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How does the theory of government decentralization support the reform system of province directly manages counties (PDMC) in China?

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Abstract: This study investigates how the theory of government decentralization underpins the reform of the Province Directly Manages Counties (PDMC) system in China, addressing its challenges and proposing rational solutions. The research aims to explore the theoretical basis of PDMC reform to enhance local governance efficiency and optimize intergovernmental relations. The study employs a qualitative methodology, combining theoretical analysis with a review of relevant policy documents and case studies from provinces such as Zhejiang. The research reveals that while the PDMC reform has improved fiscal and administrative efficiency, it faces significant challenges, including mismatches between fiscal and routine powers, excessive management scope at the provincial level, and unclear intergovernmental responsibilities. By integrating the theory of government decentralization, PDMC reform can achieve better alignment of powers and responsibilities, fostering local autonomy and governance capabilities. The findings offer actionable insights for policymakers to refine the PDMC system, balance intergovernmental relations, and support sustainable local economic and social development.

Keywords: *China, PDMC, Theory of government decentralization.*

1. Introduction

As an alternative to the 'city governing counties' system, PDMC was established since 1990s. The reform system of PDMC is a readjustment of the relationship between cities and counties, and its original intention is to solve the various drawbacks under the 'co-government of cities and counties' and promote the development of county economy (Liu, 2023). It should be said that, judging from China's reform practice, this reform system does have a certain effect in promoting county economic growth.

1.1. Definition of PDMC

The meaning of PDMC is the basic prerequisite for carrying out relevant reform research work. The current theoretical circles mainly define the meaning of PDMC from three levels. The first level refers to the PDMC in a broad sense, and specifically refers to the 'provincial government directly implements comprehensive management activities on counties in political, economic, social, cultural and other fields' (Wei, 2021). The second level is the administrative PDMC, which is the sum of the activities that the provincial government directly manages the county in terms of personnel power, financial power, approval power, and economic and social management power (Liu, 2017). The third level specifically refers to the fiscal PDMC, that is, the provincial fiscal directly corresponds to the county fiscal in terms of fiscal budgeting and income division. At the same time, the provincial government uniformly delegated economic management powers such as financial transfer payments, fund scheduling, special fund subsidies, and debt management to a management system in the county.

Since the beginning of the century, some provinces and autonomous regions represented by Zhejiang Province of China have successively implemented a series of reforms of PDMC with the main contents of 'Expanding the Strong County's Power', 'Strengthening Counties by Expanding Powers',

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and 'The Province Manages the County's Finances'. 'strengthening counties and expanding power', 'expanding power and strengthening counties', and 'administration of county finance and province' (Cai, 2015) . Since 2005, China has successively issued a series of policy documents specifically aimed at this reform, marking them as a critical part of the country's local government reform initiatives (Li, Liu, & Zheng, 2016). It can be said that the reform system of PDMC has become an important part of China's local government reform.

1.2. Theory of Government Decentralization

Government decentralization refers to the process in which the central government transfers governance authority to local governments, markets, and society. Governance authority mainly includes two aspects: one is authority, that is, power and responsibility. The second is resources, that is, the human, financial, material and legal resources needed to perform rights and duties, among which financial resources are the most important (Baltsii, 2023) (Hanson, 2022). Specifically, government decentralization includes four elements: political decentralization, administrative decentralization, fiscal decentralization and economic decentralization (Baltsii, 2023). Political decentralization mainly refers to the decentralization of authority, which is usually achieved through electoral reform, reform of political party relations, and reform of the subjects and methods of political participation; Administrative decentralization mainly refers to the decentralization of all or part of the functional powers and responsibilities of regional governance to local governments.; Fiscal decentralization refers to granting local governments the power to increase legitimate income through the division of tax sources, transfer payments, etc.; Economic decentralization is mainly to authorize the market to solve problems that the market can solve. According to its scope, government decentralization can be divided into two types: 'external cause type administrative power redistribution' and 'internal cause type power redistribution' (Smith, 2023). The former refers to the relationship between the internal government system and its external system (market and society) of power collection and decentralization, also known as the 'first decentralization'. The latter refers to the relationship between centralization and decentralization within the government system, also known as the 'second decentralization', and the 'first decentralization' is the basis of the 'second decentralization'.

1.3. Relationship between Government Decentralization Theory and PDMC

The theory of government decentralization provides substantial theoretical support for PDMC in China. The theory of government decentralization underscores the significance of decentralization and autonomy of local governments, which aligns with the original intention of China's reform of the PDMC. Ensuring the autonomy of local governments through reasonable decentralization can facilitate the advancement of PDMC. The ultimate objective of PDMC is to achieve a lower level. The rationale for lowering the level is that local governments can meet the development and daily needs of economic development, people's services, etc. This is consistent with the theory of government decentralization.

