

# *A Brief Analysis of China's "Delegating Power" Management System Reform and Local Protectionism*

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**Keywords:** National Unified Market, Trade Protection, Tax Sharing System

**Abstract:** The idea of "delegating power" in the early stage of reform and opening up and related reforms gave rise to modern local protectionism in China. From the perspective of results, in the early stage of reform and opening up, local protectionism protected the infant industries in various regions, accelerated the development of various regions, and played a positive role on the whole. In the context of accelerating the construction of a unified national market, local protectionism has become a major obstacle to China's high-quality development. Local protectionism is closely related to the management system of "delegating power". As a by-product of the idea of "delegating power" to promote the rapid development of China's economy, local protectionism has been continuously adjusted by the central government to the intensity and mode of delegating power, which is specifically reflected in the adjustment of financial and administrative power. How to further optimize China's "delegating power" management system has become the top priority in promoting the construction of the national unified market.

## 1. Introduction

On April 10, 2022, the CPC Central Committee and The State Council issued the Opinions on Accelerating the Construction of a Unified National Market [1]. In fact, as early as 1994, the requirement of "breaking regional segmentation and establishing a unified market" appeared in the document of the central government policy. However, in the nearly 30 years of promoting a unified national market, local protectionism and market segmentation are still repeatedly banned. Since the reform and opening up, in order to activate the development power of all localities and give full play to the initiative of local governments, the reform of the central and local economic systems is still based on the idea of "delegating power" and "making profits" [2]. The reform of this management system is mainly reflected in the financial and administrative power. Under the imperfect management system of "delegating power" and "delegating power", local protectionism in China has gradually developed and strengthened. Local protectionism at the beginning of the China's reform and opening up, on the whole, play a positive role, also has its necessity of historical development, but in China has entered a new stage of development, promoting the circulation,

accelerate the unified national market on the agenda, local protectionism for the further development of China's economy has played a serious obstacle.

## **2. Local Protectionism in China**

### **2.1 The Historical Necessity of Local Protectionism**

It is difficult to avoid local protectionism, but it is not completely negative. It has its necessity and positive significance in a certain historical period. It is necessary and positive for each region to "favor" local enterprises in the early development of a region. In China as a whole, local protectionism and market segmentation do not contradict this. According to Keynes's theory of hyperprotectionism, a country's exports have the same effect of increasing national income as domestic investment. A country's imports, like domestic savings, have the effect of reducing national income [3]. In international trade, investment protectionism and trade protectionism are essentially local protectionism at the national level. All kinds of extra scrutiny, import permits, export subsidies and bans on investment in specific industries are essentially the protection of enterprises of the country and the region. The international theory and tendency of super trade protection are also applicable to China's inter-provincial trade. All regions hope to give full play to the multiplier effect of international trade and inter-provincial trade surplus to promote rapid economic growth. Therefore, every region and every level of government instinctively favors the enterprises in its own region. In fact, enterprises in some provinces and cities in China have been almost exclusively involved in foreign trade since the reform and opening up. The growth of inter-provincial transaction volume is far less than that of international trade volume. At the same time, making the "cake" bigger at the local level and driving the rapid growth of regional output value will also lay the foundation for the rich fiscal revenue of local governments.

### **2.2 Regional Countermeasures against "Siphon Effect"**

Liszt, an economist of the German historical school, pointed out that the object of trade protection is the naive industry with strong competitors [4]. As for the product market, in the early stage of China's reform and opening up, local enterprises were in the early stage of development, and their product competitiveness was weak. At the beginning of the development of local industries, appropriate policies should be given to the local infant industries. The development of the socialist market economy initial stage, the lack of response to other provinces and cities, the strength of the foreign enterprises to respond, rely mainly on the protection of the local government policy to deal with, in this stage of development, such as not to trade protection, almost impossible to fight to preempt the region market of foreign enterprises as well as the relatively developed in other parts of China.

