

Review and Evaluation Committee of the World Bank Assisted Project

“Local Government Restructuring in Guizhou Province”

Director: *Wang Liquan*, research professor and director of the Development Research Center of the Guizhou Provincial Government

Secretary-general: *Liu Qinghe*, associate research professor and deputy director of the Institute of Economics, Guizhou Academy of Social Sciences

Member:

Yang Qixian, research professor and deputy director of the Institute for Economic Restructuring of China

Chi Fulin, research professor and executive president of the Institute for Reform and Development in Hainan, China

Huang Junru, research professor and president of Guizhou Academy of Social Sciences

Zhang Xiaoyang, professor and vice president of Guizhou Institute of Finance and Economics

Li Min, deputy director of Guizhou Provincial Development of Finance

Local Government Restructuring in Guizhou Province:

A General Review

The review and evaluation committee (hereinafter referred to as the Committee) with seven experts on management, economics, public administration, and sociology—five from Guizhou, one from Hainnan, and one from Beijing—reviewed the research paper, ***Local Government Restructuring in Guizhou Province*** (hereinafter referred to as the Project), in January 2004. Comments and suggestions of the Committee are as follows:

I. General Review

Centering on the objective of establishing a local government administrative system with “efficient and simple administration, honest and devoted administration, coordinated and harmonious administration, and administration with normalized behavior”, and on the basis of thorough investigations, this Project has made a deep inquiry into the problems in local government administration, and the necessity, urgency, as well as contents of local government restructuring. By summing up the reform experiments conducted in Guizhou in recent years (in fields such as community construction, public financial system, and welfare distribution system), it has put forward some valuable policy suggestions on the improvement and deepening of local government restructuring in Guizhou. The Project is well designed, with clear objectives, rich contents, correct technical paths and methodologies, and sound arguments, and thus its conclusions are correct. The product of this Project is not only a generalization and summarization, but also a broad and foresighted thinking, of local government restructuring practices in Guizhou. As a good, comprehensive research paper, it is scientific and operational, characterized by its practicality and creativity.

II. Theoretical and Application Values

As a comprehensive research paper, it is shaped and completed on the basis of nine sub-reports, through overall comparisons and comprehensive analysis. Compared with the nine sub-reports, this report is more comprehensive. It has dealt with not only all the reforms with respect to the readjustments of the governmental organizations and their functions, but also all the reforms relating to the establishment of the public financial system and the public welfare distribution

system, giving prominence to the integrity and systematicness of the reform as a whole. The results of this paper have theoretically deepened our understanding of the position and role of local governments in the current administrative system, thus providing both theoretical and empirical supports to the deepening of the socialist market economic system reform, to the development of the regional economy, to the shift or change of government functions, and to local government restructuring.

This Project has been conducted on the basis of the reality of Guizhou, and targeted at the reality of Guizhou. Its analysis on the basic structure and operating efficiency of the local governments in Guizhou is brand-new. What is more, the strategy it puts forward on the basis of analysis and estimate and in accordance with the objective requirements of the market-oriented reform and China's entry into the WTO is a creative idea in both macro and micro perspectives, that local government restructuring should be carried out in an integrated way, with community construction as the starting point and other reforms—including the readjustment of the government organization, the establishment of the public financial system, the market-oriented reform of the local government agencies' logistic service system, and the reforms with respect to the public welfare (housing, medical service, and education, etc.) distribution system— as the main parts. The action plan for local government restructuring and relevant policy suggestions it makes are both suitable and practical, and thus can be used to direct local government restructuring at present and in the near future.

III. Conclusions and Suggestions

The Committee agrees that this Project has fulfilled all the tasks set in the Project Agreement. The Committee suggests that the research and practice of local government restructuring be deepened on the basis of the results of this Project, and that the research group deal with the comments and suggestions of the experts seriously and make appropriate technical amendments to the research paper so as to let it produce proper socio-economic benefits.

