Improving Business Environment in China: Practices and Experiences

全球南南发展中心项目
Global South-South Development Center Project

CIKD 中国国际发展知识中心
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Abbreviations

BRI	Belt and Road Initiative
CICETE	China International Centre for Economic and Technical Exchanges
CIKD	Center for International Knowledge on Development
DCED	Donor Committee for Enterprise Development
DESA	Department of Economic and Social Affairs of the United Nations
DRC	Development Research Center of the State Council, China
EGDI	E-government Development Index
ICT	Information and Communication Technology
ID	Identification Card
SCIO	State Council Information Office
SEZ	Special Economic Zone
SPC	Supreme People's Court
UN	United Nations
UNDP	United Nations Development Programme
UNOSSC	United Nations Office for South-South Cooperation

Acknowledgements

This research paper was authored by Dr. Zhou Taidong, researcher at the Center for International Knowledge on Development (CIKD). He can be contacted at zhoupetrel@hotmail.com.

The author is grateful for the support of the Global South-South Development Centre, especially Ms. Zhang Wei, Ms. Song Bo and Ms. Liu Yang at the China International Center for Economic and Technical Exchanges (CICETE). The author appreciates valuable comments, inputs and suggestions from Dr. Ma Xiaobai, Researcher at the Development Research Centre of State Council (DRC), Mr. Zhao Jinping, Senior Researcher at DRC and Dr. Hany Besada, Senior Research and Programme Advisor, and Dr. Xiaojun Grace Wang, Deputy Director, United Nations Office for South-South Cooperation (UNOSSC).

Executive Summary

Business environment has been recognized as containing critical elements that affect the performance of firms and entrepreneurs and one of the pre-requisites for economic growth and poverty reduction in developing and transitioning economies. Improving the business environment has been an important part of China's 40-year reform and opening up. Since 2013, China has taken business environment optimization as one of the main means to improve China's economic competitiveness through continuously pushing forward nationwide reforms, including further delegating power and streamlining administration, simplifying approval procedures and cutting taxes and fees. China's progress, measured by the Ease of Doing Business Project of the World Bank, has been particularly impressive over the last several years when its ranking jumped from 96 in 2014 to 31 in 2020.

The objective of this report is to: (i) document China's business environment improvement in the different stages after the reform and opening up in 1978, with special attention to the reforms after 2013; (ii) analyze the key reform policies and measures, as well as the institutional arrangements; and (iii) inform and inspire other countries, especially the Southern economies that also aspire to improve the business environment.

The key findings regarding China's experience and implications in optimizing the business environment include:

1. attention and leadership of top-level leaders;

2. encouragement of local policy experimentation and institutional reform;

3. strong enforcement of the reform agenda;

4. private sector participation and intensive use of digital technologies and e-government services; and

5. working with international organizations and learning from global experience.

Given the increasingly important role of China in international development cooperation, it is believed China's experiences and practices in improving business environment can not only inform the design and implementation of business environment strategies in other Southern countries, but also be incorporated into China's international development programmes through policy dialogue, knowledge sharing and technical assistance.

1

Introduction

Prevailing business environment constitutes an influential and important condition in the operation of enterprises globally. A good business environment helps accumulate various production factors such as capital, talents, and technology, stimulate the vitality of various market players, improve the quality and speed of economic development, and reduce poverty. Governments and enterprises of all countries attach great importance to the basic conditions of the business environment. By identifying and conceptualizing a comprehensive approach that addresses procedural, legal, institutional and regulatory barriers affecting all phases of investment and business lifecycle, countries can establish a competitive business environment that can attract, retain, leverage and expand investments for business-led growth and in turn promote broad-based sustainable economic development.

Over the past 40 years of reform and opening up, China has been committed to improving the business environment, resulting in attracting a large amount of investment, especially foreign investment, and greatly contributing to China's economic growth and poverty reduction. Since 2013, China has taken business environment optimization as one of the main means to improve China's economic competitiveness through continuously pushing forward nationwide reforms, including further delegating power and streamlining administration, simplifying approval procedures and cutting taxes and fees. Such efforts have led to positive progress and effects in improving the business environment. According to the indexes of Ease of Doing Business published by the World Bank, China has improved across almost all Doing Business indicators over the last decade. However, the progress has been particularly impressive over the last several years, when China's ease of doing business ranking jumped from 96 in 2014 to 31 in 2020 (World Bank, 2020a). According to the World Bank (2020a), China was recognized as one of the top 10 most improved economies worldwide for the ease of doing business for two years in a row and the top 10 global reforms in 2019 and 2020, while also on the global forefront in specific areas, such as getting electricity and contract enforcement.

This report aims to review and analyze China's efforts in improving the business environment during the different stages, with special attention to the reforms after 2013 when the Chinese government intensively pushed forward focused reforms in optimizing business environment. It intends to unravel and summarize China's specific practices and experiences in optimizing the business environment, with a view to providing references to other Southern economies. The report consists of four parts. Following the introduction, the second section briefly discusses the concept of business environment. The third section documents China's business environment reform experience after the reform and opening up in 1978 and analyzes the key reform measures and the institutional arrangements. The last section concludes and shares key lessons learned from China's experience.

2

A Brief Introduction to Business Environment

Business environment has been recognized as containing critical elements that affect the performance of firms and entrepreneurs and one of the pre-requisites for economic growth and poverty reduction in developing and transition countries (White and Fortune, 2015). Different stakeholders have defined the business environment in different ways. In 2008, the Donor Committee for Enterprise Development (DCED) defined the business environment as "a complex of policy, legal, institutional, and regulatory conditions that govern business activities", aiming to reduce the costs and risks of business activity by improving government policies, laws and regulations, and by stimulating competition through market entrants. The Doing Business Project by the World Bank measures the cost of doing business and the quality of regulations and institutions that impact the business environment. The Project has been evolving over the years. The first report was issued in 2004, covering 5 indicator sets and 133 economies. By 2020, the report included 12 indicator sets and 190 economies, with ten areas included in the ease of doing business score and ranking[1]. The Chinese government, in 2019, defines business environment as "the factors and conditions in the nature of systems and mechanisms related to enterprises and market participants in economic activities" (State Council, 2019).

The business environment constitutes the basis for market entities to survive, develop and innovate. It reflects the many location-specific factors such as taxation, business registration, and access to utilities and energy. These factors shape opportunities and incentives for firms to invest productively, create jobs and expand. Reforms in these areas intend to promote the development of markets that encourage competition and enhance the effectiveness and sustainability of other development interventions. A good business environment requires relatively sound property rights protection system, which protects the production results of market entities, stimulates innovations and expands the wealth-creation effects of investment. It requires cutting red tapes, streamlining procedures and removing entry barriers to promote the free flow and agglomeration of resources and factors, reduce costs and increase benefits for businesses and to stimulate the vitality of market entities. A good business environment also means less uncertainty and improved predictability.

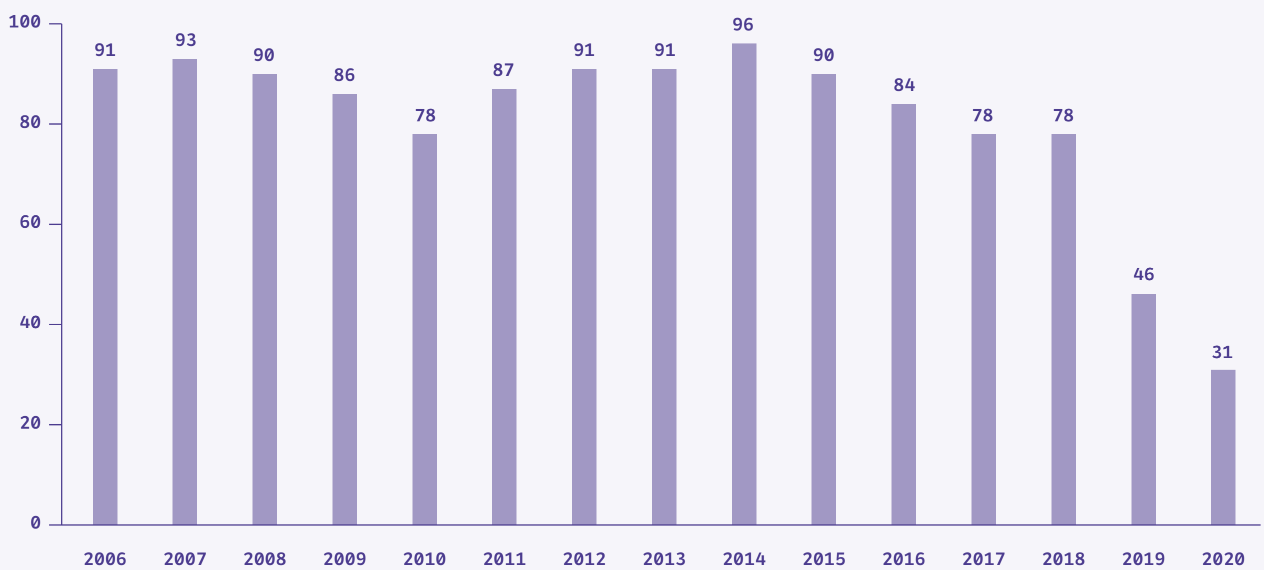
1 The ten areas include starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency (World Bank, 2020).

The business environment is directly related to business operations and outcomes and is a sign of core competitiveness for economic and social development. An enabling environment for business to thrive can have important implications for economic development, fiscal revenues, employment and even social development. Through putting firms at the center of the discussion, the business environment recognizes that firms assess investment opportunities and related government policies and behaviors as part of a package (World Bank, 2006). Studies have shown positive relationship between the quality of the business environment and a country's economic performance in terms of, among others, productivity, employment, startup rates for new businesses, and cost of credit (Simeon et al., 2006; Eifert, 2009). For example, Eifert (2009), using a five-year panel of data on regulations and procedures from the World Bank's Doing Business project, finds that relatively poor and relatively well-governed countries grow about 0.4 and 0.2 percentage points faster in the year immediately following one or more reforms respectively and investment rates accelerate by about 0.6 percentage points in the subsequent year for both subsets of countries.