For the market of production factors, there are large objective differences in the level of economic development potential among different regions in China. The advantageous regions with large economic development potential have siphon effect on almost all production factors such as labor, capital and raw materials, and the Matthew effect of regional development is significant. In the process of rapid development, developed regions easily squeeze out the dominant production factors of other regions. In the absence of a unified institutional framework, local governments mainly set up barriers in the region to avoid excessive loss of various production factors in the region, so as to promote the rapid growth of local enterprises and ensure relatively stable employment and tax revenue.

## 2.3 Promotion System with Emphasis on Economic Indicators

In the "delegating power" system reform in the early stage of reform and opening up, the central government changed the appointment and removal of local cadres from two levels under management to one level under management. The number of officials directly in charge was drastically reduced, from more than 13,000 to just under 4,200. The selection criteria for cadres have also changed, and under the pressure of development, the promotion of local officials has focused heavily on economic indicators [5]. The main mode of driving the economy by local governments is to increase public investment and exert its multiplier effect. From the perspective of the process, local officials are forced by the limitation of the term of office and the limitation of the local financial wealth under the tax sharing system, and on the one hand, they need to increase the fiscal revenue and regional output value of the region quickly in consideration of the promotion incentive. The main way for local governments to expand their tax base is to support local enterprises. By setting up various trade barriers and administratively favoring the development of local enterprises, the tax base can be expanded to provide rich finance for increasing public investment. As mentioned above, the multiplier effect of inter-provincial trade surplus and intra-provincial public investment, together with the policy and fiscal and tax support of local administrative forces, constitute an important driving force for the rapid development of China's reform and opening up economy.

## 3. China's "Delegating Power" Management System

### 3.1 The Power and Responsibility Relationship between China's Central and Local Governments

In general, the reform of the overall management system of the Chinese government is explored under the consideration of giving full play to the initiative of local governments and implementing the instructions of the central government. This process of exploration is the exploration of "delegating power". In terms of the overall legal framework, Article 3 of the Constitution of the People's Republic of China stipulates, "The division of functions and powers between central and local bodies shall follow the principle of giving full play to the enthusiasm and initiative of local governments under the unified leadership of the central government. "This includes both the unified leadership of the central government and the requirement that local governments exert their initiative. It makes it clear that power is vested in the central government. From this, it is clear that the management of the higher and lower levels of government in China is not a "decentralization" management that allocates tasks well, but an indirect "delegating power" management, which mainly manages the localities through authorization and system. Delegation gives enthusiasm and initiative to local governments, and the system guarantees the power ownership of the central government and the implementation of the central government's will to local governments. Under these two powers, the management ability of the central government can be divided into the direct management ability of the central government to the society and the indirect management ability [6]. In terms of the means of implementation, the central government is constantly exploring the appropriate degree and way of "delegating power" between the central government and local governments. In practice, it is to decentralize the power of local governments according to the political, economic and social needs of the country in different development periods, and give local governments the autonomy to deal with a number of affairs.

### 3.2 Difficulties Encountered in China's "Delegating Power" Management System

In terms of administrative management, the number of central government staff is limited, and their capacity and scale are objectively limited, and they are also limited by their technical capacity and talent pool at a particular time. Therefore, all kinds of local affairs cannot be managed, so it is necessary to distinguish all kinds of matters. The process of distinguishing is inherently difficult. The ambiguity of management powers and responsibilities between the central government and local governments is reflected in many matters. After the differentiation, it is difficult to manage, the matters that should belong to the central government, the matters that cannot be managed are "chaotic", the matters that should belong to the local government, the central government forcibly intervenes, the matters are "dead", and the management falls into a strange circle [7].

In terms of finance and taxation, the central government specially designed the tax system. That is, the central government has surplus, while the local government's fiscal expenditure exceeds the payment, and the gap is made up by the central government's transfer payment, thus strengthening the central government's control over the local government financially [8]. This design also has problems: the economic and financial strength of local governments is objectively different, and there is a big difference between receiving central transfer payment and fiscal revenue payment. Some local governments are more confident in self-management when they hand in taxes and transfer payments. It is difficult to determine how much revenue each local government should hand over, how to hand over and how much transfer payments it should accept from the central government. If it is not properly handled, it may lead to the waste of resources and hinder the circulation of production factors. Take high-quality talents as an example, if a local government cannot cope with the increase of local population even after receiving the transfer payment from the central government under the financial gap, the local government will not be able to provide adequate public services. The inflow of high-quality talents will be inhibited. At the same time, financial rights and administrative rights should be highly bound, but in the early stage of tax sharing reform, the fiscal revenue handed over and transfer payments are more clear, but the relationship between financial rights and administrative rights is more ambiguous. In this ambiguous situation, local governments tend to get more financial benefits, and tend to do less in dealing with things.