Wang Liquan

Director of the Review and Evaluation Committee

18 January 2004

Preface

Reform and Development in Guizhou Province: Research and Experiments is a soft research project, and a cooperative project of the World Bank and the Guizhou Provincial Government, with the soft loan from the World Bank Technical Assistance Project (stage four) and supporting funds from the Guizhou Provincial Government. This research project started on 1st July 1999, with the Guizhou Provincial Government as its executive body, and Dr. Guo Shuqing, former vice-governor of the province, as the project leader. *Local Government Restructuring in Guizhou Province: Research and Experiments* is one of the sub-projects of the project. It was originally conducted by Guizhou Provincial Commission for Economic Restructuring (GPCER), with Chen Biyan, former director of GPCER, and Liang Tiangen, former vice director of GPCER, as the co-leaders of this sub-project. The Sub-project Office was established in the Macro Control Division of GPCER, with Wang Lanshan, then director of this Division, as the director, and Fu Xianghong, as deputy director of this office. Duyun City, in Qiannan (Southern Guizhou) Prefecture, was selected as the pilot city for community construction; and Guiyang City and Kaiyang County as pilot areas for educational system reform and county-level government institutional restructuring respectively.

In April 2001, due to government institutional restructuring and personnel regrouping, the executive body, the project and sub-project leaders, and the project office were readjusted in accordance with the document of the World Bank Technical Assistance Project Office of Guizhou Province (document No.2, 2001). The Economic Restructuring Office of the General Office of Guizhou Provincial Government became the executive body, with Wu Yue, then director of the Economic Restructuring Office (now deputy director of the General Office), and Wang Lanshan, deputy director of the Economic Restructuring Office (ERO), as the heads, and Chen Biyan as consultant. The Sub-project Office was setup in ERO, with Guo Shugao (director of the Industrial Development Division, ERO) as the head, and Hong Feng (deputy director of Secretariat 4, the General Office) and Wu Qingxin (researcher of the Macro Control Division, ERO) as deputy directors.

According to the project proposal, the local government restructuring is composed of three parts. The first part consists of the reforms and/or readjustments with regard to the readjustment of the government organizations and their functions, including the county-level government institutional restructuring, the state-owned assets management system reform, the reform of investment system and financial system, city management system reform, the establishment of the management and supporting system for small and medium-sized enterprises (SMEs), and the comprehensive reform in small cities and towns. The second part is composed of the reforms/readjustments about the establishment of the public financial system, including financial resources construction, standardization of non-tax financial income, normalization of government procurement, rural tax reform, and the establishment of the financial transfer payment system. The third part consists of reforms of the public welfare distribution system, mainly including housing distribution system reform, medical care distribution system reform, educational resources/cultural resources/sports resources distribution system reform, and the kind-for-cash reform of the official cars.

As this sub-project involves too many aspects, for the easiness of its implementation, it was further divided into nine sub-sub-projects; each of which having a sub-sub-project leader selected according to the requirements of the World Bank (see table one for details). Each of the nine sub-sub-projects is an independent part, dealing with one specific aspect of local government restructuring, and has produced rich results, including research papers, experiment plans, experiment reports, etc. In spite of their independence, the nine sub-sub-projects are closely related with each other. Firstly, most of them have something to do with the readjustments of the local government organizations and their functions. Secondly, all of them have the same goal: to inquiry into the ways of establishing a local government administrative system with “ efficient and simple administration, honest and devoted administration, coordinated and harmonious administration, and administration with normalized behaviors”.

