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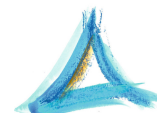
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# Lessons and challenges of China's state-led and party-dominated governance model

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## Abstract

The case of China gets at one of the core questions that the Berggruen Governance Index (BGI) poses—can we necessarily assume that democratic accountability makes for better governance performance? China has steadily improved in public goods and state capacity according to the BGI data from 2000 and 2019, especially in terms of economic public goods and fiscal capacity due to its rapid GDP growth under an investment-led growth model. However, China's democratic accountability has worsened, presenting an uncommon case of improved governance performance. Now China's economy stands at a crossroads amid the precedent-breaking leadership of Xi Jinping. Will China disprove the 'autocratic fallacy,' whereby a dominant state setting priorities and making decisions for a society is sufficient? To what extent can China improve public goods provision and expand state capacity while limiting voice processes? This article examines key policies and strategies of China's governance performance over the past two decades. It also identifies future challenges underlying China's party-dominated and whole-of-nation approach to governance and its investment-led and export-oriented development model.

The Chinese government draws its legitimacy from assuming unlimited responsibility toward the welfare of its people (*quanmin suoyou*). Since the country was founded in 1949, China's approach to governance is thus whole-of-nation (*juguo zhi*), requiring a strong central government to allocate all necessary resources to bring 'common prosperity' (*gongtong fuyu*) to its people (Tan and Song, 2022). This social contract, consistent with 'a guardianship discourse' in Chinese tradition, comes to justify the one-party rule under the Chinese Communist Party (CCP), as well as threaten it when the government fails to deliver on its promise of prosperity (Shi & Lu, 2010).<sup>1</sup> Therefore, economic growth becomes the cornerstone of China's governance (Zhua, 2011).<sup>2</sup>

Since 1979, the beginning of its reform and opening-up, China has experienced rapid economic growth, averaging 9.4% from 1979 to 2018, which has led to a significant reduction in poverty and a general increase in living standards (Xinhua, 2019). This has been achieved through a range of policies and strategies such as investing in infrastructure, balancing regional disparities, and enacting market reforms. However, these policies have

brought corresponding problems, including corruption, pollution, high debts, and social protests, all of which stem at least in part from policies implemented in the 1980s and 1990s, such as decentralization and privatization.

During the transition to a market economy in the 1980s, China shifted its focus from capital accumulation to capital expansion.<sup>3</sup> This change was reflected in policies that decentralized power to local governments, de-collectivized rural areas, and reformed state-owned enterprises (SOEs). These policies sped up China's economic development but also created problems including inflation and stagnation amid the 'experimental' opening-up (Hofman, 2018). To address these issues, the government introduced policies such as the establishment of a socialist market economy in 1992 and tax-sharing reform in 1994. However, these policies also had unintended consequences and required a flexible and pragmatic approach to governance.

In 1999, China began to develop an investment-led economy with huge inflows of foreign-direct investments. The government financed infrastructure projects through debt, including treasury bonds, local government bonds,

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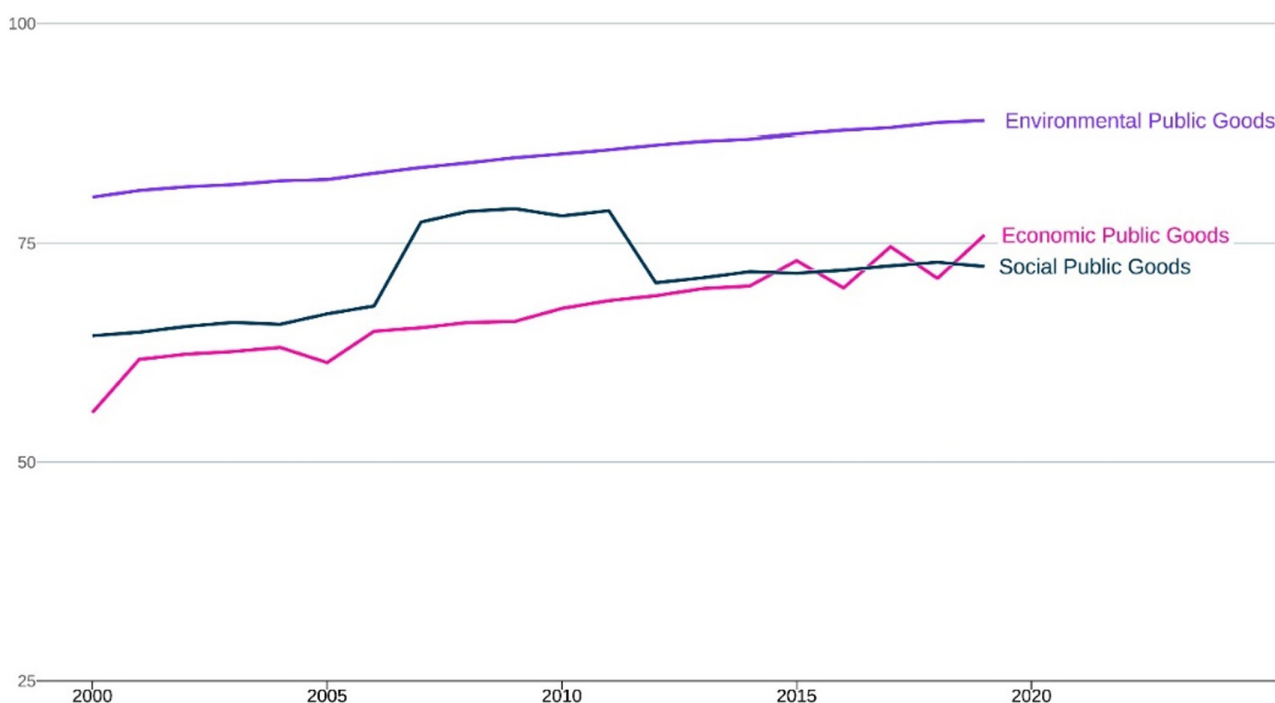
and land financing (land transfer and land mortgage) (Zhao et al., 2019). China's infrastructure investment as a share of GDP tripled from about 8% in 2002 to nearly 24% in 2016 (Dinlersoz & Fu, 2022). The infrastructure expansion has boosted the housing market and accelerated China's transition to a market-driven economy, albeit with strong state intervention and control. This state-led financialization of infrastructure became known as the Chinese model of development, an alternative to Western neoliberal financialization.