For many years, China's ease of doing business ranking has been around 90. It is only after 2015 that China has made steady improvements (See Table 1). In the *Doing Business 2020* report, China ranked 31, jumped 59 and 47 places from 2015 and 2018 respectively. China has improved across most Doing Business indicators over the last several years. Notably, China ranked 12 worldwide in getting electricity and has also maintained its leading position in contract enforcement, ranked 5th globally (World Bank, 2020a). Though there are no direct estimates of the potential impact of doing business reforms at the national level, Shanghai reported that it attracted 6,168 new foreign investment projects in February-November 2019, an almost one-third increase over the same period a year before, with USD 17.8 billion of new foreign investment in place, an increase by one-tenth versus the previous year (Xinhua, 2020a).

Table 1: China's Ease of Doing Business Rankings (2006-2020)

Source: World Bank Doing Business Reports (2006-2020)[2]



2 There were no rankings in the 2004-2005 Doing Business Reports.

3

Evolution of China's Business Environment Improvement

Improving business environment in China has been a gradual and continuous process. Since the open-door policy in 1978 when the Chinese government began to pursue economic growth through the active introduction of foreign capital and technology as well as promotion of foreign trade in targeted localities, the Chinese government has made tremendous efforts in improving the external environment where enterprises operate, including streamlining procedures, and reducing expenditures and costs for enterprises. This report divides the evolutionary process of China's modern market system and business environment into four stages.

▸ 3.1 First stage (1979-1991): a partial breakthrough of the business environment

In December 1978, the Third Plenary Session of the 11th Central Committee decided to shift the work focus to economic development and carry out reform and opening up. The policy shift was made in the context that China's economy lost steam and was soon left far behind by Western as well as East Asian economies. The reform started in the rural areas, which included increasing procurement prices for agricultural products, encouraging crop diversification and specialization, relaxing restrictions on trade fairs and exploring decentralized farm organization. To rebuild its economy and society, the Chinese government also began to proactively improve the business environment to attract foreign capital to support modernization. Preferential policies were conferred on special economic zones (SEZs), open coastal cities, and the economic and technology development zones to attract foreign investment. The establishment of these zones triggered massive inflows of foreign investment, primarily from companies in Hong Kong and created laboratories for broader market-oriented reforms.

This stage has the following features. First, there was a breakthrough in ideology and concepts. As Deng Xiaoping (1994, p.78) pointed out, "It is impossible to succeed in development with closed doors. China's development cannot be separated from the world." China's development requires the introduction of advanced experience, advanced science and funds from developed countries. The promotion of the socialist market economy concept brought an entrepreneurial boom, resulting in the emergence of huge numbers of entrepreneurs and venture businesses within the country.

Second, China gave full play to its advantages in market size and cheap labor force and properly resolved the relationship between self-reliance and utilization of foreign investment. After the reform in 1978, China departed from the economic self-sufficiency both within its territory and in relation to its international affairs. Nevertheless, China did not relinquish its capacity for autonomous goal setting and decision-making and the Chinese basically remained the primary drivers over their own economic policies (Tisdell, 2013). When using foreign capital, China maintained its place in the driver's seat and introduced advanced technologies and useful things from developed countries in a planned and selective manner. Deng Xiaoping (1993, p.406) once claimed that self-reliance was China's first experience.

Third, China has followed the principle of equality and mutual benefit. China not only opened to the North, but also Southern economies. While using foreign capital to obtain benefits with respect to employment and economic growth, technological innovation, management knowhow, creation of a competitive market, and accelerated modernization, China also allowed foreign enterprises to gain profits.

Fourth, China took a gradual approach in opening to the outside world. Reform started from pilot SEZs such as Shenzhen, Zhuhai, Shantou and Xiamen due to their proximity to Hong Kong, Special Administrative Region of China, Macau, Special Administrative Region of China, and Taiwan Province, attraction of overseas Chinese capital, as well as relative distance to Beijing[3]. By 1984, the SEZ model was judged to be successful and then expanded to 14 coastal open cities from Dalian to Beihai. By 1991, 60 SEZs were set up in China, including 5 initial SEZs, 15 coastal port cities, 8 river port cities, 19 inland cities, and 13 border cities (Rodrigue, 2020).

Through the "don't argue" policy[4], China gave priority to economic reform, avoided talking about political ideologies, and allowed non-public economic sector to prosper. Individual and private businesses gradually developed. In June 1988, the Chinese government promulgated the *Interim Regulations on Private Enterprises*, stipulating that private enterprises could adopt three forms, namely, sole proprietorship, cooperative enterprise and limited company. By 1990, individual and other types of enterprises accounted for close to 10% among the total industrial output value. In the meantime, township and village enterprises (TVEs) continued to grow and develop. In 1991, TVEs completed an export value of 7.89 million yuan, an increase of nearly 200% over 1988, and their share of the country's total export value increased from 15.2% to 29.7% (Chen, 2020). Many of these TVEs were private enterprises registered in the name of "collective" enterprises for the sake of government protection. The scale of China's actual utilization of foreign capital also expanded significantly, from USD 920 million in 1983 to USD 4.366 billion in 1991, an average annual increase of 22.6% (Wei, 1996).

Township and village enterprises

15.2% in 1988 → **29.7%** in 1991

increase of country's total export value

3 The argument goes that since the four SEZs are far from Beijing, the capital, so even if they failed, there wouldn't be serious consequences.

4 To push for further market reform, Deng Xiaoping pointed out that "Don't argue; try bold experiments and blaze new trails. That is the way it was with rural reform, and that is the way it should be with urban reform".

During this stage, China adopted the following key measures to improve the business environment. The first was to establish a legal framework for using foreign investment. Three laws concerning foreign investment were promulgated. In order to formulate a sound joint venture law, the drafting team referred to the relevant laws of more than 30 countries and extensively solicited opinions of domestic economic departments, research institutes and legal experts. China subsequently adopted the *Law on Chinese-Foreign Equity Joint Ventures* in 1979, the *Law on Wholly Foreign-funded Enterprises* in 1986 and the *Law on Chinese-Foreign Contractual Joint Ventures* in 1988 (Li, 2019). A series of detailed rules for the implementation of the three laws were also promulgated. The three laws on the foreign investment and their implementation regulations have specifically prescribed the statutory examination and approval procedures, the corresponding registration procedures as well as the relevant requirements for establishing foreign-funded enterprises. They thereby constituted the foundation of China's legal system on using foreign investment, and were the upper-level laws for all provisions on the examination and approval of investments by foreign investors[5].

The second was to grant preferential tax treatment to foreign investment. In order to alleviate foreign businessmen's concerns about China's foreign investment policy after the reform and opening up, China adopted a preferential policy of "super-national treatment" and the preferential level was quite high. From 1979 to 1983, the income tax of joint ventures was generally 33%, and the income tax was exempted for the first year and halved for the second. The *Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises* passed in 1991 stipulated that the income tax rate of foreign-invested enterprises was 33% in general. However, for the foreign-invested enterprises located in SEZs and the productive foreign-invested enterprises located in economic and technological development zones, the income tax rate was 15%. For productive foreign-invested enterprises that have an operating period of more than 10 years, the "two exemptions and three reductions" policy was implemented. That is, the corporate income tax would be exempted for the first two years after gaining profitability and halved from the third year to the fifth year. In terms of consolidated industrial and commercial taxes and tariffs, foreign-invested enterprises enjoyed tax reductions and exemptions far higher than those of domestic enterprises. They could also enjoy tax exemption when importing machinery, equipment, raw materials and exporting products. In the meantime, China also granted foreign-funded enterprises the right of self-management of foreign trade import and export, the right to declare customs, and more operational autonomy.

The third was to decentralize approval authority. From 1979 to 1983, the control of foreign investment projects was very strict. In the first two years, all projects had to be submitted to the Foreign Investment Management Committee for approval. The approval authority of local

China's utilization of foreign capital

from **USD 920 million** in 1983

to **USD 4.366 billion** in 1991

annual increase **+ 22.6%**

5 They had been invalidated by the Foreign Investment Law of the People's Republic of China, issued on 03-15-2019 and effective on 01-01-2020, please see https://www.jonesday.com/zh-hans/insights/2020/02/chinas-new-foreign-investment-law

governments was very limited. After several adjustments in 1983, 1985, and 1988, the State Council gradually expanded the autonomy of local governments to approve foreign investment. For productive projects that the state encouraged, no national subsidies were required in construction, production, operation and foreign exchanges, and no quotas or licenses were involved, the local governments of Beijing, Hebei, Fujian, and other coastal provinces as well as the four SEZs could approve investment projects of less than USD30 million, while ministries and other places could approve projects of less than USD10 million (State Council, 1988). While gradually decentralizing foreign investment approval authority, foreign investment approval procedures have also been simplified. Various localities tried to improve the soft environment for absorbing foreign investment. Some established joint office approval agencies and implemented the “one window” policy to increase efficiency. Many places also set up institutions such as foreign-invested enterprise associations, and service centers to help coordinate and resolve difficulties in production and operation of foreign enterprises.

decentralizing foreign investment approval authority

The fourth was to pilot first and then scale up. China allowed SEZs to implement special policies in economic activities and practice special systems in economic management. Through such measures as tax relief, financial subsidies, credit incentives, China tried to improve the business environment in SEZs and economic and technological development zones. SEZs were authorized to be equivalent to provincial-level in economic management authority. They could formulate individual economic regulations according to specific conditions and actual needs, to be implemented in their respective jurisdictions. China also provided preferential policies to foreign investors who invest in the zones, including 15% corporate income tax, and simplified entry and exit procedures. SEZs were also allowed to take the lead in reforms in land use, labor relations, and foreign exchanges. For example, foreign investors could obtain land use right in accordance with the law and be granted land use certificates; all employees of the SEZs were subject to the contract system and the enterprises could make their own decisions in recruiting, probating and dismissing; enterprises were also allowed to keep part of their own foreign exchange; economic management system such as tendering and bidding were first introduced in the SEZs; other preferences were also granted to the SEZs, including increasing the scale of bank credit funds, relaxing restrictions on special zone loans and borrowing foreign debt, and implementing a contract system for fiscal revenue and expenditure.

The fifth was to break through and reform the administrative system of the highly centralized planned economy period. After reform and opening up, the shortcomings of the administrative system, such as over control, and non-separation of government and enterprises became prominent and restricted the development of productive forces. In his speech on “Reform of the Party and State Leadership System” in August 1980, Deng Xiaoping pointed out that the reform of the administrative system must follow three principles. The first is to increase vitality and avoid rigidness; the second is to improve efficiency, and the third is to give full play to initiatives of the people and all walks of life. Substantial institutional reforms then followed, with the focus of streamlining organizations, reducing the number of cadres, and transforming government functions.

