ACkQ6AEwAHoECAgQAQ#v=onepage&q=TVEs%20accounted%20for%20approximately%20a%20quarter%20of%20China%E2%80%99s%20GDP%20C%20two-thirds%20of%20rural%20output%20and&f=false>

amongst the regions and reforms happened locally.

And also, alignment of incentives helped institutionalize market economy. To spur growth in a region, the local governments were encouraged to seek Foreign Direct Investment (FDI) which further helped streamline local bureaucracy and decision making.

Autonomy combined with competition encouraged local policy experimentation and innovation in China. The fiscal and political system ensured that the interest of the sub-provincial government and the Centre were aligned and the best practices could be scaled up to the national level.

The characteristic feature of China to create space for market economy with the active participation of local governments is laudable. The spirit of economic and administrative decentralisation, and institutional capacity building of sub national government is something which a liberal democratic India can learn. There are many things about China that we love to hate. However, the decentralization of power and resources to the grassroots level in China is something that is admirable and it offers useful lessons for India to emulate it at the level of local self-government institutions. •

- Vriti Bansal