Governmental Embedment in Profit and Non-Profit Sectors: Case of China

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Abstract:
China has enjoyed thirty years seemingly unstoppable high speed economic growth. During the new Xi Era, Chinese government starts a reform aimed at anti-corruption and contractionary welfare provision policy to combat economic and social challenges. This paper seeks to explain why different types of government embedment in two provinces results in different societal and economic reaction to the reform. By examining Guangdong and Liaoning, two provinces in China, this paper concludes, that a state-in-society embedded mode is the key for economic development and societal betterment, that the extent of governmental embedment with the society in private for profit sectors, must balance the level of embedment in non-profit sectors. A highly embedded for profit sector without strong embedded non-profit sector would create social tensions. A highly embedded non-profit sector without strong embedded for-profit sector would create non-sustainable economy and fiscal failures.

Key Words:
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I. Introduction: New Leader, New Role for Government?

The thirty years of Chinese economic growth from 1978 to 2008 after the Opening and Reform is impressive and almost unreplaceable. Deng Xiaoping’s authoritarian capitalist model of development pave the solid foundation for such growth. If we measure success by economic development, Chinese GDP’s growth over 300 times, urbanization rate raised from 18% to over 50%. During these thirty years, Chinese foreign reserves become one of the largest. In addition, China lifted six hundred million people from poverty. In terms of the growth of the middle class, a loose definition suggest 90% or a stricter definition suggest 12% of total population are in middle class now, who holds huge increasing purchasing potentials.

Many scholars have contributed researches on the miraculous growth of Chinese economy (LH Ong, VNee, M Woo-Cumings, A Kohli). This paper adopted a Peter Evans’ model of “Embedded Autonomy” to help explain the economic growth patterns. “Embedded Autonomy” described a form of government and private-for-profit industry relationship that the government involves in the privatized economic development of developing countries (Evans, 28). The government functions both as a quick reactor and regulator to private industries’ needs.

Despite the stunning economic development, societal issues are not prioritized in Chinese national agenda for decades. However, very few attentions are paid to non-profit social support. Along with the huge economic benefits, there are growing societal problems like corruption, suppressive local government, failing social welfare, unequal education, collapse of social trust and lack of social support (Cai, Honywill, Zheng).

Robert Putnam in his Bowling Alone and Making Democracy Work proposed that the decline of the societal wellbeing is due to the decline of American and Southern Italian social
capital (Putnam). Putnam measure social capital by church attendance and other NGOs participation rate. However, in order to make Putnam’s model of social capital more applicable to a non-liberal, non-western society, this paper includes those embedded non-profit semi-governmental organizations described in Mary Alice Haddad’s Politics and Volunteering in Japan (Haddad). Those embedded social groups in Japan provide public benefits with close knit relationship with Japanese local and central government.

The definition of social capital is slightly expanded here in this paper, includes not only civil participation in the provision of civic non-profit social welfare, but also private for-profit interpersonal connections. Social welfare includes but not limited to retired pension, elderly care, education, and health care.

After the 2008 crisis, Hu-Wen administration carried out some trillion-dollar level economic rescue plan, following the pattern of investment based economy model in the previous 30 years. However, during the Xi Era (After 2012), national level economic reform policies are carried out which seem to alter some 30 years old traditions. President Xi named it the “New Normal” plan (Hu, 1). The new plan put both societal well being and economic growth as top priority. It includes but not limited to privatization, environment protection, anti-corruption, disengage the embedment of the government-private, tighter media control, political centralization, and a gradual decrease of governmental social welfare provision (Rachman).

The puzzle is, what are the reasons behind the two Chinese provinces’ different results in economic performance and non profit social welfare provisions under the same central reform plan? How to use governmental embedment and social capital to explain the crises in Liaoning and the painful recovery in Guangdong?
II. **Hypothesis and Argument**

*Hypothesis 1:* Strong governmental embedment in for-profit private sector but weak embedment in non-profit would create both economic growth and better social welfare provision.

*Hypothesis 2:* Weak governmental embedment in for-profit private sector but strong embedment in non-profit would create both economic growth and better social welfare provision.

*Hypothesis 3:* balanced governmental embedment in for-profit private sector and in non-profit and strong social capital would create both economic growth and better social welfare provision.