▶ 3.2
Second stage (1992-2001): market-oriented reform of the business environment

This stage was marked by Deng Xiaoping's southern tour in 1992 and the decision to establish a socialist market economic system. In the late 1980s, heated debates emerged about "capitalism" or "socialism" in China and there were hesitations in opening up to the outside world. In 1992, Deng Xiaoping, during his tour to the Southern part of China, pointed out that "the standards of judgment should mainly be based on whether it is conducive to developing the productive forces, whether it is conducive to enhancing the comprehensive strength, and whether it is conducive to improving the people's living standards" (Deng, 1993). The "socialist market economy", where public ownership coexists alongside a diverse range of non-public forms of ownership, was coined so that China could learn lessons from advanced capitalist countries without needing to discuss if the reforms are "socialist" or "capitalist". This helped remove the ideological barriers and increase confidence of different market players in investing and starting a business. It also provided directions in further improving the business environment.

The first effort was to build the institutional framework of the macroeconomic management system. China focused on the reform goal of establishing a socialist market economy and put forward plans for systematic reforms in fiscal and taxation, finance, foreign exchange, planning, investment and financing systems. In the field of finance and taxation, China established a new fiscal framework based on tax-sharing and a turnover tax system based on value-added tax. In the financial sector, China separated commercial and policy finance and initially established a capital market and financial supervision system. With regards to foreign exchanges, China established a market-based and managed floating exchange rate regime and a unified foreign exchange market, and realized the convertibility of the RMB under current account. A project legal person system was established to distinguish competitive projects, basic projects and social welfare projects. Different management methods applied to different types of projects.

China promulgated the *Company Law* in 1993 to regulate companies. Following the direction of establishing a modern enterprise system, China implemented the "grasping the big and letting go of the small" reform to invigorate small state-owned enterprises through merging, leasing, contracting and selling. As a result, the private sector also rapidly developed.

The second was to continuously improve laws and regulations on foreign investment and create an enabling environment for foreign investors. To actively attract foreign investment and accelerate economic development, China issued a series of laws and policies to reduce restrictions on foreign investment since 1992, involving the use of BOT in infrastructure construction, the establishment of joint stock companies, the liquidation of foreign-invested enterprises, equity change, foreign investment company establishment, as well as merger and division of foreign investment enterprises. In 1995, China promulgated the Foreign Investment Enterprise Holding Company Law and Interim Regulations on *Foreign Investment in the Establishment of Investment Companies*, allowing foreign investors to establish investment holding companies (umbrella companies) and paving the way for multinational companies to integrate their investment in China. In 1997, China promulgated the Catalogue for the Guidance of Foreign Investment Industries. China also explored BOT and joint-stock cooperation to improve the level of foreign investment. In order to meet the WTO's rules and requirements, China amended the *Law on Chinese-Foreign Equity Joint Ventures, Law on Chinese-Foreign Contractual Joint Ventures, and Law on Wholly Foreign-funded Enterprises* and removed requirements in terms of local content, trade balance, export performance, foreign exchange and domestic sales. During this stage, the scale of foreign direct investment grew significantly in China. From 1992 to 2001, China's actual use of foreign investment increased from USD 11.01 billion to USD 46.88 billion, an average annual increase of 17.5% (Liu, 2019).

The third was to promote the application of the unified tax system and exchange system for domestic and foreign-funded enterprises in due course. Since the 1990s, the Chinese government adopted a series of measures to continuously adjust the national treatment for foreign investment, phased out the tax reduction and exemption policies for foreign-invested enterprises, and gradually unified the tax system, in order to improve the development environment for domestic and foreign enterprises. The 1992 *Law on the Administration of Tax Collection* unified the collection and management of domestic and foreign taxation, and basically realized the unification of domestic and foreign tax laws. The taxation legal system for foreign investors was greatly improved. The comprehensive tax reform implemented in 1994 enabled domestic and foreign-funded enterprises to apply uniform regulations on value added tax, consumption tax and business tax. In 1996, China incorporated the foreign exchange receipts and payments of foreign-invested enterprises into the bank's foreign exchange settlement and sales system, which realized the convertibility of RMB under the current account of foreign-invested enterprises, creating a relaxed environment and favorable conditions for foreign-invested enterprises. In response to the impact of the Asian Financial Crisis, the Chinese government issued the *Notice on Adjusting Tax Policies for Imported Equipment* in 1997, restoring the exemption of tariffs and import value-added tax on equipment imported for self-use within the total investment of projects encouraged by foreign investment. In 1999, the Chinese government further adopted new import tax policies and exempted import duties for foreign enterprises that satisfied certain conditions.

The fourth was to scale up the experience in Shenzhen and other SEZs and roll out the opening-up and foreign attraction policies to the whole country. The development achievements of pilot cities such as Shenzhen have provided motivation and model for other local governments. China developed and opened up Shanghai's Pudong New Area, and rapidly expanded the National Economic and Technological Development Zones, the bonded areas, and border economic cooperation zones. The Chinese government also issued a series of measures involving investment fields and tax incentives to encourage foreign investment in the central and western regions.

The fifth was to standardize management of government affairs. China conducted administrative system reforms in 1993 and 1998. The reform centered around three aspects. The first was to speed up the separation of government and enterprises and transform government functions. China pushed forward the reform of the management system of the macroeconomic and specialized economic departments and the government no longer directly managed enterprises. There was also big merge and cut of industrial management institutions. The second was to reduce administrative examination and approval matters. The functions that belonged to the enterprises and social intermediary organizations were handed over to the enterprises and social organizations. The third was to reasonably divide the responsibilities of the functional departments and sort out the relationship between the upper and lower-level governments.

China's use of foreign investment

from

USD 11.01 billion

in 1992

to

USD 46.88 billion

in 2001

annual increase

+ 17.5%

▸ 3.3
Third Stage (2002-2012): international rules-guided reform of the business environment

Marked by its accession to the World Trade Organization (WTO), China accelerated its pace in aligning with the international norms in terms of market rules, operating mechanisms and legal systems. In accordance with WTO rules and opening-up commitments, China needed to adjust domestic laws and regulations. Before and after China's accession to the WTO, to align with international rules, China reviewed and improved more than 3000 inappropriate policies and regulations related to trade in goods, trade in services, property rights, and investment such as the *Law on Chinese-Foreign Equity Joint Ventures, Law on Chinese-Foreign Contractual Joint Ventures, Law on Wholly Foreign-funded Enterprises and Law on Foreign Trade* (Li, 2019). China also established legitimacy review mechanism concerning administrative normative documents to increase transparency and public participation (Li, 2019). In the meantime, China adopted further measures to improve business environment.

First, China continuously improved existing laws and regulations. The 2002 "Catalogue for the Guidance of Foreign Investment Industries"[6] further relaxed the restrictions on the proportion of foreign investment, abolished the taxation and exchange rate differences between sole proprietorship and joint ventures, and further relaxed restrictions on sole proprietorship. In 2005, China revised the *Company Law* and made amendments to issues such as suitability of shareholders, the form of company organization, the paid-in and subscribed system of registered capital, and organization. For example, the amended law recognized one-person companies other than wholly state-owned companies and wholly foreign-owned companies, made new stipulations concerning the installment of the company's registered capital. Such efforts aligned the *Company Law* with the three laws on foreign investment and promoted consistence.

Second, China reformed foreign investment management system. China continuously simplified the approval procedures and delegated the approval authority in examination and approval of foreign investment. China decentralized the approval authority for foreign investment in advertising, leasing, freight forwarding, distribution, non-vessel operating common carrier (NVOCC), printing, construction, road transportation, urban planning, international shipping agency, CD duplication, certification and training and other service trade fields to commerce authorities at the provincial level or national-level economic and technological development zones. China also decentralized the approval of changes to foreign-invested enterprises and the approval of joint stock companies, venture capital enterprises, and investment companies and abolished the approval of establishing domestic branches and changes to names, investors, and legal addresses of foreign enterprises. In 2004, the Chinese central government issued the *Decision of the State Council on the Reform of the Investment System*, which defined that local governments had the approval authority for encouraged and permitted projects less than USD 100 million in total investment (including capital increase) and restricted projects less than USD 50 million in the Catalogue for Guidance of Foreign Investment Industries. In 2010, the State Council issued the "Several Opinions on Better Utilizing Foreign Investment", proposing to "create a more open and optimized investment environment to comprehensively improve the level of utilizing foreign investment", and further decentralized the approval authority of projects of encouraged and permitted types under the Catalogue for Guidance of Foreign Investment Industries of less than USD 300 million to relevant departments of local governments. During this stage, China's foreign investment maintained a steady growth. China's actual use of foreign capital increased from USD 55.01 billion in 2002 to USD 111.2 billion in

6 China's State Council first issued the Catalogue for the Guidance of Foreign Investment Industries in 1995. The Catalogue, updated every 2-4 years, provides interpretations and detailed implementation rules regarding the directions of foreign investors. It lists out industries that are "encouraged", "restricted" and "forbidden" by the Chinese government for foreign investment.

2012, with the compound annual growth rate of 7.8% and the average annual use of foreign capital amounting to USD 80.08 billion (Liu, 2019).

Third, China unified the taxation of domestic and foreign enterprises. The *Corporate Income Tax Law* that came into effect in January 2008 stipulated that the same tax rate applied to the corporate income tax of foreign-invested enterprises and domestic enterprises. The income tax thereby was integrated, with the tax rate adjusted to 25% and the collection and management of income tax for domestic and foreign enterprises unified and standardized. In 2010, the State Council issued the *Notice on Unifying the Urban Maintenance and Construction Tax and the Educational Surcharge System for Domestic and Foreign Enterprises*, stipulating that "regulations, rules and policies issued by the State Council and the Finance and Taxation Authorities concerning urban maintenance and construction taxes and educational surcharge system shall also apply to foreign-invested enterprises, foreign enterprises and foreign individuals". Since then, foreign-invested enterprises have no longer enjoyed special tax incentives and the tax policies applicable to domestic and foreign-funded enterprises were basically unified.

Fourth, China reformed the monopoly industries. China reformed and reorganized industries such as telecommunications, electricity and civil aviation, and gradually opened up the access to areas such as finance, petroleum, power, railway, resource development, public utilities and medical care, pensions, education and culture. China also relaxed market access for the non-public sector of the economy and allowed non-state capital to enter sectors such as infrastructure and public utilities. During this period, the private sector developed rapidly.