Table 1 Sub-Sub-Projects: Name, Undertaker, and Project Leader

Project Number	Project Name	Undertaker	Project Leader
1	Institutional Restructuring of County-Level Governments	Guizhou Institute of Economic Restructuring	Qu Peng
2	The State-Owned Assets Management System Reform	Guizhou Institute of Economic Restructuring	Wu Qingxin
3	The Reform of the Investment System and Financial System	Guizhou Institute of Economic Restructuring	Chen Qikui
4	The Reform of the Management and Supporting System for Small and Medium-sized Enterprises	Guizhou Federation of Small and Medium-sized Enterprises	Li Juan
5	City Management System Reform	Guizhou Academy of Social Sciences	Zhang Wanduo
6	Comprehensive Reform in Small Cities and Towns	Guizhou Provincial Institute of Economic Restructuring	Guo Shugao
7	Public Financial System Reform	Guizhou Institute of Public Finance	Li Longchang
8	Educational System Reform	Guizhou Institute of Economic Restructuring	Ding Fan
9	The Market-Oriented Reform of the Local Government Agencies' Logistic Service System	Guizhou Institute of Economic Restructuring	Li Xianjin

As a comprehensive research report, however, this paper is not a repetition or simple summation, but a comprehensive summarization and analysis of the research results of the nine sub-sub-projects. Moreover, aiming at institutional innovation and based on facts, it has provided a summary analysis of the experiences of local government restructuring both in Guizhou and all over China. As the drafter of the project proposal, and as one of the project leaders, I have participated in the organization, sponsoring, and implementation of this Project from beginning to the end. And as an official on reform affairs, I cordially hope that results of this Project can be helpful to local government restructuring in Guizhou and in the country as a whole in the future 5-10 years.

Reform and Development in Guizhou Province: Research and Experiments is the first research project dealing with reform in Guizhou with soft loan from the World Bank. I want to thank Dr.

Guo Shuqing, the former vice governor, for his efforts to initiate this project; the World Bank and the Ministry of Finance, for all their support. Without their efforts and support, this project would not have been initiated and implemented. In addition, I would like to thank the Ford Foundation, for allowing us to use some results of the project *The Kind-for-Cash Reform of the Distribution System of Housing, Health Insurance, Educational Resources and Official Car Uses and Relative Reforms in Guizhou Province: Research and Experiments*. Last but not the least, I would like to thank relevant provincial leaders and leaders of departments concerned, as well as the Guiyang City Government, the Duiyun City Government and the Kaiyang County Government, for their energetic support.

Wang Lanshan

December 2003

Contents

1. Main Problems in Local Government Administration.....	1
1.1 Too Many Administrative Levels.....	1
1.2 Unreasonable Division of Administrative Areas.....	2
1.3 Unreasonable Institutional Structure and Functional Division.....	3
1.4 Over Staffed, with Dispersed Financial Ability, and Unable to Perform Public Responsibilities.....	3
1.5 Government Monopoly in Local Government Agencies' Logistic Service System.....	4
1.6 Disadvantages of the Old System of Welfare Distribution.....	4
2. Necessity and Urgency of Local Government Restructuring.....	6
2.1 Deepening Economic Reform Needs to Speed up Local Government Restructuring...	6
2.2 Improving Market Economic System Needs to Speed up Local Government Restructuring.....	6
2.3 China's WTO Membership Needs to Speed up Local Government Restructuring.....	7
3. Contents of Local Government Restructuring.....	7
3.1 Community Construction: Starting-Point of the Local Government Restructuring....	7
3.2 Reduction of Administrative Levels.....	9
3.3 Readjustment in Administrative Areas of Local governments and Communities.....	10
3.4 Readjustment in the Functions of Local Government Agencies.....	11
3.4.1 Reform of the State-Owned Assets Management System.....	12
3.4.2 Restructuring of the City Management System.....	12
3.4.3 Establishment of the SMEs Management and Service System.....	14
3.4.4 Other Organizational Function Readjustments.....	16
3.5 Establishment of Public Financial System.....	17
3.5.1 Financial Distribution System Reform.....	18
3.5.2 Rural Tax Reform.....	18
3.5.3 Departmental Budget System Reform.....	18
3.5.4 Government Procurement System Reform.....	19
3.5.5 Accounting Center System, Unitary Payment System, and Designated-Accountant System.....	20
3.5.6 Treasury Unitary Payment System.....	21
3.6 The Market-Oriented Reform of Local Government Agencies' Logistic Services System.....	21
3.7 The Kind-for-Cash Reform of Welfare Distribution System.....	22
3.7.1 Public Housing Distribution System Reform.....	22
3.7.2 Medical Care Distribution System Reform.....	23
3.7.3 The Reform of Educational Resources Distribution System.....	24
3.7.4 The Reform of Official Car Use System	25