This paper would argue that governmental balanced embedment in both non-profit social welfare provision and for-profit private business is the key for smooth economic recovery and successful social development. During thirty years of rapid development, the demographics and socioeconomic backgrounds of different regions are increasingly diverging. The recentralized new national level reform plans would not be as effective, as they would succeed in some regions but fail in others. By using Robert Putnam’s Italy’s model, this paper would be a comparative case study. The third section is basic background information about Chinese political traditions, and the two regions: Guangdong (PDZ), Liaoning (SDZ). The forth section would be an in depth case study to prove or disprove the three hypotheses. The fifth section would be a discussion of how those difference in social capital and government embedment can explain and might predict the future economic and social development.

III. **Background: China before the 2008 financial crisis**

*Decentralization and Privatization*
In order to discuss regional social and economic development, some significances of Chinese political legacy must be reiterated. The most important legacies that endured during the Jiang-Zhu Era (1992-2002) and Hu-Wen era (2002-2012), is authoritarian capitalist model of development (Atlantic, why the china model isn’t go away), which includes decentralization with alliance between local elites and central government, and delayed privatizations of State Owned Enterprises (SOE). In many Chinese dynasties, to fulfill more diversified needs from different sectors and regions of a huge empire, “the outer court”, also known as the bureaucracy system grew to adjust to the growing demands of regional economics (10, Lieberthal). The flourishing bureaucratic system, especially after Qin dynasty, was a masterpiece of reconciliation between different political forces. Merit based appointments and examination system rendered a relative stable recruitment of local elite into centralized system (11,13, Lieberthal). During the reform era, this trend of elite politics combined with personal relations survived and thrived (52, Fewsmith). The CCP followed the basic blueprint that Deng laid out: regulating societal relationships, different factions, and abandoning ideological outcry (54, Fewsmith). By abandoning communism and class-ideology struggle, economic development functioned as one of the most important justifications for the legitimacy of CCP and even PRC itself. More importantly, the economic boom might be highly related to the bureaucratization and decentralization of Chinese government (74, Fewsmith). Local political leaders were highly incentivized to create visible and presentable economic growth in exchange for yielding greater fiscal control to Beijing and more lucrative political and personal profits (74, Fewsmith). Among those most visible gains, gains led by SOE related infrastructure development and foreign direct investments (FDI) were most conspicuous. Due to the sources of income of decentralized local governments in most provinces are investments, while Guangdong picked up foreign investment
(with higher level of privatization) as the major source of growth, Liaoning picked up SOE led investment and infrastructure development (with lower level of privatization) as the major source.

**Stability Maintenance and Embedded Social Organizations**

However, although the stunning improvement of GDP is undeniable and probably unreplaceable for other countries, the improvements of societal wellbeing of citizens are relatively harder measure. Societal issues are often addressed under the overarching principle of ‘Stability Maintenance’. NPOs usually are considered as anti-governmental organizations: in other words, social groups have to be embedded. For example, on a village level, societal hierarchy is close knitted with political system. local leaders’ accountability to provide public welfare comes from moral obligations and personal relationships, not from democratic institutions (146, Tsai). On a township level, provincial government have limited resources to provide or enhance public welfare, since Selectorate system insulate the grass-root level democracies from upper level decision making processes (773, Manion). Moreover, this Selectorate system generated high demands of stability maintenance, since the promotion of local leaders were partially depended on how well they keep society harmonious, local votes functioned as massive opinion poll (782, Manion). The selection procedures benefit the local cadres. Grass-root citizens are encouraged to used embedded work-within-the-system channels: to do skip-level petitions and to protest on the streets are highly tabooed (280, Chen). Opportunistic troublemaking tactic is a great example of social groups working within the system, because groups independent from the government attract greater attentions and have higher possibility to be silenced.

**Background on the Regions**
Several regions are selected to analyze as case study. The names of the regions and economic zones shifted rather rapidly due to the changes in national and regional policies. In the following paragraphs the change in names, basic economic and demographic backgrounds of these regions will be briefly explained.

1, Guangdong Province, is located at the southern border of China, adjacent to Hong Kong and Macau. Pearl Delta Zone (PDZ) is located at the central south of the province. Shenzhen and Guangdong are the two biggest cities. This special economic zone was set by Guangdong government in 1994, under the urge of regional integration for greater economic output. Among those 9 cities within PDZ, two of them, Zhuhai and Shenzhen, were granted the status of Special Economic Zone in 1979. Guangzhou and Shenzhen were designated as Separate Planning Cities in 1984 and in 1988(98, Chan). In 1994 both of them were granted the status of Sub-Provincial City (363, Shen).