Fifth, China improved government service efficiency. The Chinese government continued to push forward the reform of government functions and institutions, making it clear that government functions were macroeconomic regulation and control, market regulation, social management and public service. In 2008, China restructured central ministries and merged organizations with similar functions and overlapping responsibilities. China was also committed to improving the investment environment and investment services, making it easier for investors to handle approval procedures. Many local governments also provided "one-stop approval" through setting up foreign investment service centers or promotion centers. China also established investment promotion and attraction institutions to guide investment promotion, organize and implement domestic and foreign investment promotion activities and strengthen connections with overseas counterparts.

China's use of foreign capital

from **USD 55.01 billion** in 2002

to **USD 111.2 billion** in 2012

annual increase **+ 7.8%**

▸ 3.4 Fourth Stage (2013 to present): systematic reform of the business environment by implementing "Fang Guan Fu"

By 2013, China's market economy further developed and the market was playing a decisive role in resource allocation. Nevertheless, the market rules needed to be continuously improved. For example, at the beginning of 2013 when the new term government was established, there were still more than 1,700 administrative items (such as qualifications for vehicle sellers, licenses for price assessor and property manager, and certification for business human resource strategist) that needed to be approved by the State Council or its ministries and agencies, with complicated procedures.

In this context, the central government initiated the "Fang Guan Fu" reform as key measures to change the role of the government, improve the business environment and revitalize market activities. The "Fang Guan Fu" aims to redefine the relationship between the government and market through deregulation, streamlined administrative procedures and improved public services, so as to remove the institutional barriers for a better business environment and sustain economic development. "Fang" refers to reducing regulation and micro-management by the government, and effectively lowering market entry barriers; "Guan" means reforming regulation system to promote fair competition; "Fu" includes better services responding to the real needs of the business.

In general, reforms during this stage took "three steps". The first step focused on "Fang Guan Fu" and piloting; the second step was to index and standardize the reform while also emphasizing the importance of local contexts; and the third step focused on institutionalization based on previous experience and lessons. Through this reform process, there have been great improvements and outcomes in China's business environment, measured by the World Bank's Doing Business indicators. China, for instance, is now ranked among the global leaders in terms of getting electricity and contract enforcement, ranked the 12th and the 5th place respectively worldwide. The reform has stimulated market vitality. For example, the number of various market entities had more than doubled from 2013 to 2018, exceeding 101 million, including 76 million individual industrial and commercial households (Li, 2019).

The reform also led to a wave of entrepreneurship and innovation and contributed more than 2/3 of the total newly-increased employment, amounting to 44 million from 2013 to 2017 (Li, 2018). Trade and investment facilitation were also promoted, especially through first piloting many of the reform measures, such as the negative list management system in the newly-established free trade zones.

from 2013 **101+ million** to 2018

market entities

First step: launching the "Fang Guan Fu" national reform initiative to delegate power, streamline administration and optimize government services.

In May 2015, the Chinese government convened the "National Teleconference on Streamlining Administration, Delegating Power, Strengthening Regulation and Improving Services to Deepen Administrative Reform and Transform Government Functions", marking the initiation of a series of reforms. The meeting emphasized that "deepening administrative reform and transforming government functions are strong driving forces behind, and an important guarantee for, development" (State Council, 2015). Through streamlining administration and delegating power, combining power delegation with effective oversight and improving service all in a coordinated manner, the reforms aim to cultivate a law-based, innovative, clean and service-oriented government at a faster pace, encourage mass entrepreneurship and innovation, and give full play to the initiatives of governments at the central and local levels.

Delegating power and streamlining administration

The first was to reform the business registration system and advance the pilots on "separation of operation permits and business licenses"[7]. As early in December 2015, the State Council agreed to implement the pilot reform of "separation of operation permits and business licenses" in Shanghai Pudong New Area. The reforms include, among others, a new mode of registration for business license (to register business license for general business and operation, and then to apply for related permits of particular business); simplification of permits (direct cancellation of approval, replacing approval with filing for record, and simplification of authorization); and consummation of services for permits (notification-to-commitment for one-time application-to-approval onsite, procedure optimized and working days decreased). The purposes are to substantially reduce institutional transaction costs for enterprises, bring the market's vitality into full play and speed up the work on administration streamlining. Compared with 2016, in 2017, the number of new enterprises in the Pudong New Area increased by 29 percent as the time and procedures for registration were greatly cut, and the application and approval for licenses and permits for construction companies, which now could be made online, increased by 144 percent (Miu, 2018). In 2017, the State Council expanded the reform to a larger scale, replicating the pilot policy in Shanghai Pudong to 10 other free trade zones in Tianjin, Liaoning, Zhejiang, Fujian, Henan, Hubei, Guangdong, Sichuan, Chongqing and Shaanxi. In 2018, the State Council pressed for the reform nationwide. Through such reforms, more market entities were able to operate when they obtained the license, solving the problem of "being allowed to access but not allowed to operate". The time for opening business was reduced to less than 5 days. The duration for examining and approving engineering construction projects was shortened to less than 120 working days from more than one year (Li, 2020). Reform of "combining multiple business credentials", which integrates items related to information collection, record and publicity, management for future inspection into the business license, also enables the market entity to carry out general business operations with the business license alone and achieve a lot of marketing activities using "only one certificate and one barcode".

The second was to deepen the reform of the administration examination and approval system and to reduce unnecessary constraints on enterprises. In November 2013, with regard to examination and approval of investment, China proposed to explore the management mode of "pre-admission national treatment + negative list" for foreign investment[8], unify laws and regulations on domestic and foreign investment, speed up the negotiation and signing of investment agreements, reform approval system for foreign-related investment, expand investment access, build the Shanghai Pilot Free Trade Zone[9], and expand opening up of inland and bordering areas. These measures constitute the top-level design for the use of foreign funds in the new era. In May 2015, the Chinese government issued the "Several Opinions on Building a New System for an Open Economy", making comprehensive arrangements for the innovation of foreign investment management system. In October 2015, the State Council issued the "Opinions on Implementing the Negative List System for Market Access" and decided to accelerate the implementation of the negative list system. In March 2016, Tianjin, Shanghai, Fujian, and Guangdong were selected as pilots for implementing the negative list system. The 12 free trade zones also actively explored innovation on foreign investment management. The Shanghai Free Trade Zone issued the first negative list for foreign investment in 2013 in China. By 2018, the list

7 The business license is a legislative document issued to market entities on the premise of meeting certain requirements and fulfilling verification of business capacity in accordance with related regulations and legal proceedings; the operation permit is a credential issued to specific market entities whose business operations call for attainment for both the business permit and license.

8 The Negative List means that any company can operate business activities that do not appear on the negative list and foreign investors will be treated no less favorably than domestic investors by registering enterprises, going through the formalities of approval and filing, obtaining industry permits, etc. The negative list system is formulated and issued by the State Council, following the principles of rule of law, security, gradualism, and openness. Different authorities with the responsibilities of granting market access first propose the list of activities that are prohibited or require prior government approval to the National Development and Reform Commission and Ministry of Commerce, which will then review, integrate and submit for approval of the State Council.

9 For a snapshot of the comparison among different development zones in China, please referred to Swiss Business Hub China (2016), available at www.iberchina.org/files/2016/development-zones-china.pdf

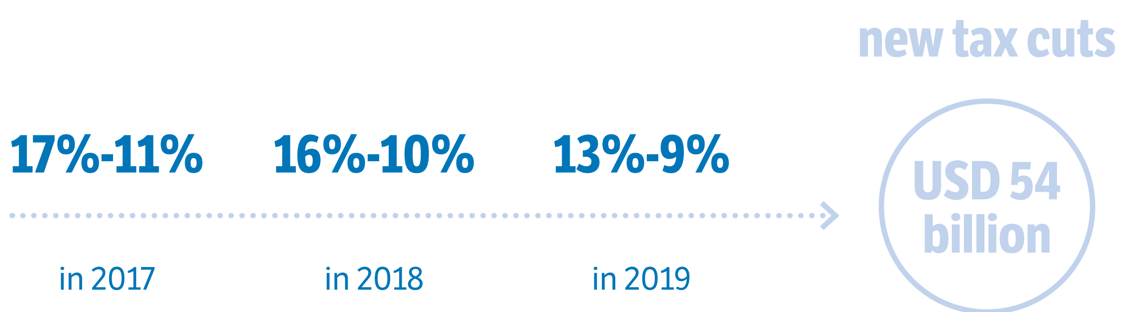
was revised for four times and the items were reduced from 190 to 45. The negative list management mode of pilot free trade zones was promoted nationwide.

In addition, China took measures to clean up and standardize investment project approval matters, downsize professional qualifications and certification matters, reduce industrial product production licenses, and reform the approval system for engineering projects. For example, in 2016, the Chinese government released the "Catalogue for Investment Projects to be Approved by Government (2016 Edition)", making it clear that projects not included in the Catalogue need just to be filed for record. The Ministry of Human Resources and Social Security (2017) has cancelled 434 vocational qualification permits and certifications in seven batches, reducing the proportion by 70%. The latest "National Vocational Qualification Catalogue List" published in September 2017, with a total number of 140 items, requires that no additional occupational license and certification items outside the list should be set up, reducing the burden on talents and institutional costs. China also piloted reform of approval system for construction projects in 15 cities and Zhejiang Province, with the goal of reducing the approval time from the current average of more than 240 working days to 120 working days. Such goal was achieved in 2019 nationwide.

The third was to release the dividends of tax reduction policies. China continued to implement the reform of "cutting taxes and administrative fees" to reduce the cost of enterprise production and operation. In May 2016, the State Council decided to implement the reform of "replacing business tax with value-added tax (VAT)". According to rough calculations by the Ministry of Finance and the State Administration of Taxation, the cumulative tax cut in one year amounted to nearly 700 billion RMB (about USD 100 billion) (Xinhua, 2017). China fulfilled the expected goal of reducing and not increasing the tax burden of all industries. In 2017, the State Council launched six tax reduction measures, including expanding the scope of small and low-profit enterprises that enjoy corporate income tax concessions and, increasing the pre-tax deduction of R&D expenses for small and medium-sized technology enterprises. According to estimates by the Ministry of Finance, the new tax cuts in 2017 exceeded 380 billion RMB (about USD 54 billion). China reduced the VAT rate from 17%-11% to 16%-10% in 2018 and further to 13%-9% in 2019. Starting from January 2018, the State Tax Administration implemented a preferential treatment on the corporate income tax rate for Small and Thin-profit Enterprises (STEs). STEs meeting certain criteria would have their annual taxable income cut by 50% and be subject to a corporate income tax rate of 20% (State Tax Administration of China, 2019).