In terms of the legal system, local governments are not allowed to implement tax incentives in their own areas without the approval of The State Council, but there are many ways for local governments to circumvent the law. Under the "incentive" and "pressure" mentioned above, some local governments used to give many preferential policies to some local enterprises in terms of finance and taxation in order to attract investment. What is typical is the "clever" conversion between tax reduction and fiscal expenditure. Some local governments reward local enterprises with good development in the form of fiscal expenditure, in the name of fiscal expenditure, tax reduction and exemption, in this case, the law is difficult to supervise. The central government has strictly required to clean up and standardize local tax incentives and tighten fiscal discipline, but the local government is still popular, and even there are tax depressions, which are quite favored by some enterprises. Provinces and cities across the country so flexible operation, provincial barriers to strengthen, and related to the national macroeconomic control of financial tools, and then affect the country's macroeconomic control ability.

### 4. Conclusion

Throughout China since the reform and opening "delegating power" management system and the changes of the local protectionism, China's central relationship is put in charge of power and delegating power system optimization of the two road forward at the same time, a complete set of

management system of "delegating power" in exploration and reform gradually matures, the central government is also continuously groping for the central and local in thing and right the right boundary. In the early stage of reform and opening up, the unified institutional framework mentioned above was not constructed. Therefore, the central government did not negate local protectionism, but first let local governments play, to provide observation materials for how to establish a good "delegating power system".

The core of "delegating power" is to further exert the enthusiasm and initiative of local governments, while ensuring that local governments can better implement the policies and will of the central government. For example, after 1992, the central government delegated power to local governments at the same time. In terms of "consolidation", it mainly strengthened the central government's vertical administrative departments, such as financial and statistical departments, while "delegating power" further delegated authority to local governments over the real economy. With flexible ideas and methods, the central government has also introduced the market as an element to optimize the "delegating power" management system of central governments. After 2000, the government streamlined administration and delegated powers, and The State Council abolished and delegated the authority of examination and approval, which had reached more than 2,600 items by 2014, accounting for 70% of the original examination and approval items, and some powers were actually delegated to the market. This has objectively weakened the power of local governments.

The development of this model is not in line with the objective requirements of domestic economic development. In the theory of trade protectionism, Lister once put forward that trade protection is not indefinite, and take 30 years as the boundary, objectively, the main part of the local enterprises can stop protection when they develop to a certain degree of external competitiveness. Local governments have inertia at the operational level. Under the banner of promoting local development, they continue to increase the protection of local enterprises and strengthen market segmentation. Local governments still repeat low-level construction and tend to engage in projects with less investment and quick results, while high-level construction tends to have fewer investment projects due to slow returns, which easily leads to the failure of capital allocation among industries and the imbalance of industrial structure [9], and creates great obstacles to the construction of the national unified market.

The "delegating power" management system serves as a regulator of the relationship between the central and local governments. In China, a country with such a vast territory and a large population, there is still a long way to go if we want to truly achieve local initiative, efficiency and the implementation of the central government's decrees. In the process of promoting the construction of a unified national market, if the use of administrative means to impose interference and inhibition on local protectionism, not to mention is bound to cause the enthusiasm of local development frustration, into the "one tube is dead" cycle, on the operational level, the central government must be meticulous management of all aspects of the whole country. It is impossible to do so under any set of administrative systems in the present human society. The characteristic of bureaucratic organization itself is that it is easy to mobilize at the macro level, but difficult to operate at the specific and micro level. It is difficult to carry out instructions and work efficiently. Through the optimization of the management system, the ideal direction of "free but not disorderly" can be gradually promoted.

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