The demographics of Guangdong shifted overtime. During Ming dynasty there were several waves of immigration into Guangdong PDZ. During Qing dynasty there were waves of emigration to Southeastern Asian areas, due to the seclusion policy. In the 20\textsuperscript{th} century, there were two waves of oversea Chinese returning to Guangdong PDZ, one right after the establishment of PRC and one after the opening and reform: cultural revolution briefly interrupted this process for about 10 years (915, Thunø). For the recent 30 years, the demographics changed more rapidly due to the large amount of migrant workers, mostly from rural inland China. Overseas Chinese brought back FDI to Guangdong and led the regional economy heavily relying on foreign trade and labor-intensive industry.

2, Liaoning Province, is located at the Northeastern border of China, adjacent to Bohai Sea and North Korea. Shenyang-Dalian Economic Zone (SDZ), being a part of the Bohai
Economic Rim, is also called Mid-Southern Liaoning Economic Zone. Dalian and Shenyang are the two biggest cities. Both cities were designated as Separate Planning Cities in 1984. In 1994 they were granted the status of Sub-Provincial City (363, Shen).

Liaoning was Qing dynasty’s sacred land and prohibited for agriculture. Due to the decline of Qing’ central power, the immigration prohibition gradually collapsed. Because of and political economic infiltration of Russia and Japan, there were stunningly growing capital-intensive industry and agriculture in Liaoning during the early 20th century. Urgent demands for labor force drove population in poverty from Shandong, Henan and Hebei Provinces into Liaoning. PRC’s state-planned economic strategy continues the trend since 1949. Population remained relatively stable during the Reform Era (Walcott, 133).

IV. Seeking the Optimum Way of Governmental Embedment

Hypothesis 1: Urban Guangdong, Over-Embedding in For-Profit?

Guangdong’s economy is growing with formidable momentum since the Opening and Reform. Facilitated by embedded autonomy, a distinct set of FDI, real estate development, and private industry contributed to the rapid growth before the financial crisis in 2008. However, economic growth and revival after 2008 can be better explained by both developing embedded autonomy, and growing social capital that participated in social support. Examples from Guangdong Province PDZ are examined, from Rural, and Urban areas respectively.

In urban Guangdong, the social capital among workers and embedment among private businessmen help built up a one of the most rapid growing economy in China. Especially those which surrounding metropolitan areas, are often where factories and producing stream lines choose to locate (Yang, 389). Dongguan, is the most eminent one among labor-intensive-factory
concentrated cities like Foshan, Kunshan, and Jiaxing. The growth before 2008 and the economic struggle after 2008 helped explained why both social capital for social support and social capital for embedment are needed.

Private companies gained from FDI, business connections and urbanization stimulated by local government. Among those business connections, overseas Chinese investments in Guangdong, including but not limited to, from Taiwan, Malaysia, Macao and Hong Kong, are the largest and the most noteworthy (He, 338). Even with the consideration of spatial proximity factors, Guangdong still stands out compared to other provinces in terms of attractiveness for investments and opening factories. The author indicated that “the unique social and kinship ties are the key factors determined the spatial distribution” (He, 338). Since most Diaspora Chinese are still linguistically or socially related back to their Guangdong roots, it is comparatively easier for them to maneuver the governmental embedment. Large number of factories fill in the space between Hong Kong, Shenzhen and Guangzhou. The embedded policy of Dongguan local government further facilitated this trend of massive growth. In response to the high demand of urbanization from private enterprises, government built basic infrastructures for urban workers.

On the other hand, the rapid growth of labor intensive industry relies on the social capital workers bring to Dongguan. Millions of workers from Rural Sichuan, Hunan, and other provinces migrated to Dongguan for work while went back to their home province for Spring Festival (Fan, 178). Migrant workers often follow their predecessors from the same village, because it is easier for them to settle down in a certain factory in Dongguan if there are existing social support. Informal associations among same provincial origins, or even township origins were formed (Kong, 7). These loosely connected informal and not-registered associations help migrant workers find jobs, socialize, and offer each other social and mental support (very
unprofessional support) based on ‘where they come from’. Those numerous associations are segregated by cultural backgrounds, linguistic diversity and social habitual diversity. Although some companies provide limited social safety welfare, large amount of additional social support such as companionship, childcare, and emergency funding are supported by social capital from workers themselves (Biqing Li, 28). Overarching labor unions are extremely hard to form, because of the diversity in linguistic and provincial backgrounds (Kong, 13). Because of the strong social capital workers brought to Dongguan and lack of social capital formed here among labors, the companies have an almost absolute advantage in wage negotiations (Golley, 2). While the burden of social supports poured on labors, companies gained enormous profits and achieve stunning growth. The government is reluctant to provide social support for those workers because most of them do not have Hukou (Golley, 18).

