CHINA'S SPECIAL ECONOMIC FUNCTIONAL AREAS (II): THE VARIOUS MANAGEMENT MODELS

LI Yao & Sarah Y. TONG

EAI Background Brief No. 1326

Date of Publication: 7 February 2018

Executive Summary

1. China has set up a large number of Special Economic Functional Areas (SEFAs) since 1979, which contributed substantially to the country's economic opening, growth and institutional innovation.

2. While all national-level SEFAs are approved by the State Council, they are under the administration of different central government agencies and operating with different management models.

3. The three major management models include the Administrative Management Model, Administrative Committee (AC) Supervised Company Management Model and Company Management Model.

4. The Administrative Management Model is a centralised management model. The AC could be a part of the local government or, in some cases, the local government functions as the AC. In this model the power of the AC tends to be highly concentrated.

5. The AC-Supervised Company Management Model has partially realised the separation of government and enterprise operation and the principle of "small government and big enterprise". However, the development of the company relies heavily on administrative power.

6. The Company Management Model can improve the efficiency of SEFA development and management work through centralisation and specialisation. Although there are still problems, it has become an important operation and management model for future SEFAs.

7. The different developed management models however are still unable to resolve the conflict between top-down government initiatives and bottom-up market impulses. A related issue is the vague legal position of the AC in SEFAs.

8. Challenges remain. Over-concentration of power by the AC, like in the Administrative Management Model, could lead to unfair competition and over-reliance on administrative means.

9. In the AC-Supervised Company Management Model, SEFAs' operation could be hampered by the conflict of interest and infighting between the AC and relevant government institutions.

10. The Company Management Model seems more promising, though it is still in the exploratory stage. As China is committed to further developing the market economy, the development of this model has important implications for future SEFA operation and management.