

Managing Collaborative Service Delivery: Comparing China and the United States

Successful adoption of collaborative service delivery requires that governments develop better capacity to handle potential pitfalls. In this essay, Yijia Jing of Fudan University and E. S. Savas of the City University of New York provide a framework that compares and contrasts the management practices in China and America. Both nations favor collaborative service delivery and engage in it extensively. Can China's state-affiliated strategy and the United States' competition-oriented strategy both work effectively? Such distinct systems, embedded in vastly different socioeconomic and political institutional environments decisively influence the effectiveness of collaborative service delivery management in the two countries.

Collaborative service delivery (CSD) refers to public management innovations that engage private actors in delivering public services, such as contracting out, vouchers, and public-private partnerships. By combining the relative advantages of both the public and private sectors, CSD is expected to produce value for the money, customer choice, managerial flexibility and accountability, and market/community empowerment (Savas 2000). Despite its original development in Western democratic countries, CSD has attracted countries of very different political, economic, and social backgrounds by offering a generic solution to their pragmatic service delivery problems (Donahue 1989).

CSD is a double-edged sword that itself must be managed. As a government's managerial response to increasingly complex public issues and growing cross-sector interdependence, CSD also creates new environments and complicates its purposes and processes. Claimed benefits are contingent on a government's capacity to handle new relations, issues, and uncertainties (Kettl 1993; Van Slyke 2003). Among the possible problems of CSD are insufficient competition,

declining performance, loss of control, and corruption (Sclar 2002; Weizsäcker, Young, and Finger 2005). These problems may be more serious in developing countries that adopt the CSD strategy. Consequently, one must identify the government capacities required for effective CSD and understand how they are adapted in different countries.

The dual concern for capacity development and its adaptation motivates our comparison of the United States and China, which have many commonalities as well as differences. Both are large countries with enormous local variation and autonomy. Both are heavily influenced by neoliberal economic policies, and both initiated large-scale, pro-market reform almost simultaneously under Xiaoping Deng and Ronald Reagan. Further, since the 1990s, China's public management reforms have adopted best practices, such as "reinventing government," from the United States. Despite these converging factors, the two countries differ significantly in important aspects regarding the level of socioeconomic development, the political-administrative culture and structure, the demands on the service system, the availability of boundary-spanning public managers and market/nonprofit partners, and the history of multisectoral cooperation. Therefore U.S.–China comparative research promises new insights on CSD.

In this paper, we first identify major government capacities in managing CSD. Then we compare CSD practices in China and the United States, before comparing the capacity development of the two countries according to the developed framework. Conclusions are offered at the end.

A Framework for Capacity Development under Collaborative Service Delivery

We identify four generic capacities needed for managing CSD.

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Contract management. Contract management aims at establishing an appropriate contract and achieving the specified goals. Public managers specify the services, write a request for proposal, design a competitive contractor selection process, negotiate a contract, monitor performance, and reward or punish the contractor. Contract management has been discussed from the principal–agent perspective and from the transaction-cost perspective (Brown and Potoski 2003a, 2003b). Kettl (1993) calls it the “smart buyer” problem.

Market/civil society empowerment. The long-term goal of CSD is to empower the market and civil society, creating an enlarged and improved base for CSD. Can government improve the competitiveness of the market and the vitality of civil society? This question is important because public service spending accounts for a large and increasing portion of gross domestic product in modern countries. Dependence on CSD may induce governments to extend public rules—and even bureaucratic diseases—unduly into the cooperative relationship. The purpose of CSD is to marry the advantages of different sectors, which is possible only when the sectors are appropriately independent.

Social balancing. Social balancing aims to reconcile the interests of stakeholders and avoid creating insurmountable social and political resistance. CSD’s redistribution effects create winners and losers and therefore can be perceived as unfair. Corruption, service deterioration, and job insecurity may invite resistance from the public and from public employees. Contractors’ cost-reduction efforts might conflict with government’s desire to maintain decent working conditions and fair compensation practices. While some redistribution consequences may be expected, failure to ameliorate the most serious ones may lead to de facto vetoes by the public and to new social problems.