A too strong embedment in business without a strong government supported social welfare system will result in temporary growth, but long term societal problems. After the 2008 financial crisis, Dongguan’s economy went through a difficult time. Several societal problems emerged because of strong embedment but weak social support. The first one is declining industry: Some workers migrate back to their home provinces because the urban industry of their home provinces are now not necessarily worse than Guangdong, especially Sichuan province and Chongqing Municipality. The second one is that the lack of social support and welfare largely undermined local social stability. Legal rights of workers are minimum, since the contract law in 2008 only requires companies to sign open ended contracts, which means that workers have to sue the companies individually (Anita Chan, 48). What made labors suffer more is that the Union is controlled top-down, not truly represent the interest of labors. Without the legal knowledge and adequate legal and social support, the workers turned to more violent methods. They started
to increasingly challenge the embedding alliance between wealthy business and government officials. In a mid-2010 strike, local workers in a Honda factory demanded a 60 percent wage increase. The provincial government stepped in and re-negotiated for a 24 percent increase (Anita Chan, 50). The power imbalance between strong embedment and weak legal support proved that such discrepancy will only create more strikes and undermined the “social stability” that Chinese local governments desperately need. It should be either a coexistence of strong embedment and strong NGO, representative labor union, social and legal support, or, a less clientelism government-business relationship with comprehensive social support for labors from the government. Since local governmental debts are piling up after the financial crisis in 2008, it is only reasonable to invite more marketed social support and non-profit social support into the system of social security (Zheng, 9).

In metropolitan Guangdong, especially Shenzhen and Guangzhou, there is a growing and vibrant trend of inviting privatized social capital into education industry. Before the opening and reform, the responsibilities of education is solely on the central and local government. However, with the rapid growth of economics, the demands for education diversified.

Creating international high school within the existing domestic public school system is a unique phenomenon that can only exist under a hybrid of social forces and government resources. The education bureau interacted and embedded with private education firms, offering Advanced Placement (AP) system from the United States and International Baccalaureate (IB) system from the United Kingdom and other international education systems to students from upper middle class and upper class. Existing social capital, from students themselves, students’ families, and private firms, mixed together with resources – from government funded public schools. This phenomenon creates extreme discrimination against those lower middle and lower
class students. Because the funding and resources are disproportionately allocated for providing western courses (mostly English based), domestic students who can not afford studying abroad might not enjoy these resources (Sina). Moreover, recent new policies try to clarify the blurry embedment between government funding embezzlement and private education firms (Caixin).

Instead, two alternative policies were raised. First is to have clean cut separation and autonomy between government funded schools and private funded schools. Second is to prohibit the existence of private for profit elementary and middle school, while only allowing the existence of private non profit ones. The de-regulation of education industry is pushed forward, because the government realized that they can neither satisfy stratified needs from different classes of the society, nor can they quickly fill in the vacuum of educational resources in urban centers like Shenzhen when the influx of population is over their capacity (Mok, 139).

Without these two policy being sucessfully enacted, .

**Hypothesis 2: Liaoning: Predatory Government and Heavy Social Burden?**

Liaoning faced fiscal challenges and legitimacy crisis after 2008. I will pick two examples from Liaoning to demonstrate the policy dilemma faced by Liaoning local government,

In Liaoning, local government faced a vicious circle of crumbling SOE based economy, and inefficient social welfare findings. This phenomenon is caused by a combination of lack of NGO provided social welfare and over dependency on SOE stimulated economy. For administrators in the city governments of Shenyang and Dalian, their promotion is based on economic development and stability maintenance. Thus it is not Shenyang city government’s priority to be responsive to small private enterprises needs and demands, since their portion of contribution to local GDP is relatively minor. Thus it is also not Shenyang city government’s
priority to be responsive to societal dissatisfactions and social issues, since the protests and petitions could be suppressed. However, only those government-led investments which could generate income for local government, such as biochemical factories, real estates, are highly stimulated. Those investments on infrastructures that benefit nearby cities are discouraged. For example, Shenzhen and Guangzhou, the twin cities in Guangdong, successfully built knitted highway network between and surround the two cities. However, the government of Shenyang and Dalian failed to provide such kind of crucial infrastructural support which will incentivize private economy. For Shenyang and Dalian, there are always corporation problems between the two cities since there are no incentive for city government to benefit nearby cities because they often are in vicious competition for elite promotion. Furthermore, those counties’ local government often up choose “performing GDP” strategy, which means promoting those industries that are visible and look good on annual report. They end up in producing similar type of agricultural and industrial products and cut throat competition. Instead, the city government of Shenyang invested into several real estate projects that are not necessarily needed by the locals. Some of those over-investment are left underused. The government insiders have large enough incentive to continue rent seeking behaviors while neglecting the poor development of local small private enterprises. In conclusion, without social capital’s involvement and embedment into local economy, Liaoning’s local economy is inefficient and highly repetitive. Social capital in Liaoning is disconnected from the decision making process of those local governments.