4. Analyses And Suggestions.....	26
4.1 On CommunityReform	26
4.2 On the Readjustment of Administrative Level Division.....	27
4.3 On the Readjustment of Functions of Local Government Agencies.....	27
4.4 On the Establishment of Public Financial System.....	28
4.5 On the Market-Oriented Reform of Local Government Agencies' Logistic Service System.....	28
4.6 On the Reform of Public Welfare Distribution System	29

Local Government Restructuring in Guizhou Province

“Local governments” here refer to the governments at all levels except the central government, including provincial government (government of a province, an autonomous region, or a municipality), prefecture-level government (government of a prefecture-level city or an autonomous prefecture), county-level government (government of a county, a district, a special district, or a county-level city), and township-level government (town government or township government). The local government restructuring includes not only economic restructuring, but also restructuring of the political system, the readjustment of the government organizations/agencies and their functions, as well as restructuring of the public financial system. The aim of local government restructuring is to establish a streamlined, efficient, honest, and devoted government that functions in a coordinated and harmonious way and with normalized behaviors, in order to create a better environment for socio-economic development, to supply high-quality public services for the people, to raise the living standards of the people, and to realize the grand object of establishing a moderately well-off society in an all-round way.

1. Main Problems in Local Government Administration

1.1 Too Many Administrative Levels

As a great country with a population of 1.3 billion, China is a centralized socialist state. It is the country with the most administrative levels in the world—five from the top to the bottom, namely the central government, provincial-level government, prefecture-level government, county-level government, and township-level government. The pattern of five-level governments and four administrations was shaped under the planned economic system and at the time when the economy was underdeveloped, with poor transportation and communication networks. Too many administrative levels lead not only to a great number of government staff, but also to high management cost, and because of the long chains of policy transmission, to policy distortion or even deviation.

But since the reform and opening-up, the planned economic system has been gradually turned into a market economic system. With rapid economic growth, transportation and communication networks in China have been improved greatly. Technological progresses have meant that information, people, and materials flow more quickly, making the world as a whole a “global village”. Under such circumstances, a brand-new idea of “flat management” has been put forward in managerial science. Thus the existing five-level administrative pattern cannot fit in with the needs for the establishment of the socialist market economic system and the needs for “flat management”, and must be

restructured.

1.2 Unreasonable Division of Administrative Areas

The current division of administrative areas has long been in existence, with few readjustments in history. In Guizhou, administrative areas include not only the administrative areas above the county-level, but also the townships, subdistrict offices in cities¹, and rural and urban communities². In a division of administrative areas, factors such as the size, population, and geographical and economic conditions of areas concerned should be taken into account. Too vast an administrative area means a too large management radius, which may cause low management efficiency. On the contrary, too small an administrative area could not support the government or administration because of its small size of population and economy.

With the development of cities, original residents' committees cannot fit in with the need for community construction. Therefore, as the first step, urban community reform initiated and motivated by the Ministry of Civil Affairs was targeted at restructuring residents' committees into new communities. As a result, the number of residents' committees reduced by more than half of the total. There is a similar situation in rural areas. For example, the "district cut and village merger" reform action in rural areas of Zunyi in recent years has cut off all the so-called "administrative districts"³ and more than half of the administrative villages.

