

Summary	
Title	Government Procurement of Public Services in modern China ~With a focus on the functioning of the traditional “Bao” contract system~
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<p>Since the turn of the century, China has been diversifying its public service providers. The Chinese government has introduced market principles among the traditional service providers and has started outsourcing services to external private organisations. This practice of outsourcing public services to private firms is common among capitalist nations. The primary purpose of such outsourcing is to cut government expenditure. In the case of China, however, the goal is to promote social stability. In this article, I explore how public services are privately outsourced and shed light on the system and features of this outsourcing.</p> <p>It is now five years since China launched government-procured services in earnest, and in that time, a body of academic literature on the subject has been limited. The approach that most of the China-based studies took was to present examples of capitalist nations at the beginning, derive suggestions for China, and then highlight problems and propose policies. Given that China’s government-procured services are organised by regional governments, I believe that a case study analysis approach is essential for gaining an overall picture as well as identifying regional particularities.</p> <p>Another criticism I have with the prior studies is that it tends to apply general theories about the private sector to China’s particular circumstances. For example, the prior studies frame New Public Management (NPM), the Third Way, and similar approaches as measures for rescuing the welfare state from crisis. The concept of the welfare state originated in capitalist states of the West, and it is theoretically predicated on the society in question having modernised. However, China’s path differs from that of Western nations; the country launched economic reforms in 1978, and in 1993, it set a clear goal of shifting from a planned to a market economy. This structural shift had profound social implications, radically transforming social security, fiscal administration, and employment-related institutions. As such, China’s government-procured services ought to be understood in the context of such massive economic transformation. Therefore, a new theoretical framework is necessary for examining the causal factors behind the launch and expansion of procured services in China, as well as the characteristics of these services.</p>	

In examining procured services, I focus on an informal economic order based on a traditional Chinese commercial practice called 包 Bao (‘outsourcing’). Bao means something a little different to ‘outsourcing’ as commonly understood. The expression denotes the idea that the contractor empowers the contractee to conduct the work as they please provided that the latter guarantees that it will complete the work. Bao was a common practice in pre-modern times, and it retains its ubiquitous presence in the economic system of today’s China, regulating many different activities as an uncodified rule. While remaining ostensibly socialist, China is gradually shifting its economy toward market economics. How has this trend affected the government-procured services? Government control over such services appears strong, at least on the surface. However, not all the social organisations acting as contractees are governmental agencies—that is, the services are not always provided according to the government’s unilateral dictates; some organisations provide the services with a degree of autonomy. Such autonomy arises because Bao comes into play (under the Bao system, the on-site operator exercises a significant amount of discretion). With Bao, a contractee operates freely with ambiguously defined parameters, instead of being bound within rigid contractual provisions. Procured services began more than ten years ago, and China still has not developed any legislative infrastructure to regulate them. Some argue that China has simply been slow to develop such rules, but it is possible that Bao, insofar as it is a traditional practice without clear and detailed rules, is influencing on the government’s decisions. From the time it started procured services on a small scale through to today, when it is rolling them out across the country, the government has taken an exploratory and trial-and-error approach, and such a policy seems consistent with the way that Bao is practised.

I structure my discussion around the Bao system. In the preface, I describe my interest in the topic, review the prior studies, and outline the structure of the thesis. In Chapter 1, I give readers an overall view of procured services in China by defining procured services and describing the government’s intentions in promulgating laws related to these services. This chapter raises the question: why do grassroots organisations never get licensed to be contractees, and why is it that only ever three types of social organisation that get licensed? I describe the key features of each of these three types of social organisation and outline the public service initiatives of the regional governments. In Chapter 2, I present the skeleton of the thesis. Bao and the functions thereof remained intact as an institution from the Ming and Qing dynasties

and throughout the Republic of China period. During the era of the concentrated planned economy, Bao receded from the surface amid strong government control over the economy. The reason being, that under the planned economy and public ownership, it was not only manufacturing companies that fell under state control; all social services became state-run operations. Following the economic reforms, two economic groups—urban workers and rural farmers—rapidly branched off into a number of different groups, including the self-employed, white-collar workers, and migrant workers (people who moved from the countryside to the cities for work). Consequently, lifestyles diversified too, leading to a sharp rise in needs for public services. Until then, China’s public service model was based on ‘work units’ (danwei)—places of employment that would offer workers security from the cradle to the grave. However, the diversified needs were exposing the limitations of this model. No longer able to keep up with the rising needs, the government had to turn to private-sector participation. To understand the mechanisms and features of procured services in China, it is necessary to explore Bao by focusing on both its external and immanent aspects. Focusing on the external aspects of Bao means analysing it in relation to the growth of the market economy in China. While Bao seemed to have receded from view during China’s state-led planned economy, it resurfaced during the economic reforms. Thus, the extent of Bao activity in China varies between different phases of China’s development—the extent during the planned economy period differs from that during the socialist market economy period. To understand how procured services operate in each region, it is necessary to understand how Bao operates in the region concerned. To this end, I analyse three regions: the city of Shanghai, the city of Shenzhen, and the province of Anhui. These regions all qualify as cases that illuminate the external and immanent aspects of Bao. Specifically, Shanghai and Shenzhen are coastal metropolises and economically rich compared to elsewhere in China. Shanghai experienced both the planned economy and the market economy. Shenzhen on the other hand, being used as a testing ground for economic reforms, has little experience in the planned economy and much more affinity with the market economy. Shanghai and Shenzhen have a larger track record than other regions when it comes to pioneering initiatives in the procured services sector, and with this track record, they serve as useful examples for reviewing the recent trends in China as a whole. Anhui, on the other hand, provides a contrasting case study; the province is situated in the interior, labour costs are low, and much of the population migrates to other regions for work. The birthplace of the practice of Bao in agricultural production (i.e., the outsourcing of farm work) was a small farming

village in Anhui called Fengyang—a far cry from the more economically developed coastal regions. Thus, I selected Anhui because the province serves as an illustrative example of how procured services operate in China beyond its coastal regions.

