OPINION

China's red-tape problem may be tougher than Xi

Latest bold attempt to streamline government is unlikely to meet business expectations

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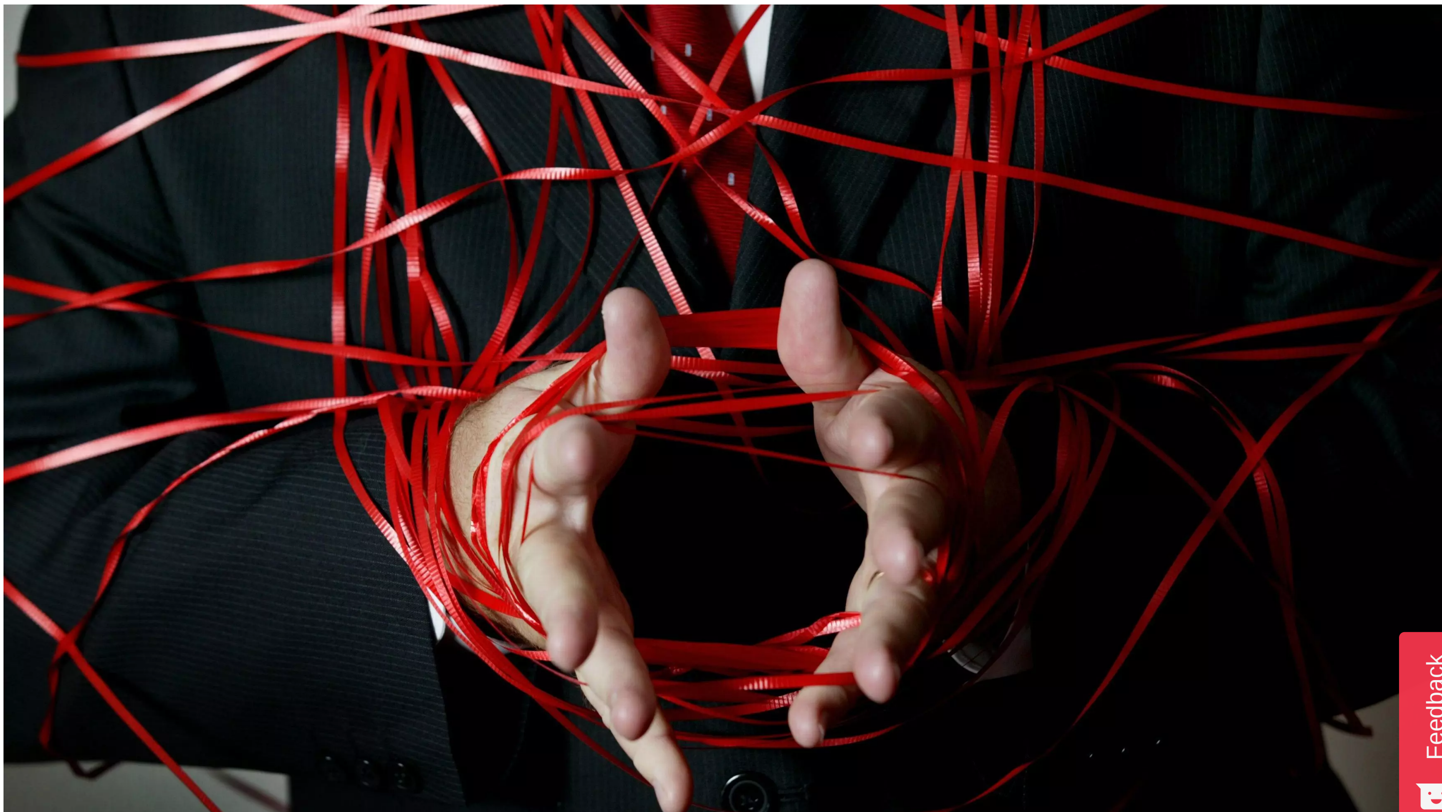

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On the face of it, the Chinese government's plan to slash bureaucracy and cut red tape should be a boon for hard-pressed foreign investors.

Even as U.S. President Donald Trump's threats to start a trade war -- and Chinese President Xi Jinping's readiness to retaliate -- risk making life much more difficult for overseas companies based in the Middle Kingdom, Beijing is rolling out a comprehensive plan to restructure government by merging ministries and reassigning roles to streamline the administration.

But foreign companies should not get their hopes up too high. The outcome of previous overhauls should make business people wary about how much conditions will actually improve. Bureaucratic red tape moreover cannot be directly correlated with counts of government agencies.