As a result of its investment-led economy, China is increasingly integrated into the process of globalization, which brings immense opportunities. However, China has had to pay heavy prices such as environmental degradation and social instability. More importantly, the tension between a free market and a centralized government has grown, and an export-oriented model has made the country vulnerable to external shocks such as financial crises and rising US-China tensions. For one thing, institutional reforms required to carry out rapid privatization and marketization have challenged China's one-party rule. For another, policies pursuing economic growth have induced widespread corruption and widened income inequalities. In the following sections, we take a closer look at policies and strategies the central government has taken to manage such challenges and, using data from the Berggruen Governance Index (BGI),<sup>4</sup> trace how its performance in public goods provision and state capacity has improved, while democratic accountability has declined.

## 1 | PUBLIC GOODS PROVISION

As shown in Figure 1, China's biggest improvement in public goods provision is in economic public goods, rising on the BGI scale from 56 to 76. Since China's reform and opening-up in the 1980s, eliminating extreme poverty (*tuopin gongjian*) has been a top priority of government policy. By 2020, 98.99 million rural residents whose income was under the poverty threshold of 2300 renminbi (\$330) had been lifted out of poverty (Ministry of Foreign Affairs, 2021). China's achievement in addressing extreme poverty would have been impossible without its huge and continuous investment in infrastructure to even out regional developmental differences. Its success is also attributed to the agricultural reform in 1982 that introduced the household responsibility system and a series of policies beginning in the 1990s that targeted specific areas and aimed to revitalize rural China. The former is designed to spur the development of township enterprises and rural industrialization, and the latter to narrow regional disparities and urban–rural income gaps (Bramall, 2007; Wen, 2020). Notably, in 2005, China abolished the agricultural tax that had been levied for more than 2000 years, helping increase agricultural incomes for farmers (Embassy of the PRC, 2021).

With China's rapid industrialization and urban development, China's natural environment suffered. Air, soil, and water pollution endangers food safety and public health (Zheng & Kahn, 2017). The CCP introduced 'Ecological Civilization' (*shengtai wenming*) for