With rural tax reform, institutional restructuring in township-level government has been put on the agenda, which also includes the idea of readjusting the administrative division of townships. County-level administrative division also needs to be readjusted. Here is an example. In Qiandongnan (Southeastern Guizhou) Prefecture, there are three small counties, Jianhe, Taijiang and Jinping, each having a population of about 200 thousand. Because of the construction of the Sanbanxi Hydropower Station in Jinping County, the backwater of this middle-sized hydropower station will cause the county seat of Jianhe to be submerged, and thus to be moved to Gedong Town of Taijiang County. For this reason, the Prefectural Government proposed that the organizational system of the three counties be dismantled to setup Qingshuijiang City. However, as readjustment of a county-level administrative division cannot be finished in a short time, this proposal cannot be implemented immediately, and the county seat of Jianhe will have to be removed and resettled first. In spite of this, this proposal is indeed a reasonable one. If the three counties could be combined into one city and the county seat of Jianhe could once and for all be resettled in the city seat of the proposed city, the proposed city would have a population of 600 thousand, repeated construction would be avoided, and the government staff would be greatly downsized. This example shows that the administrative division needs to be readjusted with socio-economic development, and that readjustment may result in a reasonable administrative radius and a streamlined government.

¹ A subdistrict office is not a government, but it is an administrative level.

² An urban community refers to the residents' committee; and a rural community, the administrative village. Both are not a government, but an administrative level.

³ An administrative district refers to the district under the jurisdiction of a town or township.

1.3 Unreasonable Institutional Structure and Functional Division

Since the reform and opening-up, China has conducted institutional restructuring of the government five times—in 1982, 1988, 1993, 1998, and 2003 respectively. The number of government agencies and staff has been greatly cut down, and government agencies and their functions have been redefined more clearly. Although each of the five reforms had made essential progresses, relapses of previous patterns occurred more or less each time. Government restructuring is very complicated, relating not only to economic system, but also to political system. It could be a long process of continuous readjustments, and could hardly be accomplished in one move. At present, there are still a lot of problems with government agencies' structure and their functions.

As for state-owned assets management, though it was decided at the 3rd Plenary Session of the 16th Central Committee of CPC that the state-owned assets management system be reformed, and though the central government has set up the State Commission for Supervision and Management of State-Owned Assets (SCSMSOA), corresponding agencies have not yet been established at provincial and prefectural levels. The scope of the supervision and management is limited to state-owned assets of production and circulation enterprises, not including state-owned assets of financial enterprises, non-operational assets and resources assets. Besides, the relations among the Commission, operational companies, and assets-holding businesses have not been well defined, and the law of state-owned assets management has not been in existence.

In city administration, the right of planning administration, the right of construction administration, the right of management, and the right of regulation enforcement are in the hands of different departments— each of which does things in its own way.

As for the management of small and medium-sized enterprises (SMEs), SMEs in Guizhou are under the supervision and management of the Provincial Administration of Township and Village Enterprise, the Provincial Commission for Economy and Trade, the Provincial Association of Collective Industry, the Provincial Association of Supply and Marketing Cooperatives, the Provincial Department of Labor Protection, and the Provincial Department of Science and Technology, respectively. The same situation is seen in tourism, agriculture, transportation and energy sectors. Each agency has its own management system, leading to waste of resources and low efficiency.

Unreasonable institutional structure and functional division unavoidably lead to poly-management and overlapping functions among government agencies. As a result, every agency struggles for benefits (and rights) and evades responsibilities; the right-obligation asymmetry further leads to low management efficiency and wastes of public resources. Furthermore, this situation leads the government to act in an unfair way: it acts as both a state administrator and a business manager or assets holder, both a decision-maker and an executor, or even as both a sportsman and the referee at the same time.