Despite the unwillingness of local government to provide social welfare, the long lasting social and cultural traditions make Liaoning citizens not trusting NGOs and have no choice but to heavily rely on government for non-profit welfare provision. During late 19th century and early 20th century, there are waves of refugees escape from the famine of Hebei and Shandong province,
looking for virgin lands to farm on. This huge wave of agricultural immigration into Liaoning province is called “Chuang Guandong”. Loose relationships between families and strong relationship within families was formed, similar to the American Westward Expansion. Since the end of WWII until now, Liaoning is a province strictly controlled by governmental economic plan. For more than half a century, state government is the dominant source of welfare provision. The long lasting tradition of interest exchange relationships and dominant government create low social capital and low societal trust. Citizens are unwilling to devote themselves into public goods that they can potentially free ride. Number of volunteering organizations and number of volunteers registered are visibly lower than Guangdong, despite similar level of GDP.

The policy dilemma faced by Liaoning local government is that the dual task of fulfilling social welfare and economic growth are in seemingly contradiction. For example, a policy of anti-corruption will with no doubt take town several officials who gained from the profitable SOEs, and easing the social dissatisfaction of corrupted political culture; this policy might hurt the embedded relationship crucial to the development of local private sector. In addition, a policy of decreasing state provided social welfare and inviting commercial insurances will with no doubt decrease the debt burden of local government; this policy will harm the legitimacy of local government since that legitimacy comes from a long tradition of comprehensive care from the government. In 2001 Liaoning started one of the nation’s first social security reform to cast off some SOE and state provided elderly pensions and social security. This policy might be seen as irresponsible and illegitimate: Liaoning’s grass-root petition and protest on social security issues prevail and persist for more than one decade.

In conclusion, Liaoning’s mode of development is non-embedded for profit sector with embedded social welfare. It is possible for this mode succeed in the short run. However, in the
long term, the drawbacks of Liaoning SOEs’ inefficiency will eventually harm the ability to provide stable social welfare through the state government fiscal system. The burden of social welfare provision will fall on individuals and families without social groups support. Local government would lose its legitimacy in the long term because of the inability to maintain a stable living standard for citizens.

**Hypothesis 3: Rural Guangdong, Balanced Embedment**

In rural Guangdong, a distinct form of village based E-commerce (TaoBao Village) pattern has emerged since the rapid growth of Alibaba (482, Leong). Based on Chinese EBay – taobao.com, the local economy of rural Guangdong witnessed a transition from predominantly agricultural to a more diverse array of economic activities (Lin, 1). JunPu village is located in Southeastern Guangdong, far away from the airport, with strong intra-village social tie but lack of connections with outside world, not adjacent to major cities in PDZ. During the Hu-Wen era, the village suffered with declining productivity, with redundant business philosophy and efflux of migrant labors: it seems that this village has deserted. However, the rise of E-commerce revitalized the village. Nearly three forth of the village households started their online businesses: they learnt from each other, and established thousands of online stores. The local economy boomed and the village was ranked the top twenty of those TaoBao Villages.

During the process of revitalization of local economy, social supports facilitated by strong local social capital is the key. E-commerce is relatively easy to learn; rural villagers do not need high-tech knowledge to master the business. A low expertise threshold would normally form cut-throat competition in a fully individualized and competitive market. However, villagers here are willing to share their knowledge with not only immediate families but also friends.
within the village, without severe trust issue. However, cross village proliferation and spread E-commerce culture is rarely found. This phenomenon can only be explained by “bonding social capital” instead of “bridging social capital” (Putnam). JunPu villagers are willing to look out for each other in both village daily life and commercial activities inside the village because they share similar linguistic identity, and share common contacts (Peterson, 932). Dialects are quite different, even between nearby villages, not to mention remote villages. Linguistic diversity in rural Guangdong creates enormous problem for the formation of social capital in larger groups, while generate stronger bonds within villages.