**FIGURE 1** Development of China's public goods provision, 2000–2019. *Source:* Berggruen Governance Index 2022.

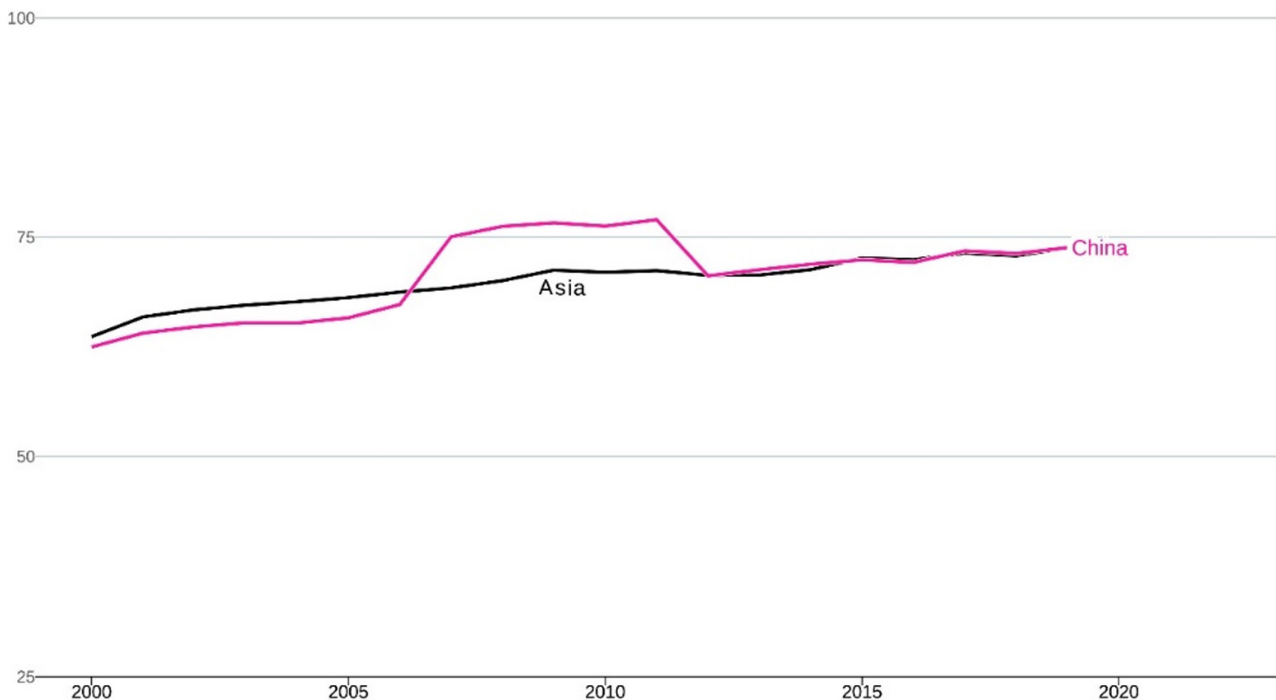
the first time in 2007 and incorporated it into five-year plans beginning in 2015. Soon the Integrated Reform Plan for Promoting Ecological Progress followed, accompanied by a series of other policies such as the 2016 Agricultural Supply-Side Structural Reform and 2017 Rural Revitalization Strategy, signaling China's intended transition to a green economy (Beijing News, 2015; Xinhua, 2015). Indeed, since 2000, China has steadily improved its environmental and energy resilience by taking full advantage of its investments in infrastructure. As one of the direct outcomes, China became a global behemoth in ultra-high voltage (UHV) electricity transmission technology, which enables the distribution of renewable energy (Holzmann & Grünberg, 2021; Shi et al., 2023). As of 2022, China has an estimated 54 million 'green jobs,' with over 4 million jobs in renewable energy, enhancing its overall public goods index.

Although China's social public goods provision sub-index reached an all-time high of 79 in 2008 from 64 in 2000 and even pulled the overall index above the regional average, the score dropped again in 2012 and has stayed constant at 71 (Figures 1 and 2). The sharp rise and fall are primarily due to the country's performance in women's political empowerment, one of the crucial components of BGI's social public goods sub-index. From 2007 to 2012, the percentage of women representatives in the National People's Congress and women as ministers and higher leaders increased substantially (Du, n.d.; Zeng, 2014).<sup>5</sup> Through a series of measures like setting quotas on the number of women taking leadership positions in governments, by the end