1.4 Over Staffed, with Dispersed Financial Ability, and Unable to Perform Public

Responsibilities

Administrative units have been over-staffed, and institutional units have been even more over-staffed. At present, the number of the employees in administrative units and institutional units in China totals in 45 million, which means that on an average one public employee is supported by 28 persons. Their salary makes up the most part of the governmental expenditure. In Guizhou, on an average, one county has about 10,000 public employees; and most of the counties have just enough revenue for the salary of their employees, thus having no extra money for science and technology, educational and cultural undertakings, public health care, infrastructure, or social insurance. Quite a lot of the local governments in Guizhou are heavily in debt because of the “Nine-Year Compulsory Education Campaign” and some “image projects”. Investigations show that some of the township governments are puzzled by thousands and thousands of or even millions of yuan of debts.

Another problem is that the financial power of the local governments has been heavily dispersed: fiscal department wants money, planning agency wants money, department of economy and trade wants money, department of agriculture wants money, and department of forestry wants money, etc. From the top to the bottom agencies, money and goods are distributed or even cut up. Because of this top-to-bottom resources-distribution system, governments at lower levels always want to set up enough agencies so as to get money or goods from higher governments, making it difficult to streamline the government as a whole. As a result, governments at all levels cannot concentrate their financial power to perform public responsibilities.

1.5 Government Monopoly in Local Government Agencies’ Logistic Service System

Management of government agencies’ logistic services is one part of administration of government. The government agencies’ logistic service management system has followed the practice of the planned economy for a long time. As a department of government, logistic service agency is responsible for almost everything, from housing to canteen, from official car management to document printing, etc. It has made historical contributions to ensure the operation of the governments at all levels in the past several decades. But with the deepening of the reform and opening-up and the gradual construction of the socialist market economic system, the old logistic service system has been showing more and more of its drawbacks. Firstly, government agencies’ logistic services have been limited to providing services for government agencies themselves, which is a waste of resources. Secondly, government logistic service agencies are over-staffed, with very low efficiency. Thirdly, government logistic service system has been a heavier and heavier financial burden, expenses on official cars growing very rapidly, making up a big percentage of the administrative expenses. Fourthly, logistic services cost the time and energy of government leaders so much that they have almost no more for government affairs. Finally, because of the lack of competition, logistic service agencies are short of professional managers, and their services are of poor quality.

1.6 Disadvantages of the Old System of Welfare Distribution

Housing, medical services, educational and cultural undertakings, and traffic services are important parts of the public welfare. Under planned economic system, the public welfares as such are provided by the state or institutions, and distributed to the beneficiaries in kind. For instance, dwelling houses and official cars are rationed out in kind and according to the administrative position of the beneficiaries. And the beneficiaries enjoy education and medical services for free or at lower costs. Cultural undertakings, undertakings for physical culture, and public traffic services are all provided by the state, and “sold” to the consumers at lower prices. The traditional welfare system has many disadvantages:

Firstly, the single investment channel of the state cannot provide enough “welfare goods” to meet the demands of the people. In 1998, about 50 years after the liberation in 1949, urban residents in Guizhou had a per capita living space of only 8.3 m². Even until now, nine-year compulsory education in Guizhou has not yet been universal, the per capita years of schooling for population of 15 years old and over being 9.27 years for urban residents and 5.3 years for rural residents respectively.

Secondly, because of the lack of necessary constraining mechanisms, over consumption of public “welfare” is not unusual. Take official car use as an example. In 1997, administrative agencies in Guizhou as a whole held 19,349 cars, and the use of the official cars cost 108.46 million yuan in total. In 2001, however, the number of official cars in the Province went up to 31,537, and the expenses on the official car use jumped up to 423.49 million yuan, 62.99% and 290.46% more than the corresponding figures in 1997. Take public medical service as another example. On the one hand, all rural residents and part of the urban workers enjoy no health insurance. On the other hand, under the old free medical service system and labor protection system, due to the lack of necessary constraining mechanisms, over consumption of medicines (or checkups) by those who are beneficiaries of the system is a common occurrence. Many very expensive imported medicines and the most advanced medical equipments are sold well in China. In 1997, expenses on free health services in China reached to 77.37 billion yuan, 28 times more than that in 1978; the average annual growth rate being 19%, dwarfing that of the fiscal revenue and that of GDP.