Legitimization. Legitimization maintains the legitimacy of the government. CSD involves sharing power, responsibility, and accountability. This challenges the traditional view of the state’s monopoly on governmental functions, especially those relevant to sovereignty (Moe 1987). Can firms or nongovernmental organizations perform functions of the state? How far can they engage in public decision making? Has the government delegated inalienable tasks and lost control? CSD may be seen as infringing on citizen rights and public law principles and thereby may induce legal and political backlash.

The Development of Collaborative Service Delivery in China and the United States

Several similar factors drove the development of CSD in China and the United States during the last three decades of government reform, as table 1 shows.

In the United States, CSD has a long history of development and has attracted much research. In contrast, CSD in China emerged only after the initiation of the reform of its planned economy in the late 1970s, and it failed to attract sufficient academic attention despite the fact that it has become a politically legitimate and pragmatically important alternative to in-house production. Jing

(2008) attributes this neglect to China’s unique context, which created intellectual barriers. First, relevant research on China has an overwhelming focus on economic restructuring, especially the privatization of state-owned enterprises (SOEs) and assets and the shedding of social services such as medical care, pensions, housing, and education (Cao, Qian, and Weingast 1999). In comparison, the U.S. government has almost no industrial assets and few other kinds of SOEs. Its restructuring of the state–market relation reflects the growing acceptance by government and by the public of the benefits of collaboration (public–private partnership) between the public and private sectors. Second, China’s incremental reform preserves its political regime and its authoritative government. Without equally enforceable market rules, an independent court, and credible political accountability, the typical U.S.-based analysis of CSD is difficult to apply. Third, CSD in the United States concentrates on efficiency, whereas CSD in China fills a large gap: the expansion in government size has been dwarfed by that in government expenditures; between 1978 and 2002, the number of public employees in China increased by only 48 percent, while public expenditures increased by 2,400 percent (National Bureau of Statistics of China 2006). CSD helps fill the service-delivery gap. In the following, we compare some major aspects of CSD.

Methods of CSD. Savas (1987) identifies four major forms of CSD in the United States: contract, franchise, grant, and voucher. Other methods such as private financing and bundling of tasks in public–private partnership also developed rapidly. All of these tools are used in China. Contracting out is the principle method prescribed by the 2002 Government Procurement Law, and has been widely used for support functions, social services, and public works. Franchises have begun to be used for public services such as passenger transportation and refuse disposal. Vouchers have limited use—for example, for elderly home care. Private financing has been used in large municipal works such as the Beijing Line 5 Subway and Hangzhou Bay Bridge. By allowing “much greater involvement in the design and oversight of production by the public agency,” contracting dominates in both countries (Johnston and Seidenstat 2007, 235).

Methods of establishing CSD. The U.S. Office of Management and Budget’s Revised Circular A-76 requires compliance with streamlined standards. Competitive bidding is the most common contracting method in the United States. While competition is used less for social services (Kettl 1993), competitive procurement has been applied successfully in metropolitan areas such as New York City (Savas 2002, 2005a, 2005b). In China, the Government Procurement Law specifies five major methods: open bidding, invited bidding, competitive negotiation, single-source procurement, and price enquiry. Open bidding, specified as the principal method, is usually trusted to the Government Procurement Office or officially accredited brokers to organize, and it is expected to result in the lowest costs. Nonetheless, market immaturity, insufficient enforcement, and agencies’ purposeful avoidance seriously limit its use. For example, the Pudong District of Shanghai spent 4.74 billion renminbi (US\$570 million) in service expenditures in 2001, but only 483