Other measures were also taken to reduce burden of enterprises and individuals. From April 2017, China cancelled 41 central administrative fees, 35 of which are related to fees levied on enterprises. According to data from the National Development and Reform Commission (2018), China reduced the burden of enterprises amounting to 500 billion RMB (about USD 70 billion) from 2015 to 2017. According to data from the Ministry of Human Resources and Social Security (2018), China reduced the social insurance premium rate four times since 2015. The overall social insurance premium rate dropped from 41% to 37.25% from 2015 to 2018, reducing costs about 315 billion RMB (USD 45 billion) for enterprises.

China's tax cut



Innovating supervision

China introduced an oversight model of random inspection and public release across the board (the so-called "double random and one release"[10]) and made operational and post-operational oversight more effective. In order to regulate behaviors of market players and effectively address such issues as willful inspections, disturbs by law enforcers and unfair law enforcement in some areas, the Chinese government promoted random inspection and regulated the interim and ex-post supervision starting from 2015. It put forward requirements from four aspects: formulating a list of matters for random inspections, establishing a "double random" checking mechanism, reasonably determining the ratio and frequency of random inspections, and improving the use of inspection results. In 2016, the State Administration for Industry and Commerce required that all inspections and checks shall be conducted through "double random" to reduce disruptions. With the strong promotion of the central government, "double random, one release" has become a routine inspection model. Different departments such as the National Development and Reform Commission, the Ministry of Transportation, Ministry of Ecology and Environment have all adopted implementation methods and the list of administrative matters. This has resulted in improved efficacy of supervision, including expanding coverage, increasing precision and transparency, as well as strengthening credibility.

China also combines top-down and bottom-up measures and uses new methods to improve supervision capabilities. In order to further improve supervision effects and reduce transaction costs for enterprises, the Chinese government explored a supervision model that combines law enforcement with social forces and proposed to deploy law enforcement in accordance with the principles of reducing bureaucracy, integrating teams, and improving efficiency. In terms of social supervision, the Chinese government, one the one hand, promotes industry self-discipline and leverages on the roles of industry associations and chambers in rights protection, certification, dispute settlement, and punishment dishonesty. On the other hand, the government also improves the incentive mechanism for public participation in supervision, forming a forceful mechanism for consumers to "vote with their feet", creating conditions to encourage consumers to actively report illegal business activities, and makes full use of new media and other means to collect major issues and opinions in a timely manner. For example, the State Administration for Market Regulation has established the National Enterprise Credit Information Publicity System and the National Platform of Consumer Dispute resolution to enable the public to understand credibility of enterprises and report illegal behaviors. In 2018, market regulation authorities received more than 11.2 million complaints and recovered economic losses of more than 3 billion RMB for consumers (State Administration for Market Regulation, 2018).

China has also given full play to the role of technology in regulation. In 2015, the Chinese government issued "Several Opinions on Using Big Data to Strengthen Services and Supervision of Market Entities", proposing to fully use the concept, techniques and resources of big data to strengthen the supervision of market entities for the entire life cycle. For example, big data supervision model has been established to conduct correlation analysis, understand behaviors, patterns and features of market entities, discover violations of laws and regulations, and improve the government's decision-making and risk-prediction capabilities. A credit blacklisting system was also set up to penalize firms that misbehave, in effect recruiting automated agents of the state to enforce their judgments.

Size of digital economy

from **20% of GDP** in 2011

to **33% of GDP** in 2017

10 The model comprises inspections of randomly selected entities by randomly selected inspectors and the public release of inspection results.

For example, if a court finds that a debtor owes money, its ruling, via the blacklist system, can stop them from buying a plane ticket or getting a loan. At the end of 2018, some 290,000 business executives were on the blacklist who are barred from some privileges including getting loans and buying houses. Judges decide who are blacklisted, and individuals can appeal to be removed once their issue has been rectified. As the law gets more reliable, administration gets simpler.

In the meantime, the Chinese government follows an inclusive and prudential approach in supervision, creating new drivers of business dynamism while safeguarding social interests. Supervision measures differ and suit the different time and location contexts, as well as are in line with the development of new technologies, new industries, new forms and new models to prevent possible risks. The Chinese government requires that targeted measures should be taken for supervising market entities of different risk categories. For example, China has tailored regulation to "Internet +" and sharing economy, which resulted in the emergence and development of the very popular APPs such as WeChat, Alipay, and ride hailing Didi Chuxing. The size of the digital economy has surged from 20 percent of GDP in 2011 to 33 percent in 2017, mainly driven by the integration of information and communication technology (ICT) with traditional sectors (Zhang and Chen, 2019).

In 2016, the Chinese central government outlined 10 major tasks to improve property rights protection, including strengthening the protection of economic property rights of various types of ownership; improving the legal system for equal protection of property rights; properly handling property rights cases formed in history; strictly regulating the legal procedures for the disposal of the property involved; prudentially grasping the judicial policies for handing property rights and economic disputes; improving the mechanism for the governments to fulfil their promises; perfecting the property expropriation system; strengthening the protection of intellectual property rights; enhancing various systems to increase the property income of urban and rural residents; and creating a good environment in which the whole society respects and supports the protection of property rights. Based on these, many departments and local governments have formulated and issued specific implementation measures. As a result, China's intellectual property regime has made significant strides over recent years. Damage awards for violations have continually increased in intellectual property litigation. The number of intellectual property cases increased at a rate of over 40 percent per year from 2017 to 2018 (Huang and Smith, 2019). In a survey conducted by the American Chamber of Commerce in China in 2018, 96 percent of respondents stated that China's enforcement of intellectual property rights improved (ibid).

Optimizing Services

Staring from 2015, the State Council paid special attention to simplifying or cancelling unnecessary procedures, proceedings and materials to improve services and make things more convenient and efficient for enterprises and the public. Local governments explored innovative measures to fulfil these goals, including "approval without meeting in person", "going to approval offices once at most", and "one single door and one portal"[11]. The Chinese government has actively pushed forward the Internet Plus government service model and vigorously promoted the "application with the ID number, acceptance through one window, and completing all the matters through one portal", aiming to build a convenient, fast, fair, inclusive, high-quality and efficient government service information system. In 2016, the State Council promulgated the "Guiding Opinions on Accelerating the Work of 'Internet + Government Services'" and the "Notice on Distributing the Guidelines for Building the Technical System of 'Internet + Government Services'", proposing overall requirements in terms of standardizing online service items, optimizing online service processes, innovating online service model, and promotion of integration of service centers & facilities and online platforms. The Internet+ government services has brought convenience to enterprises and individuals, and stimulated market vitality. For example, before the introduction of an integrated online-offline one-stop public service system in Shanghai, one had to apply to four government departments to get approval for opening

11 "One single door and one website" means that the government integrates all government approval and services into one building and/or one website.

a restaurant. The process would take 58 working days and need submission of 31 documents. With the new system, only 12 documents are needed at one stop and the process takes only 10 working days (Ji, 2020).

In recent years, the Chinese government carried out three surveys nationwide on the construction of the information and content of government websites, government service system, and the Internet government service platforms. While acknowledging the progresses in terms of optimizing government services and increasing transparency, these surveys also identified existing problems in China's e-government services, including imbalanced regional development, lack of information-sharing and cross-departmental coordination, incomplete platform functions, matters not synchronized online, as well as unsatisfying services. All concerned localities were then required to take measures to rectify such issues.

The Chinese government also aims to improve services for entrepreneurship. In June 2015, the State Council issued "Opinions on Several Policies and Measures for Vigorously Promoting Mass Entrepreneurship and Innovation", to unleash people's ingenuity and power. Starting from 2016, the Chinese government centered on creating new engines, and coordinating the industrial chain, innovation chain, capital chain and policy chain to promote innovation in organization and service. A number of innovation demonstration bases and supporting platforms have been established. The Chinese government also supports the establishment of public service platforms and service institutions for SMEs through means such as government procurement, grant and awards. These platforms and institutions provide SMEs with a full range of professional and high-quality services, from financial consulting, human resources, marketing, legal counsel, intellectual property, quarantine and testing, modern logistics and other third-party services. A study, conducted by the Development Research Center (DRC) of the State Council in 2020, collected feedbacks from more than 1000 enterprises of various types concerning business environment in China finds that respondents expressed relatively high satisfaction about government services including convenience in start-up and taxes, reduction of taxes and fees, and standardization of services. The study also noted that greater improvements would be needed in tendering and bidding as well as financing (SCIO, 2021).

Second Step (2017-18): Using the Ease of Doing Business Indicators as the benchmark to push forward reform, while emphasizing local initiatives and contexts

Since 2017, China's business environment reform has become more systematic. China refined reform measures in line with the World Bank's Ease of Doing Business framework and put more focus on the whole process of business operations. In the meantime, due to the large differences in regional development, the central government has not set up a universal reform template for all regions. Instead, it emphasized adapting measures to local circumstances on the basis of satisfying basic requirements. In 2018, the Chinese government established a coordination group to promote the transformation of government functions and "Fang Guan Fu" reform, under which a special group to optimize the business environment was set up to formulate and implement relevant policies. Emphasis was put on market entry, supervision and law enforcement, service efficiency as well as evaluation mechanisms.

Beijing and Shanghai have become the benchmarks of reform. The two places took the opportunity of the World Bank's business environment assessment, closely followed the 10 indicators of Ease of Doing Business. In Beijing, intensive business regulatory reforms were conducted, focusing on "streamlining administrative procedures, reducing transaction time and costs, and increasing transparency". In 2018, Beijing released a "Three-Year Action Plan to Further Improve Business Environment in Beijing (2018-2020)", outlining the city's business reform agenda and listing 298 reform tasks with a phased implementation roadmap. Beijing launched the first Business Environment Reform Schemes in 2018 to cover reform tasks in line with the 10 areas measured by the Ease of Doing Business, including starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. In terms of starting a business, through measures such as the establishment of district-level enterprise startup halls, and the promotion of "full-process electronic registration", Beijing reduced the 7 steps required for business start-up to 2 and the processing time was shortened to 5 days from 24 days, a reduction of nearly 80% (Dong, 2018).