In layman's terms, China's PDMC decentralize control and power at the provincial level and redistribute the powers of city and county governments that were originally superior to lower-level governments. This is a modular allocation of powers held by municipal governments to county governments, which involves fiscal and administrative decentralization. At the same time, the theory of government decentralization also explains why there are some problems in the current process of PDMC in China.

2. Problems and Challenges

2.1. Mismatch between Financial Power and Routine Power

The TSS of 1994 redefined the scope of routine powers and financial powers between the central and local governments. However, there were no unified provisions on the division of routine powers and financial powers between local governments at the provincial and sub-provincial levels.

When various localities implemented the tax-sharing system, they did not implement substantial reforms in this area. This resulted in problems with the transfer of routine power and the collection of financial powers, which in turn led to widespread financial difficulties at the grassroots level.

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At the municipal level, the routine power of each functional department at the municipal level covers the entire city's administrative region, but the financial power held by the municipal level is limited to the municipal district, resulting in an asymmetry between routine power and financial power (Pang, 2020). Some cities no longer control the county's economic funds, but are responsible for county public services and other matters, which will also lead to increased pressure on the city.

From a county perspective, after county-level PDMC in fiscal sector, financial resources and funds are settled and allocated by the province, but other administrative systems, such as personnel appointment and removal rights, are under the jurisdiction of the city. This inevitably means that the county level must not only seek financial resources, funds, projects, and policies from the provincial government and provincial finance, but also report work to the municipal government and strive for understanding and support (Shi, 2010). This also allows some cities in disguise to ask the county government to undertake more affairs that even exceed the county's own financial level. The systemic friction between mismatched finances and routine power leaves county-level governments at a loss as to what to do.

2.2. Excessive Management Scope of Provincial Governments

Excessive Management Scope of Provincial Governments Leads to Out-of-control Power in the process of PDMC, which is a prominent problem, resulting in low efficiency. The reform of provincial administration of counties has not achieved the transformation of the government hierarchy from a formal flattening to a substantive flattening (Bai, 2013). The provincial level bypasses prefecture-level cities and directly manages counties, which means reducing management levels and expanding management scope in terms of management system. In theory, this will help speed up communication, improve the authenticity of information, reduce management costs, and improve work efficiency. But the actual effect depends on the size of the management span.

Before the reform, a province only had to deal with relations with several subordinate prefecture-level cities. Although prefecture-level cities also compete and bargain for projects and financial support, it is relatively easy to coordinate due to the small number of prefecture-level cities. After the reform, the number of competitors at the county level increased and they directly participated in the competition for related resources. This means that provincial governments have to bargain with dozens of lower-level units at the same time, which not only consumes a lot of administrative costs, but also easily aggravates conflicts between lower-level governments and between superior and lower-level governments.

For county governments, excessive management scope will also increase administrative costs, and excessive management scope may affect the timeliness and quality of government services. Due to cumbersome decision-making procedures, local governments may be limited by time and resources when executing affairs, and are unable to provide high-quality services to the people in a timely and effective manner. Irregular use of power and corruption may even occur, which will have a serious negative impact on local economic and social development.

2.3. Unclear Intergovernmental Responsibilities

One of the current problems with PDMC is the change in intergovernmental relations, which has also led to unclear intergovernmental relations. For a long time, China's intergovernmental relations have suffered from the chronic problem that governments at all levels share power, share responsibilities, and have vague definitions of authority. Governments at the central, provincial, municipal, county, and township levels jointly manage a wide range of social affairs, so there is a lack of clear definition of intergovernmental relationships in the reform of PDMC. Affected and restricted by the lack of clear division of powers between governments at all levels, the issues of power, expenditure responsibilities, division of financial powers and allocation of financial resources between governments at various levels have not been properly resolved (Yu, 2022).

Cui Chentao and Wang Aijuan (2023) mentioned, according to the provincial sharing ratio of Henan Province in 2022 and the general public budget revenue base in 2019, the provincial ratio is not high, while Shenqiu County's fiscal sharing ratio is 50%, and Shenqiu County has insufficient financial resources and bears more power expenditures. Moreover, after the adjustment of the provincial and

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municipal and county fiscal systems, although the provincial government divides subsidies according to power and expenditure responsibilities, due to the large number of additional assessment items or historical livelihood projects clearly defined by local governments or industry departments, the power borne by the county is far higher than the provincial project expenditure needs (Cui & Wang, 2023). This is because the relationship between cities and counties is unclear, and the county government bears too much responsibility for the city government's financial expenditures.

This can also lead to tensions in intergovernmental relations. Some prefecture-level cities have decentralized part of their economic and social management authority during the reform, but the authority of some key interest departments has been tightly controlled (Meng, 2014). In the process of provincial administration of counties, there is also disharmony in the relationship between cities and counties to a certain extent. Because in this process, the city government is unwilling to delegate powers involving core interests.