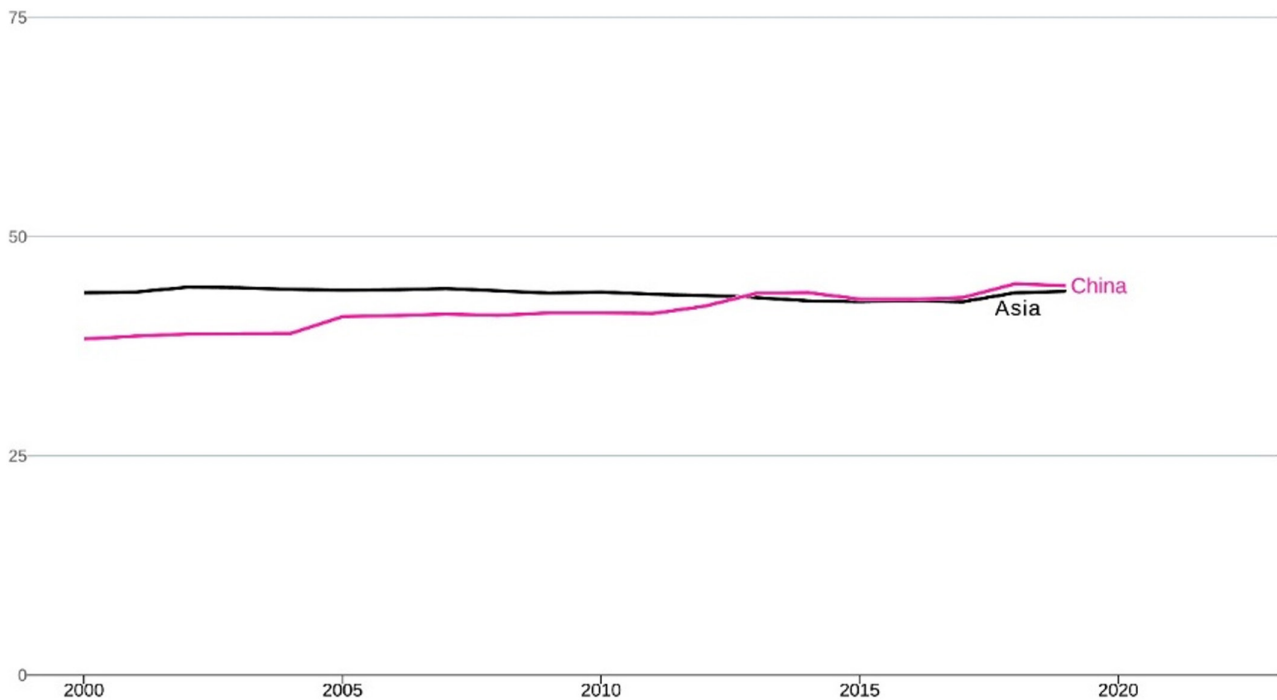
of 2010, 86% of government departments at the county level offered leadership positions to women. About 87% of provincial governments had at least one female deputy governor in the same year.

However, since Xi Jinping's rise to power in 2012, a visible decline is observed in women's labor-force participation and gender equality more generally, as the role of 'good wives and mothers' is emphasized as an important foundation for the advancement of Chinese society. In 2016, the government ended more than three decades of its one-child policy and switched gears in an effort to engineer a baby boom in light of the country's declining birth rate. At the same time, the All-China Women's Federation (ACWF) was restructured in 2015 to emphasize harmony in the household over equality of the sexes (Tan, 2021). It is no surprise that China's gender gap severely worsened in 2013, dropping from rank 69 to 87 (and to 102 by 2022), according to the Global Gender Gap published by the World Economic Forum (2022).

In short, China's public goods provision as measured by the BGI improved due to its economic growth. In pursuit of such high growth, China has to face costs. First, China is experiencing increasing income inequalities despite having its GDP per capita rise by a factor of more than 10 from 2000 to 2019. Second, China's social public goods such as health care and education have not been improving at a fast rate like economic public goods because of increasing privatization of health care and education in rural areas, a trend that began after the 1990s when China shifted its focus to exports in the face of decreasing domestic demand.



**FIGURE 2** China's public goods provision on par with Asian average, 2000–2019. *Source:* Berggruen Governance Index 2022.



**FIGURE 3** State capacity in China compared to Asian average, 2000–2019. *Source:* Berggruen Governance Index 2022.

Until this day, uneven distribution of health and education services is a pressing matter (Hu et al., 2023).