In dealing with construction permits, the Beijing Municipal Government established the "multiple regulations in one" collaborative platform for pre-communication and pre-coordination, streamlined approval preconditions, implemented classified management, and built working mechanisms such as "joint examination of multiple drawings" and "integration of multiple verification". These efforts have shortened the time line for handling social investment construction projects from 109 working days to less than 45 working days (Dong, 2018). Regarding access to public facilities, public service companies such as water, electricity, gas, heat and communications have all set up branches in government service halls to promote "one-stop" services. In terms of property registration, Beijing took the reform of "one window acceptance", promoted "Internet + real estate registration", and simplified housing transaction procedures. As a result, the time limit for house purchase qualification review was shortened to one day and the time limit for registering real estate was shortened from 10 days to less than 5 days (Dong, 2018). On tax payment, Beijing government formulated a list of tax matters for "going to the tax authority once the most". That is, taxpayers can handle the list items online or only need to go to the tax authority one time.

Shanghai has also accelerated its business environment reforms. Following a city-wide meeting at the end of 2017, business environment reform became the top priority of Shanghai Municipal People's Government. Shanghai established a joint meeting for serving enterprise and launched the "Shanghai Enterprise Service Cloud[12]" to provide enterprises in the city with services such as business startup, technical innovation, intellectual property rights, human resources as well as investment and financing. The Service Cloud also has a specific column on comments and suggestions. Shanghai also launched a "Single Window Portal[13]" for administrative approvals across all agencies and districts in the city in 2018. Previously, administrative applications needed to be made separately with respective agencies within different districts of the city. The "Single Window Platform" enables all the administrative approvals once through the platform.

The platform has connected the business management systems of 49 agencies supported by Shanghai Big Data Center and provides guidance for applicants based on more than 110 specific business types. The column of "Business Environment Improvement" within the platform provides specific guidance on the different indicators of the Ease of Doing Business, such as investment project online approval. The platform also provides other services such as guide for foreigners in Shanghai and business service cloud, covering almost

Beijing business regulatory reforms

	business start-up		handling social investment construction projects	
	from	to	from	to
steps	**7**	**2**	**109**	**45**
processing time (days)	**24**	**5**	*(working days)*	

12 The cloud service platform can be accessed at http://www.ssme.sh.gov.cn/

13 The Single Window Platform can be accessed at http://zwdt.sh.gov.cn/govPortals/index.do

all types of services possibly needed by the business community. Based on the "Single Window Platform", Shanghai Municipal Government also opened hotline (12345), integrated computer and mobile portal entries for government services such as "China Shanghai", "Shanghai Release" and "Citizen Cloud". Shanghai also leveraged the World Bank Group's technical assistance and absorbed 24 policy recommendations. Its first Business Environment Reform Schemes in 2018 put in place more than 40 reform tasks and policies and 20 online administrative processing systems.

Box 1: Tesla's Investment in Shanghai

Tesla's USD 5 billion Gigafactory is one of the largest foreign manufacturing projects in Shanghai. In order to accelerate the implementation of the project, the relevant Shanghai government authorities have simplified many approval items and optimized services. The project was agreed and signed in July 2018, and the construction commenced in January 2019. All procedures were completed within less than half a year. In August 2019, Tesla's Gigafactory (Phase I) received the comprehensive acceptance certificate. From submission on the afternoon of August 16 to the completion of acceptance on August 19, it took only three days to obtain the certificate, and only 10 months after signing the land transfer contract. In October 2019, the State Grid Corp of China opened the first transmission line in a power connection project that increased electricity supply to the Tesla plant to a level required for preliminary production. The project, involving 55 kilometers of cables and about 16.7 kilometers of ducts, was among the quickest it has completed, taking only 168 days (Xinhua, 2020b).

At the national teleconference on deepening the reform of "Fang Guan Fu" in June 2018, Chinese Premier Li Keqiang required to take more practical measures to push forward business environment reform. One is to unleash market vitality through streamlining administration and delegating power. Specific requirements include shortening time limit for starting business to 5 working days, cutting half the approval time for the entire process of engineering and construction projects and the time for import and export custom clearance, implementing the unified "negative list" on market access nationwide, and further reducing taxes and fees. The second is to ensure fairness and order through innovating supervision. China will build a new-type supervision mechanism that relies on "double random and one release", supplemented by supervision on key sectors, and supervision based on credit. China will promote cross-departmental joint supervision and "Internet + supervision", implement inclusive and prudent supervision on emerging industries, and hold government officials accountable for inactions and misbehaviors. The third is to optimize service to improve convenience and quality of service. China will continue to carry out the reduction of certificates. The time for real estate registration and getting electricity should be reduced by more than two-thirds on average. "Internet + medical treatment" and "Internet + education" should be developed to provide fair and accessible public services. With the guidance of the Conference, different provinces and municipalities have also taken initiatives to improve their business environment. A slew of good practices have emerged across the country (See Box 2).

According to the UN E-Government Survey 2020[14], China's E-Government Development Index (EGDI)

14 The survey is published by the United Nations Department of Economic and Social Affairs (DESA) every other year and is the only global report that assesses the e-government development status of all UN member states.

increased from 0.6811 in 2018 to 0.7948 in 2020, an advance of 20 spots to 45th in the world. In terms of online service index, which is a measure for online government service delivery and a key indicator for e-government development, reached 0.9059, the ninth highest in the world (DESA, 2020). The report also noted that e-government development in China has optimized the business environment, brought convenience to enterprises and people, and stimulated market vitality and social creativity.

China's EGDI

from	to
0.6811	**0.7948**
in 2018	in 2020

Box 2: Practices of Optimizing Business Environment in Other Parts of China

Jiangsu Province: As a major province in manufacturing and real economy, Jiangsu draws on the assessment method of the World Bank's Business Environment Report and evaluates the business environment of 13 cities, 96 counties and districts and 127 development zones under the jurisdiction of the province. Jiangsu has vigorously promoted the reform of "approval without meeting in person", featuring online processing, centralized approval, joint review, regional evaluation, agency system and "no need to be physically present". All cities and counties in the province have issued relevant reform plans and lists. Jiangsu has also established a scientific and effective ongoing and ex-post oversight system, strengthened cross-departmental joint supervision, and achieved "one inspection and comprehensive in-person examination", so as to effectively reduce the burden on enterprises.

Zhejiang Province: Zhejiang has leveraged the reform of "no need for a second visit" to force various departments to delegate and control power, build a service-oriented government, and create a sound government environment conducive to entrepreneurship. Great efforts have been made in terms of processing matters at a single window and within a specified time, as well as online approvals and services. Governments of different levels have established online approval and supervision platforms for investment projects. Zhejiang has also carried out in-depth reform of business system to build a market environment with equal rights, equal opportunities, and equal rules for enterprises. Measures include digitalization of business registration process, "integrating multiple certifications and licenses into one consolidated business license, and establishing mechanisms for joint handling of business licenses" for different fields and sectors, adhering to the principle that "areas that are not on the lists shall be deemed fully open" and implementing a negative list approach to market access, and abolishing any regulations and methods that hinder unified market and fair competition. In addition, Zhejiang has also successively issued policy documents to fully open public projects that can adopt market-oriented operations to private capital, including engineering, energy, water conservancy, agriculture, transportation and other fields.

•••

Anhui Province: Anhui Government Service Platform has achieved full coverage of the five-level governments from province, cities, counties, townships to villages. It has opened 58 windows for provincial departments, 16 branches for city governments and 123 branches for county governments, extending to 1,529 townships and 17,664 villages and communities. The provincial government has disclosed all government service matters online and provide online processing services. Individual with their ID card and legal person with the unified social credit code across the province could handle the service matters online. The Platform has thereby played important roles in improving the business environment and facilitating business matters and entrepreneurship. In the meantime, Anhui has formulated the list of government service matters and the list of implementation. The list of government services includes 2,628 standardized items, unifying titles, categories, bases and codes across different levels of government. The list of implementation details and unifies 20 factors such as reporting conditions, materials, and time limits for handling, and includes 1.596 million guidelines and instructions for citizens to handle their matters. Moreover, the Platform not only connects 17 provincial departments and 19 business systems, covering housing construction, transportation, industry and commerce, taxation, food and pharmaceutical supervision, but also links with the national platform to enable sharing of information regarding enterprises, institutions and education of individuals across the country.

Chongqing Municipality: The Chongqing Municipal Government has comprehensively sorted out administrative powers and public service matters and formed a unified, standardized and complete directory list. Chongqing has also established an information resource sharing portal across the municipality, which is connected with more than 60 municipal departments. The portal facilitates the flow of large amount of information and reduces the burdens of citizens. In October 2019, Chongqing opened one-stop platform for government policies to enable sharing of easy-to-understand and useful information. Chongqing also implements a negative list system for market access, clears and abolishes documents that hinder a unified market and fair competition, and promotes the construction of a social credit system. A “red and black list” system for credit is established to create an environment that one discredit may lead to restrictions everywhere. Chongqing carries out special supervision on government integrity and rectifies the problem of “new officials ignoring old problems” to fulfill government promises in accordance with the law. Chongqing is also committed to intellectual property rights protection and conducted “Iron Fist” enforcement actions. In addition, Chongqing reduces the electricity prices for the general industrial and commercial enterprises by another 10%, the average broadband tariff for SMEs by 15%, the average mobile network traffic tariff by more than 20%, and the compliance costs for the import and export of containers by more than 100 US dollars. Based on the big data on credit, Chongqing has also launched “Knowledge Value Loans” and granted credit loans of more than 20 billion RMB (about 3 billion US dollars) to more than 50,000 SMEs (Chongqing Municipal Development and Reform Commission, 2020).

Step 3 (Since 2019): To deepen reform comprehensively by focusing on institutionalization

Starting from late 2019, China has shifted efforts in business environment reform towards institutionalization to scale up early beneficial experience and consolidate reform results. The milestone is the promulgation of the Regulations on Optimizing the Business Environment (hereinafter referred to as the "Regulations") by the State Council in October 2019, aiming to improve institutions and mechanisms to address the prominent shortcomings of the business environment as well as the difficulties and challenges reflected by market entities. The Regulations sum up the experiences and practices of optimizing the business environment in recent years, and solidify, in the form of legislation, the reform measures that have proven to be effective, the people are satisfied, and the market players support. These include: specifying the principles and directions such as marketization, rule of law and internationalization; putting emphasis on the profound transformation of government functions, innovation of institutions and mechanisms, enhancement of collaboration and joint actions, as well as improvement of legal guarantees; and detailing specific measures in terms of providing equal protection to all market entities, protecting market entities' managerial autonomy, property rights and other legitimate rights and interests, implementing a national integrated online government service platform, standardizing administrative approval services regarding the faster establishment of enterprises, equal market access, solid implementation of tax and fee reduction policies, and easing financing difficulties, as well as improving regulatory rules and standards in cutting red tape, streamlining administrative approval, and improving supervision and administrative law enforcement.