Premier Li Keqiang is doubtless sincere when he pledges to ease obstacles to business in general, with an eye toward supporting domestic industry's transition into advanced manufacturing and services. At least as a side-effect, this should produce some improvements in foreign businesspeople's dealings with the country's vast bureaucracy.

The administration's reorganization plan, approved by the National People's Congress in March, envisages a striking transfiguration of China's lumbering government with the official aim of making administration "more professional, accountable, and efficient."

But making life easier for business is hardly the prime motivation. Xi's main objective is to tighten the Communist Party's administrative control over state machinery.

Six ministries and two cabinet-level agencies are being eliminated. On paper, turf wars between ministries and agencies will end, duplication will be reduced, muddled lines of authority will be clarified and policy-distorting "regulatory capture" by industry and other interests will be tackled.

The simplification of government offers potential for improved economic efficiency and lower business obstacles. The splitting of responsibility for regulation, supervision and industry promotion, billed as a way to "prevent the abuse of power and reduce systemic risks" to the economy and political structure, is well-intended.

Responsibility for reviewing mergers and acquisitions will shift from three separate agencies to a new National Market Supervision and Administration Bureau. Importers of foreign pharmaceuticals and medical devices who previously had to deal with both the customs office and the General Administration of Quality Supervision, Inspection and Quarantine stand to benefit from the merger of the two.

The changes could in theory make the government leaner and more consistent, helping to ease some of the practical problems that foreign businesses complain of in China, which ranked 78th of 190 markets in the World Bank's 2018 Ease of Doing Business Index.

China got particularly poor marks there in ease of starting a business (93rd), trading across borders (97th), dealing with construction permits, (172nd) and paying taxes (130th). Notably, "inconsistent regulatory interpretations and unclear laws" has been ranked as the top challenge for the past three years in the American Chamber of Commerce in China's survey of its members, including its most recent one published in January.

But while the potential for improvement is great, there are conceptual and historical reasons to be skeptical that the latest restructuring will have significant results for foreign investors.

Many of the "reformed" ministries will be huge in size and in scope of responsibility, suggesting potential efficiency and transparency problems. The creation of new ministries and the consolidation of others may just mean that problems that were previously external, such as turf wars between ministries, will be internalized as conflicts among bureaus or departments under the same ministry.

Moreover, the heads of the new "super-ministries" and the agencies embedded within them are likely to be individuals who already wield significant personal power. That suggests that battles for influence between high-profile ministries and agencies may continue. Indeed, stronger ministries do not imply friendlier ministries if they involve, as they well may, the same people with the same thinking.

There is also no iron law that industry or other interests will not capture ministries merely because there are fewer of them. On the other hand, the elimination and consolidation of ministries means that past connections that facilitated communication and lobbying for foreign businesspeople may be lost.

We should of course not forget the dictum that "absolute power corrupts absolutely." Super-ministries will be prime targets for those who want to exercise influence, raising the potential for corruption within agencies.

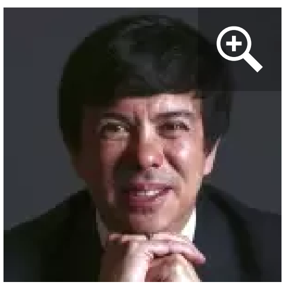
The increase in the party's ability to control ministries and the implementation of policy may also be problematic for foreign companies given Xi's renewed emphasis on heavy state involvement in the economy, his obsession with control and security rather than market logic and the authorities' parochial focus, as illustrated by the domestically oriented Made in China 2025 manufacturing drive.

The track record of previous government restructurings is also discouraging. Administrative reforms in 1982, 1988, 1993, 1998, and 2003 also sought to improve efficiency and oversight as well as scale down the number of ministries through elimination and consolidation, reduce the size of the civil service while improving its quality, curtail regulatory capture, withdraw the government from the economy and shift the authorities' economic role from control and planning to management and supervision.

But problems such as inadequate coordination, poor communication, excess government involvement in the economy, parochial behavior and muddled policymaking and implementation have persisted. A further set of reforms in 2010 failed to resolve these issues too.

Nevertheless, foreign companies need to take the current reforms at face value for now. They must identify new channels for shaping policy development, implementation and execution, as well as which mechanisms -- local influencers, industry associations or home governments -- could be most effective under the revised arrangements. They should also make sure that influencers they contract or hire, such as former government or party officials, retain access and connections in the new environment.

The history of efforts to reform the system demonstrates that the problem is larger than the shape and form of the administrative machinery. The real culprit is the pathology of big government magnified by leadership preferences and an ideology essentially unfriendly to foreign business. These are problems that no amount of administrative dicing and slicing is likely to cure.



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