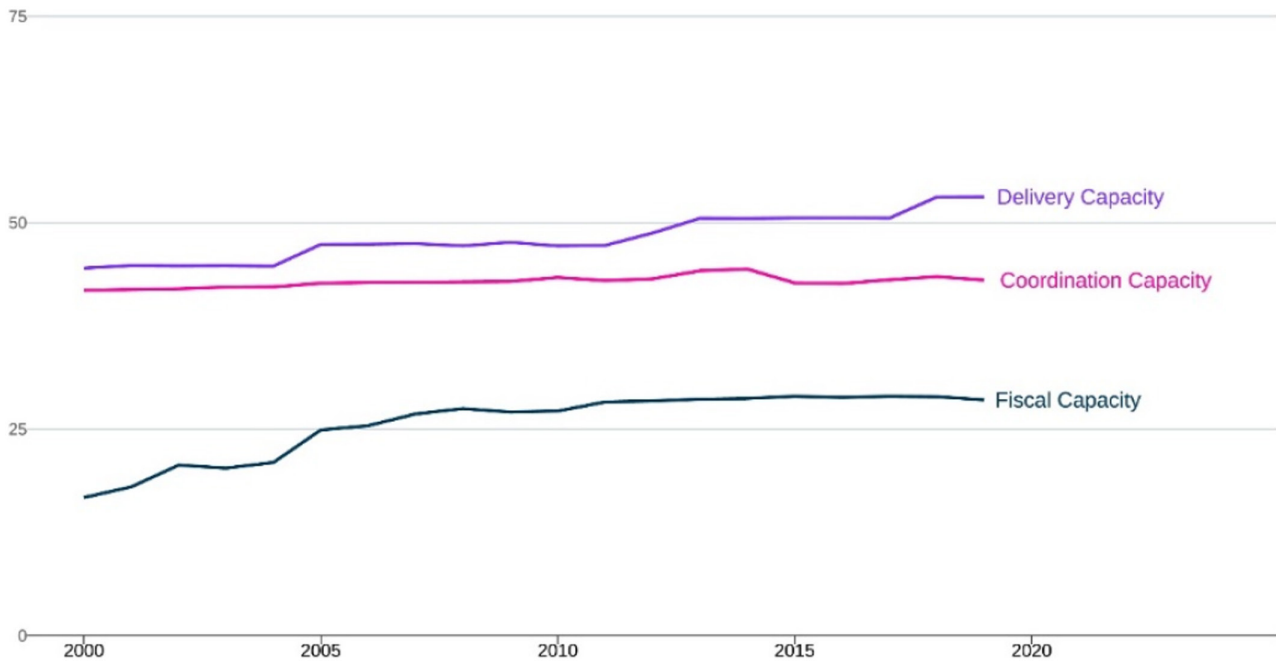
## 2 | STATE CAPACITY

As shown in Figure 3, China's overall state capacity has improved, rising from 38 to 44, surpassing the Asian average in 2013. This improvement owes much to economic growth which relies heavily on land finance (*tudi caizheng*) in addition to infrastructure investment. Land finance generates revenues for local governments in the form of payments for the right to use state-owned urban land. In two decades, the proportion of land transfer revenue to total local government revenue increased from 6% to 42%, propelled by China's extensive infrastructure investment and flourishing real estate markets (Liu, 2022). The evolution of land finance reflects the complex changing relationship between the central and local (county, township, and village) with various interest groups involved. This balance significantly affects crucial components of state capacity, such as tax revenues, public sector theft, and total expenditures. Thus, the pivotal role of land in shaping China's state capacity merits further exploration.

As shown in Figure 4, China demonstrates steady increases in BGI subindices delivery capacity (from 44 to 53) and fiscal capacity (from 17 to 29), while coordination capacity has remained unchanged. The 1994 tax-sharing reform played a critical role in shaping this trend by addressing the pre-existing imbalance in local and central government tax revenues. Before the

reform, local governments took an overwhelming proportion of total tax revenues (above 70%), and China's government total expenditure as a percentage of GDP was heading toward an all-time low (Knoema, n.d.; Rosen, 2014). This made it challenging for the central government to implement its preferred policies at the subnational level. The 1994 tax-sharing reform was thus introduced to increase the ratio of government revenue to GDP and the ratio of central government revenue to total government revenue. After the reform, the central regulatory capacity became stronger, and the central–local relationship improved.

However, the 1994 tax-sharing reform had some unintended consequences, such as corruption that continues to afflict China today. On the one hand, local governments had to seek alternative revenue sources, and land finance through land transfers and land mortgages emerged as a highly preferable option, especially after a 1998 market-oriented housing reform. On the other hand, as China transitioned to a more market-driven economy, China's state-owned enterprises (SOEs) underwent gradual reforms in the 1990s, which led to a climate of grand collusion where officials used their access powers to redistribute what was formerly state-owned assets like land to themselves and crony entrepreneurs (Pei, 2016; Bakken & Wang, 2021). Therefore, as the economy grows rapidly due to new uses of land, corruption also surges. As China's real estate investment as a percent of GDP has gone from near zero in the early 1990s to a steady 15% in the 2010s, income inequality in China today, as measured by the Gini coefficient, is among the highest in the world (Rithmire, 2017).



**FIGURE 4** Development of China's state capacities, 2000–2019. *Source:* Berggruen Governance Index 2022.

The rapidly expanding economy increases tax revenues and total reserves substantially and thus almost doubles the score of the fiscal capacity subindex, albeit from a low starting point. However, growth and policies to enhance it brought increases in risks such as corruption, which is a key measure of the BGI delivery capacity subindex. Under President Xi, anti-corruption campaigns were launched, including two waves from 2012 to 2018 and from 2019 to the present day (Diallo, 2021; Grünberg & Drinhausen, 2019).<sup>6</sup> Capital flight has since been an issue affecting government revenues and foreign reserves. For example, in 2015 and 2016, the outflow was so large that the central bank was forced to spend more than \$1 trillion of its foreign exchange reserves to defend the exchange rate (Kärnfelt, 2018). In short, China's state capacity, similar to public goods provision, has improved due to economic growth, but policies like tax reforms in pursuit of higher growth generated a series of problems that will only be alleviated through deeper political and institutional changes.