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Table 1 Driving Factors of Collaborative Service Delivery in the United States and China

| | United States | China |
|-----------------------------------|--|---|
| Ideological and political factors | Reagan Revolution | Deng Xiaoping's depoliticization policies |
| | Economic neoliberalism | Political adoption of market economy in 1992 |
| | Contract with America in 1994 | Communist Party's transformation from ideological to pragmatic |
| Governmental reforms | New Public Management movement | Adoption of small government, service-oriented government, government procurement, etc. |
| | Load shedding to state and local governments (federalism) | Large-scale economic decentralization |
| | Downsizing: National Performance Review, Bush's competition plan for 850,000 jobs | Six administrative reforms since 1982 with a major focus on downsizing through reorganization |
| | Government Performance and Results Act, 1993 Legal requirement for competitive outsourcing: Federal Activity and Inventory Reform Act 1998, OMB Circular A-76 (revised 2003) | 1999 Bidding Law, 2002 Government Procurement Law |
| Pragmatic demands | Constraints on local debt financing, legislation that limits taxing and spending | Hard constraints on local governments resulting from fiscal and banking reforms |
| | Cost savings, customer choice, managerial flexibility | Slightly more emphasis on meeting public demands |
| | Utilize external resources: expertise, facilities, technology | Utilize external resources: expertise, facilities, technology |
| Commercial interests | Traditional business-politics connections | Emerging business-politics ties based on prior divestment and new market dynamics |
| Globalization | Influence from privatization promoters such as the Organisation for Economic Co-operation and Development, International Monetary Fund, and World Trade Organization | Entry into World Trade Organization in 2000, quest for international recognition of its market economy status |

million renminbi (10 percent) was based on competitive bidding (Pu 2002). The great majority was spent on government production and more or less uncompetitive outsourcing.

Service partners. As in the United States, service partners in China include service enterprises with various ownership structures, for-profit companies, private nonprofit service units, nongovernmental organizations, neighborhood organizations, and grassroots autonomous organizations such as Urban Residents' Committees. The difficulty of finding qualified partners, the fear of the loss of control, and the priority of public purposes often push the government to approach partners with established ties or a history of deferential compliance. The most likely service partners in China are the public service units that may be further incorporated or divested. Accordingly, CSD in China is often enveloped in administrative or informal relations that can hardly be restricted by contracts. Governments are inclined to transact with divested SOEs or service units with which they still have financial, personnel, or personal ties. Nonprofit organizations, especially influential ones, are mostly sponsored and led by governments and depend on government for key resources (Yu 2006). Nonprofits are less reliant on government funding in the United States because essentially all receive contributions from private sources.

Scope of services. According to Circular A-76, only inherent governmental activities shall be performed with government personnel. In practice, the federal system allows great local variation. At the state and local levels, "almost everything can be—and has been—contracted out; almost everyone contracts out something" (Kettl 1993, 157–58). Using data from the International City/County Management Association, Greene (1996) found that between 1982

and 1992, the breadth of privatization among 59 major municipal services increased from 12.6 percent to 28 percent in 596 U.S. cities. Moreover, for-profit organizations have increasingly extended their business to government functions such as criminal justice (Nicholson-Crotty 2004). Under China's unitary system, CSD has developed consistently across local areas and at a relatively steady pace by retaining or eliminating government job categories. Commercial and support services were systematically outsourced in centralized rounds of downsizing without relying on "managed competition." For public works and utilities, franchise and public-private partnership were introduced to restructure government's financing, regulatory, and operating functions (Chang, Memon, and Imura 2003). Social service contracting is in an early stage. No coercive (i.e., justice system) functions have been outsourced. While the scope of services is larger in the United States, the outsourcing of some services, however, such as building maintenance and street repair, is larger in China.

Aggregate level. The level of external dependence under CSD has been studied. Light (1999) found that in 1996, the U.S. federal government, with only 1.9 million civil servants, employed 5.6 million, 2.4 million, and 4.6 million workers through contracts, grants, and mandates, respectively. Minicucci and Donahue (2004) estimate that, countrywide, from 1959 to 2000, the proportion of current operational spending paid by governments to external providers rose continuously from under 25 percent to more than 45 percent. Jing (2008) found that from 2002 to 2004 in China, about one-third of the fiscally funded services, in monetary terms, were delivered by external personnel. This was phenomenal considering the starting point in 1978. CSD is now irreversible in both countries.