My examinations of these case studies highlighted a number of regional particularities in paid service provision. Anhui is still developing as a city; accordingly, procured services there are focused on securing minimum living standards for the population (particularly for the impoverished elderly and people with disabilities). The province retains many of the trappings of the planned economy. As such, the local government does not administer the kinds of procured services that social organisations deem necessary; rather, services tend to be provided purely according to government dictates. According to my interview data, the social organisations are calling out for services that will prevent geriatric diseases and improve immunity; yet, the government, seeking immediate results, demands programs for elderly citizens such as physical exercises and stretch classes, rather than projects with no guaranteed outcomes. The reason being that with such programs, it is easy enough for government inspectors to collect photographs depicting jaunty elderly people enjoying their class and then cite these photos as evidence of the service's successful outcomes. Examples of such attitudinal gaps between the government and social organisations are discussed in Chapter 5. Unlike in Anhui, public services in Shanghai are not moulded to the dictates of government; instead, with the aim of making the procured services more effective, the Shanghai government allows the social organisations, to whom it outsources service provision, to administer the procured services as they deem fit. Accordingly, the social organisations receive some remuneration from the government for their role in providing the services. Public service provision is a pathway to political participation. Social organisations that achieved success in private outsourcing business win government accolades, mass media coverage, and the opportunity to participate in governmental deliberative councils (this is discussed in Chapter 3). As for Shenzhen, the city is home to many migrants who settled there in the hopes of establishing a livelihood. Many migrants who do not fit into any existing employment category end up starting their own enterprises. These entrepreneurs formulate business models, drawing hints from relatives or acquaintances who achieved business success or from overseas examples of business success or business failure (this is discussed in Chapter 4). Much of the prior studies on Bao has focused on the external aspects. The content of the procured services (or the form of Bao) is shaped by the external aspects, which include the degree of progress in introducing the market economy and

the impact of the Communist Party's command economy. However, I argue that the content of the procured services (or the form of Bao) is not only shaped passively by these external elements. Local communities and blood ties have always been key agents of Bao activities. Each area has its own particularities. We should not underestimate the immanent elements of Bao—how it is practised autonomously and actively by these local and family communities. Hence, I attempted to find the underlying source of each region's particular dynamism in Bao practices. As for my findings, in the case of Anhui, many of the people who work for the social organisations and enterprises that take on procured service contracts are locals. These local employees leverage their local connections in an effort to develop the local area. It is this approach that underlies the immanent vibrancy of Anhui's Bao activities in relation to the government (this is discussed in Chapter 5). Regarding Shanghai, the city has districts such as Jing'an, in which reside many of the established Shanghainese—those who have inhabited the city going back decades. In these districts, the shequ (community institutions) are empowered to coordinate the district's local resources. In addition to the shequ, the 'New Shanghainese' (those who settled more recently) provide an additional source for Shanghai's Bao in terms of how they contribute socially and affirm their own value. Being New Shanghainese, these denizens have a greater desire to gain social recognition through their expertise or social contributions. In generating their own value in Shanghai, the New Shanghainese act as a driving force for Bao activity (this is discussed in Chapter 3). As for Shenzhen, compared to other places in China, the city never underwent a planned economy in its history; the locale had its start with the market economy. As such, many of the inhabitants came from other cities in order to plunge themselves into the world of commerce and profit, as expressed in the term xiaohai (literally, 'jump into the sea'). Many of these entrepreneurs autonomously decide to take on procured service contracts based on their own beliefs and ideas. Depending little on the government, they can run their businesses even without government subsidies, as they can self-fund (this is discussed in Chapter 4).

In conclusion, Bao is a means to supplement the imperfections of contracts, and an institution for coping with uncertainty. Procured service undertakings in China follow no blueprint; they are developed piecemeal without imposing any precise terms or parameters. In this sense, they are a 'matter of trust'—the contractor has faith that the contractee will fulfil their contractual undertaking. The process of modernisation is producing increasingly advanced risk management systems. Amid this trend, the uncertainties associated with economic activities are decreasing, and in

Western countries, there are fewer examples of outsourcing that, like Bao in China, involve supplementing imperfections in the agreement or dealing with uncertainties. In China, however, Bao continues to shape economic activities in many parts of the country. Thus, we see embedded in Bao characteristics unique to China.

This thesis is meaningful for two reasons. First, studies that compared procured services between different regions of China quantitatively and qualitatively are few and far between, even within China. This thesis is the first Japan-based study to attempt to survey local areas in China on such a scale. Second, while the previous studies have revealed many facets of procured service undertakings, by analysing these features through the lens of the traditional commercial practice of Bao, I highlight how they fundamentally differ from the private sector outsourcing in capitalist nations. I also reveal that the autonomy characterising China's Bao practice reflects the underlying cultural maxims etched into China's history, and I show how this autonomy was preserved and reinforced from pre-modern times to the socialism of today.