Thirdly, the old welfare system leads to unfair distribution and corruption. Housing is a kind of welfare in the old welfare system. Because of the unequal holding of resources among sectors or units, staff and workers with few years of working experience in some sectors/units (financial sectors, and sectors of electric power, post and telecommunications, etc.) can get large and nice apartments, whereas those in other sectors/units with dozens of years of working experience can get only poor or even no apartments. What is even worse, housing distribution has given priorities to officials—the higher rank of one official, the better and larger his apartment. This housing distribution system encourages many officials each to occupy several free apartments or even houses, and makes those who get poor or even no apartments cannot be compensated, causing housing inequality among sectors, among industries, and among people, and becoming an important source of corruption. As for official cars, they have already been symbols of power. Wherever they go, officials use official cars, usually even for private purposes: private tours, fishing, private gathering, taking children to and from school, etc. According to an investigation, private use of

official cars is very widespread; two thirds of the uses of official cars are for private purposes. The investigation also shows that taking kickbacks in car maintenances is too a common phenomenon—which has become a “black hole” in financial expenditures in some departments/units. Besides, the investigation indicates that government agencies and institutions tend to buy high-grade cars, and that officials tend to want their cars to be better than their counterparts’, regardless of relevant regulations. The problem of official cars, which is another important source of corruption, has drawn much strong public resentments. People call it “the corruption under the ass of officials”.

2. Necessity and Urgency of Local Government Restructuring

With the deepening of the economic reform, the gradual establishment of the socialist market economic system and China’s entry into the WTO, it is more and more necessary and urgent to speed up local government restructuring.

2.1 Deepening Economic Reform Needs to Speed up Local Government Restructuring

Economic reform in China is a gradual process, just like “crossing a river by touching stones one by one”. During this process, some in-depth problems emerge gradually. The reform cannot be continued if the problems are not resolved.

Take the state-owned enterprises (SOEs) restructuring for example. For a long time, SOEs restructuring has been a crucial link of economic reform, experiencing profit-for-tax reform, contract responsibility reform, and “changing operational mechanisms” in succession. At the 3rd Plenary Session of the 14th Central Committee of the CPC, it was declared that the aim of the reform of state-owned enterprises was to establish the modern corporate governance system. The first precondition for this system is that an enterprise must have definite investors/capital subscribers. Without the restructuring of the state-owned properties, without the separation of the government’s positions as both the owner of the state-owned assets and the administrator of public affairs, and without setting up managing entities of the state-owned assets, it would be impossible to realize government administration from business management, the investor from the management, leaving the establishment of modern corporate governance system in the SOEs an idle talk.

2.2 Improving Market Economic System Needs to Speed up Local Government Restructuring

Economic agents include government, businesses and all kinds of intermediary organizations. The objects of current reforms with regard to businesses and intermediaries are to build qualified agents of the market economy. As one of the major agents of the market economy, local government needs to be restructured, so that it becomes a qualified economic agent with normal behaviors. Otherwise, the market economic system could not be improved.

2.3 China's WTO Membership Needs to Speed up Local Government Restructuring

After 15 years of hard negotiations and preparations, China has become a member of the WTO. This means that China's economic operational mechanisms and the way of government administration will have to follow the international practices, and that the Chinese economy will naturally be an open economy. Under such circumstances, institutional reform becomes a focus. As a member of the WTO, China needs to change the way of government administration; the government should manage economic activities with a combination of market regulation and macro control other than with plans and preferential policies. More important, the government should create a good institutional environment for socio-economic development. It should weaken its role in private goods provision but strengthen its role in public goods provision. China's entry into the WTO means not only challenges to the central government, but also challenges to local governments at all levels. The biggest challenge is that the government must make great changes in both the way of administration and the structure of government agencies.