In the meantime, the Chinese government issued a newly-revised "Market Access Negative List (2019 Edition)" in October 2019. Regarding the negative list of foreign investment, China issued the "Special Administrative Measures for Foreign Investment Access (Negative List)" in 2018, greatly relaxing market access, reducing the items of the list from 63 to 48, and introducing liberalization measures in 22 areas[15].

Moreover, the judiciary is also actively participating in the business environment reform process. The Supreme People's Court (SPC) issued judicial interpretations related to the business environment in 2019, including amending provisions on extending the time limit for trial and postponing the hearing for civil and commercial cases, and enhancing the overall insolvency framework by further clarifying creditors' rights, streamlining insolvency procedures and increasing transparency. The SPC has given full play to its judicial

Market Access Negative List (2019 Edition)

negative list of foreign investment

from **63** to **48**

liberalization measures

22 areas

15 For detailed content of the Special Administrative Measures (Negative List) for Foreign Investment Access in Pilot Free Trade Zones (2018Edition), please see http://www.chinadaily.com.cn/specials/NegativeListinFTZs(2018Edition).pdf

functions through judicial interpretations and judicial policies, intensified work in judicial execution and bankruptcy, and deepening of judicial system reforms to provide strong judicial services and guarantees for creating a stable, fair, transparent, and predictable business environment. Other work by the courts in optimizing the business environment includes protecting property rights and the legitimate rights and interests of entrepreneurs in accordance with the law, efficiently handling various commercial disputes, advancing the establishment of a bankruptcy trial system, and deepening the comprehensive reform of the judicial system. The SPC also actively works with the Finance and Economics Committee of the National People's Congress, the Legal Work Committee of the Standing Committee of the National People's Congress and other departments to jointly promote a rule-based business environment. Through such measures, China has constructed a commercial legal system that is far more responsive to businesses. Bankruptcies and patent lawsuits, once rare, have risen fivefold since 2012. In 2019, Chinese courts accepted more than 480,000 intellectual property cases, nearly five times as many as they did in 2012, with some going to a new national court devoted to the area. Foreign plaintiffs won 89% of all patent infringement, according to Rouse, a consultancy[16].

The institutional measures of the State Council and the SPC mark the comprehensive deepening of China's business environment reform. China intends to consolidate the positive results of innovative measures at the institutional level and deepen institutional reforms to further reduce various costs in the course of business operations. More important, institutional changes can improve the confidence of business operations, remove concerns of enterprises, ensure equal market status of enterprises of different ownerships, and promote the transformation of government departments.

16 Xi Jinping is trying to remake the Chinese economy, The Economist, August 15th, 2020. https://www.economist.com/briefing/2020/08/15/xi-jinping-is-trying-to-remake-the-chinese-economy

4

Key Experiences of China's Practices in Optimizing the Business Environment

Currently, China has not directly estimated the economic impact of the business environment reform. However, at the city level, according to estimates by the Beijing Municipal Government, the business environment reform has directly saved companies up to RMB 3 billion (about USD 420 million) in operating costs from 2017-2018, enhanced the economic competitiveness of companies and promoted Beijing's economic growth (Li, 2019). Similarly, with the optimization of Shanghai's business environment, Shanghai newly established 6,168 foreign-funded projects, an increase of nearly one-third year-on-year, and attracted new actual foreign investment amounting to USD 1.8 billion, an increase of 10% year-on-year (Jiang, 2019).

China has adopted a gradual approach in improving the business environment over the past 40 years, largely in line with China's reform and opening up, including the following major features. First, China started with rural areas where the planned economic system was relatively weak, and then gradually moved to cities. Second, China first piloted many reforms related to business environment in the southeast coastal region, and expanded to a wider range of costal, border and inland areas after obtaining experience. This included setting up SEZs, economic and technological development zones, and high-tech zones, concentrating limited resources in building infrastructure in these zones, and implementing one-stop services. Third, China adopted policy adjustments such as decentralizing power and concession to state-owned enterprises (SOEs), and then developed non-public economic sector to force SOEs to deepen reforms. Fourth, China first implemented "dual-track system" in price reform for a period of time, and then conducted market reforms after gradual integration. Fifth, China started reforms in the micro areas such as expanding the autonomy of enterprises, and then expanded to macro-level, such as ownership reform. Sixth, the reform first focused on economic system, and then gradually extended to other areas, such as social development and governance.

Meanwhile, the competition between localities has formed an incentive-compatible mechanism for institutional competition. The central government has delegated large amounts of administrative powers and economic resources to local governments, mobilizing initiatives at local levels. In order to compete for foreign investment and private capital, many local governments took initiatives to innovate reform methods and means, and adopted institutions and mechanisms suitable to local contexts to attract resources. These initiatives include streamlining approval procedures, improving public services such as the “one stop” electronic service, and reducing transaction costs. The competition among localities also pushed local governments to increase investment in infrastructure. In essence, the competition among Chinese localities is about business environment, institutional reform and policy innovation. Nevertheless, it should be noted that competition between localities has also led to ignorance of tasks that are not directly growth-enhancing in the early stages, surge of government debt, as well as regional protection (Xu, 2010).

Experiment at local levels became an important means of “trial and error” for institutional reform, characterized by experimentation, assessment and adjustment. Most of China’s reform details in business environment were not designed in advance in a top-down manner. Instead, institutional innovations have been made in the process of continuous trial and error. In such context, negative unintended consequences are understandable, and experimentation and pilot at the local level and reform plans have been gradually refined and improved. One of the typical examples was the establishment of SEZs, which were designed to encourage foreign investment and industrial development without requiring the entire economy to be thrown open to market forces. Through scaling up local system innovations, China has greatly reduced the risk of advancing reform, and effectively weakened the forces opposed to reform. At the same time, the demonstration effects of local institutional innovations could also lead to spillover of reform knowledge. This was achieved through ways such as rotating officials in developed regions to work in less-developed areas or sending study groups to reform frontier areas to learn advanced experience, which also greatly reduced the cost of reform implementation.

Looking back, China’s most recent experience and implications may include:

1

Attention and leadership of top-level leaders. The Chinese government considers that optimizing the business environment helps maintain rapid economic growth and catch up with developed economies. Reform and optimization of the business environment are actually initiated, led and deployed by top-level leaders. President Xi Jinping emphasized the importance of business environment reform on multiple occasions, and made “creating a world-class business environment” an important goal of China’s further reform and opening up. From 2018 to 2020, the State Council regularly convened executive meetings to deploy the reform of the business environment, understand the latest developments, and propose new reform plans and key tasks. As mentioned above, the State Council and relevant ministries and commissions have issued a series of policy documents, covering various aspects of the business environment.

2

Encouragement of local policy experimentation. Under the instructions and overarching guidance of the central government, local governments adopted tailored reform policies according to local conditions. The central government has urged mega-cities like Beijing, Shanghai, Guangzhou and Shenzhen to be pioneers in business reforms. Great attention was also paid to summing up local experiences and scaling up. Starting from 2018, the National Development and Reform Commission conducted monitoring and evaluation on business environment in 22 cities to analyze existing problems and provide stimulus for reforms. In 2019, the assessment covered 40 cities. In July 2018, the State Council released a list of 28 local good practices on business regulatory reforms, covering six major areas, including streamlining approval procedures for business investment, making it easier for business set-up and operations, facilitating cross-border trade, innovating governance concepts and methods such as classified credit management and big data-based governance, providing high-quality public services, and promoting the "one portal, one-stop shop, and one-time" services[17]. In September 2019, the State Council made another decision to require all cities in China to refer to good business environment reforms adopted by Being and Shanghai, scaling up 13 reform measures to the rest of the country, covering starting a business, getting electricity, registering property, paying taxes, trading across borders, and enforcing contracts[18]. Furthermore, as stipulated in the *Degree on Optimizing the Business Environment*, local authorities are encouraged to take initiatives on their own and adopt differentiated measures to improve the business environment within the legal framework. Deviations and/or faults in local experimentation process, if reasonably justified, can be exempted from or alleviated of penalties.

3

Strong enforcement of the reform agenda. Governments at central and local level in China has strong organizational and implementation capacity. According to the World Bank's Worldwide Governance Indicators (WGI) project, the percentile rank of the effectiveness of Chinese government is 71.63 in 2019, far higher than 50.85, the average for other upper-middle income economies (World Bank, 2019). This is highly related to China's civil servant recruitment and personnel appointment system. Generally speaking, national and local leaders have rich professional and execution experience. Civil servants are selected and promoted based on China's long tradition of meritocratic examinations and strong performance supervision. China has established a result-oriented performance management system for government officials. The higher-level government sets specific targets for lower-level government officials, which are linked to the performance evaluation of civil servants. As for business environment reform, the State Council convenes a nationwide video and telephone conference annually on deepening the reform of "delegating power, streamlining administration and optimizing government services" to sum up the annual results and deploy the work plan for the next year. The central government formulates detailed programmes on division of labors, major tasks and timetables, and distributes them to governments of different levels. Every concerned government institution needs to submit written reports to the State Council on implementation progress, including major milestones and discussion of key challenges. Enforcement of business environment reform agenda has become an important component of performance evaluations of government institutions and public officials. Officials who made errors, misconducts or low performance were made accountable, while a number of officials who showed strong performance in implementing business environment reforms were awarded and/or promoted over the years.