### 3 | DEMOCRATIC ACCOUNTABILITY

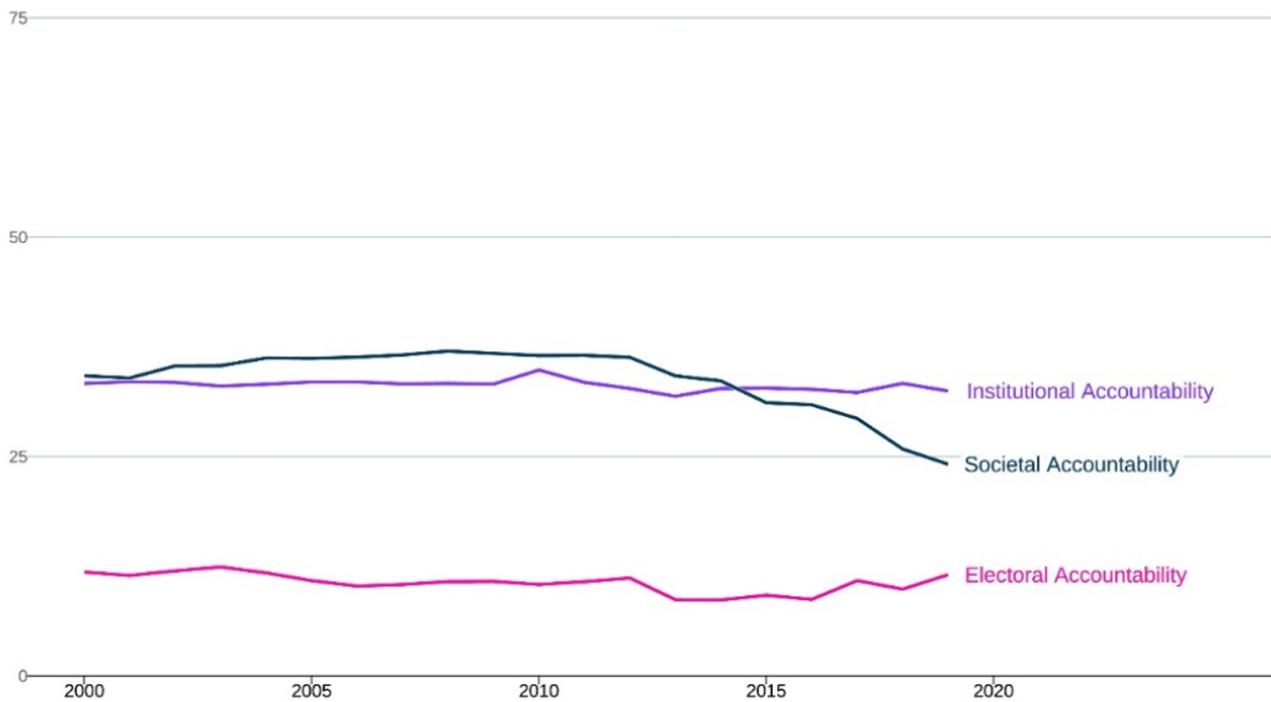
China is not an electoral democracy, and thus it is no surprise that its scores on the BGI democratic accountability subindices are low, with institutional and electoral accountability unchanged over the 20-year period (Figure 5). China's performance has also stayed far below the regional average (Figure 6) because many of the Asian countries that transitioned toward democracy between 1986 and 1999 have either maintained or

improved their democratic quality (Lee, 2002).<sup>7</sup> China's lack of democratic accountability, however, does not prevent the state from being held accountable to the populace by other means.