Government embedment with private enterprise is another key factor. The local government strategically intervened in the process of production, while remain strict about enforcing regulations (7, Lin). With the support of local government, new roads are paved, new storage units are built. The local government invests in infrastructures, instead of directly involving in TaoBao village small private enterprises. More importantly, because of the close knit relationship between private small enterprises and the local government, JunPu government adjusts their policies quickly. Along with the expansion of JunPu E-commerce, local government adjusts from opening online university, to offering free Wi-Fi, or giving tax breaks (Kuah, 9).

Without either of the two factors, there would not be the existence of such Taobao Village. The involvement of social capital in both rural style village support and urban commercial life creates a hybrid rurality (Murdoch, 264). The high level of cross village trust is built up from close corporations in daily communal elderly care, mutual help in raising children, marriage and providing public goods. However, the rapid growth of commercial life and individualism gradually might destroy the intra village social capital and alienate the villagers in the upcoming future. With the erosion of rural morality, growth of utilitarianism, the growing
literacy rate and growing education in mandarin among the teen villagers, it is possible that the social capital that social support and business trust built on, will no longer exist (Peterson, 939). It is a growing concern of how to maintain such high level of trust in the future.

V. Conclusion and Discussions: How could China move from here?

During the new Xi Era, Chinese government starts a reform aimed at anti-corruption and contractionary welfare provision policy to combat economic and social challenges. How to explain during the reform, some regions are doing better than the others? So, neither states’ embedment in for-profit sector or non-profit sector singularly would explain the phenomenon. Only by balancing governments embedded effort in profit and non-profit would facilitate long term development.

Hypothesis 1 and 2 failed because they failed to recognize the cross-influence of social welfare and economic development. The case of Dongguan urban factories demonstrates that there must be a balance between profit vs. non-profit embedment, or social support will be extremely insufficient for the migrant workers. The case of metropolitan international schools demonstrates that there must be a balance between embedment of private industry and involvement of social capital in non-profit social support. Guangdong government must find ways to maintain a moderate level of social capital while balancing embedment and autonomy.

In the case of Liaoning, the governmental officials, if without embedment, can easily become a predatory figure and have rent-seeking behaviors. Without proper channel for the societal and private enterprises to voice their concerns into the government, the government could be even more irresponsible in terms of social welfare provisions. The growth mode of Liaoning is a façade that covers the severe unsolved societal problems that in the long run will
generate more economic recessions. The case of Liaoning demonstrates that governmental provision of social services as a sole actor sometimes is proved to be inadequate or ineffective. The lack of social support and social welfare will increase the burden of both the individual family and the governments’ health care budget, thus lead to limited economic growth.

Hypothesis 3 stands because the balance of local governments’ embedment in both social welfare and economic development create a vibrant mutual. The case of Taobao village demonstrates that there must be a balance between social capital from society and from government, or the village can not sustain itself with the gradual lost of social capital.

Based on the hypothesis 3, this paper proposed an optimum line which local government do no overemphasizing its role in one sector but ignoring the other. This hypothesis suggest a optimum development mode for Chinese local government in response to challenges in fiscal limitations and corruptions. The Xi Era’s new reform policy would benefit PDZ international schools, make education more equal and transparent; it would benefit PDZ labor intensive
factories by check and balancing the over embedment of government and private interests; it would, however, harm SDZ’s SOE reform because it would damage the initial embedded impulse that Liaoning private sector needs to start up.

In 2016, the Liaoning government proposal for the next five years of development include a new policy: the government will purchase those well operated social welfare NGOs, and further providing funding for the initiation of certain types of social welfare and social support related non-profit startups. This policy is problematic, because the funding of government is already limited, but none the less a progressive first step to invite social capital to formally participated in the social support system.

Chinese economy is turning into a more market oriented one. However, it is distorted for the government to embed only for profit sector or non-profit social welfare sector. In order to have a healthier market and better social welfare system, the government should balance its effort embedded in profit and non-profit. Moreover, the involvement of social capital in non profit and for profit should be synchronized to fill in the gaps that left by governmental provisions. A hybrid system with moderate level of government embedment is the optimum choice.
Bibliography