3. Contents of Local Government Restructuring

The main contents of local government restructuring include:

- 1) Restructuring communities to rebuild the micro bases of the society;
- 2) Reducing administrative levels, reasonably readjusting the division of administrative areas, streamlining government organizations, to cut down management cost and increase administrative efficiency;
- 3) Restructuring the administrative system of the government, readjusting the structure and the division of functions of government agencies, to reduce functional overlapping, avoid poly-management, strengthen comprehensive coordination and direction, and create better environment for socio-economic development;
- 4) Establishing public financial system, reducing government involvement in micro-economic activities, changing the current situation of "salary finance", and increasing fiscal support for public goods provision;
- 5) Reforming the logistic service system of the government, to lighten financial burdens of the government;
- 6) Reforming the current system of welfare distribution, changing welfare distribution from in kind to in cash, to increase the efficiency of the utilization of social resources, and ensure social fairness; and
- 7) Removing institutional obstacles to the entry of social funds into housing construction, public health, education, etc., to speed up the development of social undertakings.

3.1 Community Construction: Starting-Point of Local Government Restructuring

A "community" means, in sociology, a body (or a group) of people living in one place or district who have close social relations and common interests in environment, resources, and employment, etc. As a regional society, a community is a bridge between individuals and civil society, an organic part and micro base of the society. In China, community is the smallest unit of social management

and the lowest level of political power. In urban areas, a community usually refers to an area under the jurisdiction of a residents' committee; in rural areas, it refers to an administrative village.

Before 1978, a community, as a grass-roots political power, whose major responsibilities were to finish the tasks given by governments of higher levels, followed the instructions of governments of higher levels, and at the same time dealt with some local public affairs. As the economic reform and opening-up deepens, its important roles in public affairs and social governance have been gradually recognized. In May 1991, in accordance with China's specific conditions, and using the experience of other countries in community construction for reference, the Ministry of Civil Affairs put forward the idea of community construction, the objectives of which are to improve grass-roots management and strengthen the construction of grass-roots political power and autonomous organizations in urban areas, with community construction as the starting point. After that, community construction experiments had been conducted in many cities. On November 19, 2000, the General Office of the Central Committee of CPC and the General Office of the State Council transmitted *the Opinions of the Ministry of Civil Affairs on the Promotion of Community Construction throughout the Country*, on the basis of summing up the experiences of different cities in community construction. A nation-wide community construction campaign has set off a new upsurge since then in both urban and rural areas.

In Guizhou, community construction has been conducted in the following three steps:

The first step was to reasonably readjust the division of communities. The division of original residents' committees was small and unreasonable, each of which included only 500-1000 households on average. Therefore, the first step was to readjust the division of communities. Take the Putto Office of Baiyun District in Guiyang City, which was the first to conduct community construction experiment in Guizhou, for example. The Putto Office had 13 residents' committees under its jurisdiction. Through readjustment, the original 13 residents' committees have been restructured into 5 communities, each community having its elected community committee. In Duyun, a pilot city of the World Bank projects, 52 original residents' committees under the jurisdiction of its three urban districts have been regrouped into 16 communities. At the same time, community readjustments have been conducted in rural areas. Take Zunyi City for example. In 2000, Zunyi began the "district cut and village merger" reform of the grass-roots management system in rural areas, for the purposes of lightening economic burdens on farmers, reducing administrative costs, improving administrative efficiency, and promoting the construction of a moderately well-off society. In March 2000, Wujiang Town in Zunyi County dismantled two of its district offices, and regrouped its 10 villages and 3 residents' committees into 4 villages and 1 residents' committee. Soon afterwards, Yuqing County, Meitan County, and Fenggang County followed the suit of Zunyi County. By the end of October 2003, 390 administrative districts had been dismantled, and the original 4,985 administrative villages had been regrouped into 2,732. The readjustment in division of communities had been conducted according to local geographical features and identification of the local people, and for the conveniences of management, comprehensive utilization of community resources, and community autonomy. After the readjustment, the average size of the urban communities in Zunyi City has been expanded from 500-1000 households per community to