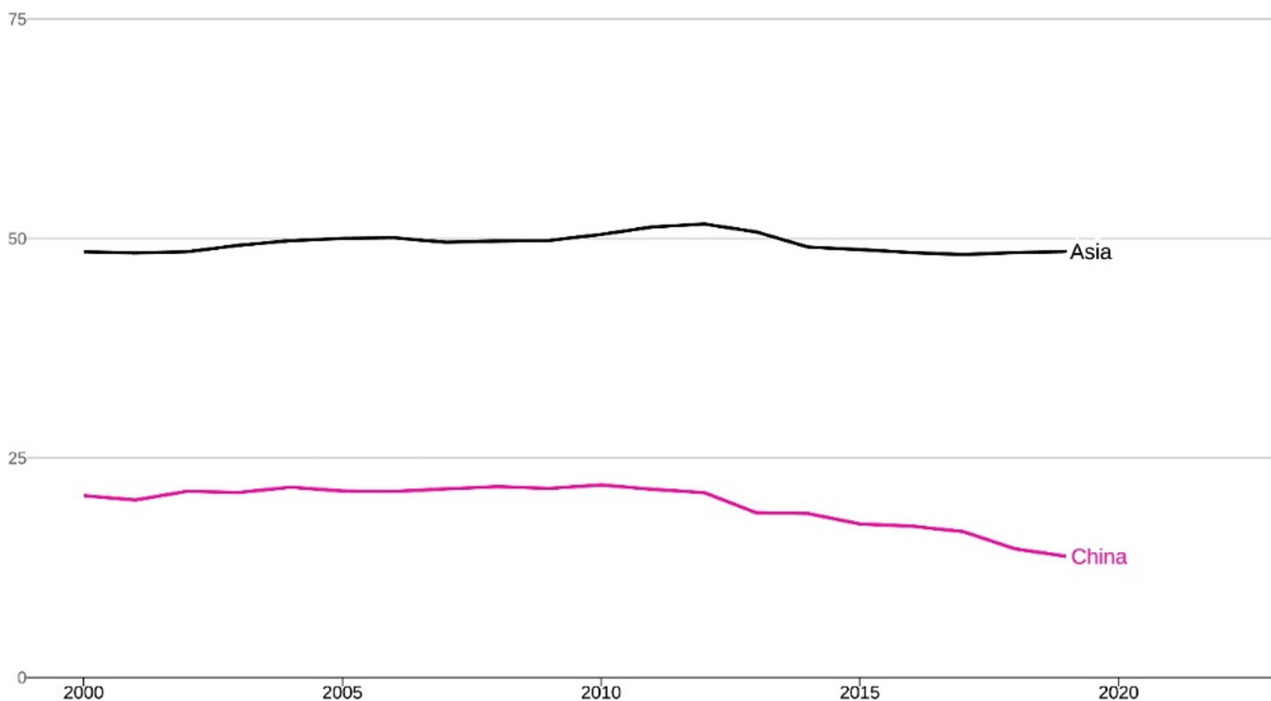
The primary source of legitimacy of China's one-party rule is its performance and promises to deliver tangible benefits to meet the expectations of its population (Yang & Zhao, 2015). Culturally, it is a continuation of historical 'benevolent governance,' winning people's hearts rather than votes (Gore, 2019). Institutionally, this is understood as ownership by the whole people (*quanmin suoyouzhi*), i.e., that government assumes unlimited responsibility for its people, which is the fundamental logic behind land reforms by returning land to people, strong roles of state-owned enterprises, and grassroots and deliberative democracy (ibid.).

For these reasons, China's performance in democratic accountability is closely tied to its economic performance. For example, the reform and opening-up era that began in 1979 was accompanied by numerous uncertainties including hyperinflation, stagnation, and corruption. The decade to 1989—when the Tiananmen Square protests changed everything—also saw democratic opening, with emerging civil movements seeking an alternative path to fulfilling the government's unlimited responsibility toward its people. After 1989, social protests and conflicts become reoccurring phenomena when crises hit and the government fails to deliver on its promises (Zhang, 2023). Many of these conflicts are triggered when local governments pursue growth at the expense of the environment, food security, or resources (Lai, 2016). Accordingly, the party-state has allocated





**FIGURE 5** Development of China's democratic accountability, 2000–2019. *Source:* Berggruen Governance Index 2022.



**FIGURE 6** Democratic accountability in China compared to Asian average, 2000–2019. *Source:* Berggruen Governance Index 2022.

huge amounts of resources and manpower to ensure social stability. For example, expenditures on internal security totaled 514 billion yuan in 2009, which is close to the expenditure on national defence, at 480.7 billion yuan; the following year, the former again exceeded the latter (Cai & Chen, 2022).

China's performance in the societal accountability subindex has noticeably declined from 21 to 14, accelerating after 2012 when Xi ascended to power. Since then, the government has shut down a number of non-governmental organizations (NGOs), including the Transition Institution and Liren, under Xi's vision

for a unified governance system under tighter party leadership and ideological guidance to deliver on policies. In 2016, the government passed a law regulating international NGOs working in China, putting them under the authority of the Ministry of Public Security (Hsu, 2021). At the same time, media freedom and freedom of expression are restricted and heavily controlled, as ideology and propaganda play an ever-greater role in strengthening the party's legitimacy and shoring up societal support as social tensions build up in times of crisis (Grünberg & Drinhausen, 2019).

In short, China's one-party rule has been crucial in steering the country's export-oriented economy and managing exogenous crises like financial crises in 1998 and 2008 through macroeconomic regulation. However, as the world enters a stage of excess global capital, external demand is likely to decline and more volatility is expected. Deteriorating socioeconomic conditions featuring unemployment and low incomes could induce more civic discontent, which, if mismanaged as in the case of the zero-Covid policy, could well shake the legitimacy of the one-party rule.