After the implementation of the PDMC, in theory, the position of counties in the province is almost equal to that of municipal governments. There will be less exchanges between city and county governments, and it is difficult to obtain guidance from municipal governments in some aspects. Moreover, counties need to compete with city-level governments for limited resources. Counties are often at a disadvantage and cannot compete with city-level units most of the time. Because many powerful counties are in the city, counties do not dare to fall out with the city. Without coordination from the province, directly managed counties often fail to seize opportunities and receive much-needed resources. As a result, the relationship between the city and the county has become increasingly tense.

3. Recommendations

3.1. Power Matching and Effective Governance

Currently, proponents of the PDMC in China advocate for the decentralization of fiscal power and the subsequent implementation of decentralization of administrative power, contingent upon the completion of the aforementioned decentralization of fiscal power. This is the fundamental reason for the discrepancy between the distribution of power and the extensive jurisdiction of provincial governments.

The theory of government decentralization posits that the decentralization of power to different levels is necessary in order to facilitate the formulation of appropriate policies that are responsive to the specific needs of localities. The decentralization of fiscal power alone is insufficient if it is not accompanied by a corresponding decentralization of administrative power. Without sufficient administrative power, local governments will be unable to effectively utilise these resources. It can therefore be argued that the matching of power is essential to ensure the effectiveness of local governments in fiscal decision-making, resource allocation and policy implementation.

The Chinese government's decentralization of administrative power that matches the current fiscal power held by county governments is a theoretical solution to the current PDMC power mismatch between governments at all levels and the excessive jurisdiction of provincial governments.

3.2. Strengthening the Autonomy of Local Governments

In the theoretical framework of government decentralization, the enhancement of local government autonomy is regarded as a pivotal strategy for optimising governance efficiency and responsiveness to local needs. The theory posits that local governments should be afforded greater autonomy on the grounds that they possess a superior understanding of the issues and needs pertinent to their localities. This autonomy is primarily manifested in the decentralization of fiscal and administrative powers, thereby enabling local governments to devise and implement pertinent policies that are tailored to their actual circumstances and specific requirements.

With regard to fiscal decentralization, the acquisition of corresponding fiscal powers by local governments enables them to allocate funds and invest them in the areas that require the most urgent attention. The flexible utilisation of financial resources enables local governments to prioritise the urgent issues that concern the local population, thereby enhancing the quality of public services.

With regard to the issue of administrative decentralization, the provincial government confers upon the county government the requisite administrative powers, thereby enabling it to formulate policies

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independently and to utilise resources in a reasonable manner. The exercise of such power can facilitate the resolution of local issues and enhance the efficiency of local governance. Local governments are thus able to design and implement appropriate policy tools in accordance with the specific conditions prevailing in their jurisdictions, and to adjust their strategies in a timely manner in order to cope with changing social needs.

3.3. Responsibility and Accountability

The theory of government decentralization posits that the decentralization of power is not merely a matter of the level of power in question, but also encompasses the decentralization of the corresponding responsibilities. When local governments are vested with financial and administrative authority, they are held accountable for the prudent utilisation of financial resources and the outcomes of policy initiatives. Such a balance of power and responsibility facilitates the formation of a more effective accountability mechanism. This not only enhances the county government's capacity for effective management, but also has a beneficial impact on the quality of intergovernmental relations, due to the clarity of the division of power and responsibility.

The intergovernmental relations in the theory of government decentralization is a good response to this theme. How to achieve good intergovernmental relations is the key to this theme. In China, under the background of PDMC, only by changing the original city-county relationship to a level one can a relatively perfect cooperative government relationship be achieved. Because in the context of the PDMC reform in the fiscal sector, the municipal government controls most of the administrative power of the county government, so even if the county government has some autonomy in finance, it will also be "oppressed" by the municipal government. As a result, it will bear more affairs and responsibilities. This is not conducive to the development of the county government and the provision of public services to the people.

4. Conclusion

A significant number of the current challenges facing China's PDMC can be attributed to the failure to integrate the theory of government decentralization. The theory of government decentralization offers a significant theoretical foundation for China's PDMC system, underscoring the autonomy and accountability of local governments in policy formulation and implementation. By exercising a moderate degree of fiscal and administrative delegation, local governments can respond in a more flexible manner to regionally specific issues, thereby enhancing the relevance and efficiency of public services. The theory of government decentralization posits that greater autonomy for local governments will enhance their governance capabilities and facilitate more constructive interactions and trust-building with residents. This can facilitate improvements in the responsiveness and adaptability of policies, while also providing motivation for local governments in resource allocation and policy innovation. In the context of rapid economic and social change, the reform and improvement of the PDMC system must fully integrate the concept of government decentralization theory in order to achieve a balance of power between governments at all levels and promote the sustainable development of the local social economy. In light of the aforementioned, it becomes evident that the theory of government decentralization offers a valuable lens through which to comprehend and direct the actions of local governments, facilitate regionally coordinated growth, and attain superior standards of administrative management.

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