Strong enforcement was also made possible through establishing multi-level and multi-stakeholder coordination mechanism. At the central level, the National Development and Reform Commission takes the lead in formulating investment environment reform strategies and coordinating in implementation, while the Ministry of Finance leads the reform agenda specifically focused on Ease of Doing Business. In July 2018, the State Council set up an inter-ministerial coordination group for the "Fang Guan Fu", with a vice premier as the group leader, two state councilors as the deputies, and ministers as members. Its major responsibilities are to coordinate the development and implementation of key reform policies, proposing the list of reform topics to be discussed at the State Council executive meetings, addressing key reform challenges in a coordinated way and providing guidance to local authorities. Under the leading group, there are five

17 General Office of the State Council,《国务院办公厅关于部分地方优化营商环境典型做法的通报》[Notice on Local Good Practices on Optimizing Business Environment]. http://www.gov.cn/zhengce/content/2018-08/03/content_5311523.htm

18 General Office of the State Council,《国务院办公厅关于做好优化营商环境改革举措复制推广借鉴工作的通知》[Notice on Replicating and Scaling up Good Practices in Optimizing Business Environment], http://www.gov.cn/zhengce/content/2019-09/19/content_5431319.htm

dedicated working groups focusing on administrative approval, business environment improvement, innovation and entrepreneurship, business system reforms, and public service enhancement respectively, and four supporting teams, including general support, legal review, inspection, and research and advisory services[19]. Similarly, at the local level, multi-level coordination mechanisms were also set up to regularly hold inter-departmental meetings, discuss reform tasks, implementation progress and challenges. Such coordination mechanisms ensure joint efforts and remove barriers for cooperation among different agencies.

Moreover, a top-down monitoring and evaluation system also helps ensure effective implementation of the reform agenda. The State Council conducts inspections every year to understand actual progress and challenges. In 2019, the State Council dispatched inspection teams led by ministerial officials to 16 provinces and municipalities to check reform progress in reducing taxes and fees, business environment reform and innovation promotion. Issues identified through such missions were delegated to relevant agencies for correction and underperforming leaders are disciplined and penalized. Annual joint inspections, which are usually carried out without a prior announcement and as a way of "checking by seeing and experiencing" on the site, are also conducted on the implementation progress around reform areas measured by Ease of Doing Business in Beijing and Shanghai. Third parties, serving as a more independent external superior, were also hired to carry out regular surveys of the public and business community on their satisfaction with and comments on business environment.

4

Private sector participation and intensive use of digital technologies and e-government services. In the process of business environment improvement, the Chinese government emphasized that reform should be centered around the real needs of the private sector. As such, there has been increasing awareness on consultation and collaboration with the private sector. In Beijing, Shanghai and other cities, the feedback of the private sector becomes a key factor in judging the quality of business environment. For example, in 2019, the Beijing municipal government organized 133 consultation meetings and more than 1,000 representatives from enterprises, the academia and other sectors shared their comments and recommendations. Different government agencies in Beijing also organized more than 1,900 information sessions in 2019 for firms, and professional agencies such as law firms, accounting firms and architecture studios to provide updates on new policies and get feedback. In 2019, Shanghai set up the first advisory committee on business reforms in the country, consisting of 24 experienced practitioners and experts from various sectors such as foreign-funded business association, academia and research institute, high-tech industry, medical industry, and information technology industry.

The Chinese government utilizes blockchain, big data and other digital technologies to integrate cross-agency services, reorganize public services around users' needs and communicate to the public. The wide use of online channels such as websites, social media, and mobile APPs has greatly improved efficiency and effectiveness. For example, the Beijing Municipal Government set up specific columns on business environment in its portal and launched a "Beijing Tong" mobile APP to handle public services. Such services are also made available on WeChat and Alipay, the two most popular multi-functional social APPs in China. Beijing has also taken advantage of digital technologies to set up a "catalogue block chain", linking responsibilities and data of 53 municipal agencies and allowing for timely and orderly sharing and reviewing of all the relevant data of connected agencies. Block chain technologies have also been used in specific areas like property registration, and business start-up. Courts in Beijing have also been increasingly using online system for case filing and processing. Since 2019, general cases can be filed online at the website of Beijing court or through the courts' account on WeChat APP. In the same vein, Shanghai started to establish a Big Data Center in 2018, responsible for integrating and sharing public service-related data across the city. With the support of the Big Data Center, Shanghai set up the

19 General Office of the State Council,《国务院办公厅关于成立国务院推进政府职能转变和"放管服"改革协调小组的通知》, [Notice on Pushing Forward Transformation of Government Functions and "Fang Guan Fu" Reform Coordination Group]. http://www.gov.cn/zhengce/content/2018-07/25/content_5309035.htm

first "single window portal" in the country, linking cross-agency government services across the city. In addition, Shanghai also launched a mobile APP with the same functions where registered users can visit service guidelines, make appointments, check progress and make complaints. Digitalization has also made filing taxes much more straightforward. When a business issues an invoice, a copy directly goes to the tax authorities.

5

Working with international organizations and learning from global experience. The World Bank provided important support to China in improving business environment, including analysis and research, knowledge exchange through workshops, meetings and study tours, sharing of international good practices, as well as recommendations on business environment reform. The Chinese government signed an MOU with the World Bank on Business Environment Reform in February 2018 to jointly conduct studies on indicators related to getting credit, resolving insolvency, obtaining construction permit, registering property, getting electricity, trading across borders and starting a business. The Chinese government and the World Bank have co-organized high-level international conferences on business environment reform to exchange experience and international good practices. High-level policy makers from Russia, New Zealand, Malaysia, Singapore, Japan, Korea and China attended these conferences. The World Bank also provided assistance to a delegation of Chinese policy makers to learn from successful reformers such as Singapore and Russia, and two delegations of top-level officials from China to Washington D.C. to discuss business environment reform practices. The World Bank has provided timely support and advice to the Ministry of Finance, the Beijing Municipal Government, and the Shanghai Municipal Government, including research methodologies, policy advice, as well as diagnostic reports on international good practices in business reforms for key regulatory areas and how they apply to China. Other international institutions such as UNDP, IMF also provided various support through different formalities.

5

Conclusions

Business environment is relevant for development because it is positively associated with a multitude of economic development externalities, including, among others, opportunities of employment, wealth creation and sharing, exports, as well as balanced economic and regional development. The Chinese government has paid consistent attention to building a market-friendly government since the reform and opening up in 1978. Over the recent years, the Chinese government has proposed a major reform package emphasizing decentralization, deregulation and improved services. Decentralization aims to delegate powers to local government and repeal government powers without clear legal grounds. Deregulation and regulation are promoted in parallel. Deregulation intends to retreat government from overmuch economic and social functions to establish market dominance in resource allocation and social autonomy. Negative lists, for example, are adopted in areas like investment project approval. Regulation aims to improve efficiency and effectiveness and reduce compliance costs through innovative means such as e-regulation. Service-oriented government intends to improve service quality and efficiency, for example by cutting red tape through one-stop shops. Such reforms have greatly helped improve China's business environment and stabilize China's economic growth in a very complex global environment.

Though China has made some progress in business environment reform, the Chinese government is clearly aware that past success does not guarantee future success. The improvement of the business environment is a continuous process. Within the framework of the *Ease of Doing Business*, China still lags behind other advanced countries and regions in areas such as getting credit, resolving insolvency, paying taxes and trading across borders and there is big room for improvement. The gap between other cities with Beijing and Shanghai is wide. Differences in fiscal expenditures between Beijing and Shanghai and other less-developed provinces like Gansu are huge[20], making it unrealistic to standardize public services to enterprises and individuals. China is also facing a wider range of institutional, economic and legal challenges, including data sharing among government agencies, improvement of the judicial system, further opening of the market, improvement of the quantity and quality of market entities' participation, and ensuring a level playing field. The centralized institutionalization reforms have led to abated incentives within the public sector. The measures mentioned earlier, such as power list, due process requirements, tougher accountability enforcement, and increasing citizen pressures, among other factors, have to some extent lessened enthusiasm in public sector jobs (Jing, 2020). The decline of incentives might affect the vitality of government regulation and services, and subsequently its competence. Citizen participation has been promoted but still limited in scope and channels. Social organizations are in general still small, young, and are organizationally affiliated to or financially dependent on government, uncapable of self-governing and co-governing public affairs (World Bank, 2020b). Going forward, it will be critical to sum up and replicate good reform practices in pilot places such as Shanghai and Beijing, and upgrade the institutional and regulatory frameworks to sustain the reform momentum in China.

20 For example, in 2018, the fiscal expenditures in Shanghai and Gansu were 835.1 billion RMB and 337.2 billion respectively, with the per capita value of the former 2.7 times of the latter (Jing, 2020).

Nevertheless, China's practices in optimizing business environment can have global implications, especially to many of the Southern economies. For example, though Africa has gone through unprecedented phases of economic liberalization and implementation of policies conducive to doing business conditions, the continent still face challenges in doing business, affecting the fulfilment of the Agenda 2063 and the 2030 Agenda for Sustainable Development. Such challenges include high costs of starting a business and doing business such as long procedures and complicated registration and licensing requirements, costs of getting electricity as well as procedures required for electrification, lack of access to finance and high taxes and low cross-border trade (Asongu and Nicholas, 2018). These are actually the challenges that China has been trying to confront with over the years. This paper has argued that the relevant success in optimizing business environment in China, measured by the World Bank's Ease of Doing Business, is driven by factors such as strong leadership and ownership of the reform agenda, effective implementation supported by a strong incentive and accountability system and robust multi-stakeholder coordination system at both national and local level, engagement with the private sector, and intensive use of new technologies in e-government services. Though the context may be very different, many of the specific practices of improving business environment in China might provide references.

Over the years, China's new role in the global development framework has created new dynamics of sharing development knowledge. China has gradually taken a more active role in international development cooperation, engaging more in international institutions and organizations, and providing regional and global public goods. The launch of the Belt and Road Initiative (BRI) has the potential to bring large benefits to partner countries and the world when transport costs are reduced through improved infrastructure. But in many cases, policy impediments are greater than infrastructure impediments. These include, among others, investment restrictions, custom delays, bureaucracy, red tape and corruption (World Bank, 2019). The clear point is that improving the investment climate is a necessary complement to investing in infrastructure.

As such, sharing and exchanging practices in improving business environment is of great importance. Such knowledge transfer can inform the design and implementation of business environment strategies in other Southern countries and promote international economic cooperation. China's foreign aid can play a more important and better role in this regard. Trainings, technical assistance and policy dialogues on business environment among government officials, think thanks and enterprises should be more encouraged and better supported. China could also incorporate a "knowledge" component in providing "hard" infrastructure assistance.

That said, it should be noted that when learning from and sharing China's experience, there is also the challenge of "institutional fit". That is, institutions and practices that work in one country may bring different results in other countries. As such, other countries, when referring to China's experience, need to fully consider their own contexts and conditions and design appropriate intervention measures and regulatory strategies. In providing specific reform designs (such as getting electricity, improving e-governance, SEZs, corporate governance, port supervision, etc.) and strengthening the capacity of policy makers and supervisors in other developing countries, China should also learn lessons from traditional donors and avoid supply-side dominance.

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