#### 4 | FUTURE CHALLENGES TO CHINA'S GOVERNANCE

Since the beginning of the 21st century, China has faced various challenges and crises but has remained flexible and pragmatic in its governance approach. Economic reforms have brought about immense benefits to the country's economy, leading to increased public goods provision and state capacity. However, China has also had to deal with negative consequences such as corruption, income inequality, decreasing civic freedom, and environmental degradation due to its pursuit of rapid growth. Overcoming these challenges will primarily depend on the future direction of China's economy.

China's investment-led growth has become unsustainable in recent years as property sales continue to decline and, in the face of declining revenues, local governments face increasing debt pressures. Domestic consumption is not strong enough to compensate for the growth slowdown, and external demand is shrinking due to international price fluctuations and increasing geopolitical tensions with the US and others. To mitigate these trends, the CCP proposed the Dual Circulation Strategy (DCS) in 2020, which aims to improve domestic consumption by reducing wealth disparity and reliance on real estate and upgrading China's industries and to create a de-dollarized regional trading system (Wen, 2021).

The DCS, together with a series of other policies such as the Rural Revitalization Strategy, aligns with the key concept of self-reliance or self-sufficiency (*zili gengsheng; ziji zizu*), which indicates a continued party-dominated control over China's economy (Brown et al., 2021). It should be thus expected that China's

democratic accountability is unlikely to increase in the near future. However, whether China can improve public goods provision and state capacity will depend on several factors, including indigenous innovation, the development of the digital economy and green economy,<sup>8</sup> and the introduction of a property tax to improve revenue structures of local governments (Li, 2022; Liu, 2019; MERICS, 2021).<sup>9</sup> Most fundamentally, with increasing global challenges followed by the Russo-Ukrainian War and possible de-globalization, China needs to preserve the two bottom lines (*di xian*) it set for itself: to guarantee food security and to avoid returning to poverty on a large scale (Zhou, 2022).

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#### CONFLICT OF INTEREST STATEMENT

There are no conflicts of interest.

#### DATA AVAILABILITY STATEMENT

The data that support the findings of this study are openly available at <https://governance.luskin.ucla.edu/datasets/>.

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#### ENDNOTES

<sup>1</sup> According to survey data, the widely shared view among ordinary Chinese people is that democracy means government *for* the people rather than *by* the people, which is consistent with rule by the elite in the Chinese tradition.

<sup>2</sup> This is otherwise known as performance legitimacy, and it has three pillars of economic growth, social stability and national unity.

<sup>3</sup> Before the reform and opening-up of the 1980s, China laid a solid foundation for industrialization through the 1949 land revolution and absorption of imported technologies from the 1950s to the 1970s. During the pre-reform period, it became necessary for China to move from 'new democracy', the original path set by Mao Zedong when founding the country, to state capitalism in order to develop China's hard power and accelerate industrialization.

<sup>4</sup> The Berggruen Governance Index is a collaborative project between the UCLA Luskin School of Public Affairs and the Berggruen Institute examining, as of 2022, the performance of 134 countries in key areas over a 20-year period to advance understanding of why some countries are governed more effectively and enjoy a higher quality of life than others. See 'Introducing the Berggruen Governance Index: I. Conceptual and Methodological Framework' and 'Introducing the Berggruen Governance Index, II. Initial Results 2000–2019', both by Anheier, Lang, and Knudsen, in this special issue. The full dataset is available for download in various formats at <https://governance.luskin.ucla.edu/datasets/>. A data exploration tool offers readers a variety of ways to examine the data; available at <https://governance.luskin.ucla.edu/index/>.

<sup>5</sup> In 2007, the Fifth Session of the Tenth National People's Congress formally adopted the Decision on the Quota and Election of Depu-



- ties to the Eleventh National People's Congress, which requires that 'the proportion of women deputies to the Eleventh National People's Congress shall not be less than 22%'.
- <sup>6</sup> In 2018, 135,000 officials, as well as half a million party members were sanctioned.
- <sup>7</sup> These countries include Bangladesh, Indonesia, Mongolia, Nepal, Pakistan, the Philippines, South Korea, Taiwan, and Thailand.
- <sup>8</sup> In January 2022, China issued its 14th Five-Year Plan for the Development of the Digital Economy. China views the digital economy as critical for its overall development objectives and intends for its 'core industries' to grow from 7.8% of total GDP in 2020 to 10% by 2025.
- <sup>9</sup> Since 2021, property tax comes into view as a possible solution to narrow wealth gaps, deleverage the property sector, and compensate for the loss of land finance revenues for local governments. However, such a reform will prove to be an enormous challenge because of intertwined interests among political elites.

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