An Evaluation of Collaborative Service Delivery Management in China and the United States

We apply the foregoing capacity development framework to compare China and the United States in their management practices.

Contract Management

Effective competition and appropriate performance management are the key factors for successful contract management. The United States has a better record of establishing formal standards for competitive contracting. The Federal Activity and Inventory Reform Act of 1998 mandates competition in most U.S. federal procurement, while Circular A-76 subjects all commercial services in the federal government to competitive bidding. Contract management in China is mainly based on the Government Procurement Law and subsequent operational documents issued by the Ministry of Finance. These documents list government procurement services but fail to differentiate between peripheral and core government functions. Standard procedures for cost calculation and comparisons are also lacking. This is partially due to China's inexperience, but is mainly explained by the fact that procurement in China does not have a direct mission of downsizing, which was accomplished through administrative reforms. The current workload of public employees is in principle not a target for procurement. In 2004, China's service procurement amounted to 13.8 billion renminbi (US\$1.67 billion), with maintenance (16 percent), system integration (13 percent), and information technology and software development (7 percent) ranked as the top three (Ministry of Finance 2004). These services were either fully divested or had never been produced in house.

Compliance with the competitive bidding requirement may be equally unsatisfactory. Approximately 85 percent of federal contract expenditures were "never let for bid," and one-third of those were awarded to the preferred contractors of the federal officials (Henry 1992, 317). In China in 2004, the rate of competitive bidding for all public procurement was 59 percent, with service procurement a little lower at 51 percent (Ministry of Finance 2004). There is no information, however, about real competition such as the average number of bids submitted. Further, government procurement only covers services in the procurement list and is only a very limited proportion of services purchased. According to one estimate (Jing 2008), procurement expenditures were at most 2.3 percent of the total of services purchased in 2004. Chinese officials often complain that procurement is inflexible, slow, and incapable of selecting the best suppliers. In 2004, the average price of service procurement contracts was only 99,000 renminbi (US\$11,961) (Ministry of Finance 2004), making formal procurement rules clumsy for both agencies and small suppliers. While formal procurement improves due process, the management burden in China increases by disrupting existing customer relations. Marvel and Marvel (2007) find that in the United States, the government monitors the performance of its own employees and its for-profit service contractors with equal intensity, but does not extend that monitoring to nonprofit and intergovernmental service providers. In China, on the other hand, performance measurement has become a major new task in managing CSD.

For social services in the United States, competitive bidding is common in large cities such as New York, but competitors are scarce in smaller jurisdictions, and public management capacity is limited (Savas 2002, 2005a; Van Slyke 2003). In China, governments in

general just assign some social services to civil organizations affiliated with the government. In 2005, the State Council Leading Group Office of Poverty Alleviation and Development trusted the China Foundation for Poverty Alleviation to initiate "Government-NGO Cooperation in Rural Poverty Alleviation in Jiangxi Province." For the first time, China purchased social services through open bidding; six domestic nongovernmental organizations won contracts for a total of 11 million renminbi (US\$1.34 million).

Both governments sometimes evaluate cost efficiency. The U.S. federal government reported the following results from President George W. Bush's aggressive program of competitive sourcing, in which public employees compete against private contractors. In the three-year period 2003–2005, 1,060 evaluations were conducted involving 40,147 employee positions. The cost of conducting the competitions was US\$210 million; the estimated annualized savings were US\$900 million, and the estimated net savings over several years was US\$5.6 billion. The federal agency was selected in 83 percent of the competitions (OMB 2006). The Ministry of Finance in China also publishes cost savings in service procurement every year as the difference between the procurement budget and actual procurement spending. In 2003 and 2004, the savings were 14 percent and 12.9 percent, respectively. For the aforementioned reasons, this indicator fails to provide a public–private comparison; it simply means that spending was under budget.

Empirical research in the United States lends some support to the "20 percent cost reduction rule" originated in the United Kingdom (Savas 1977), but not always (Dilger, Moffett, and Struyk 1997). Hodge (2000), in a meta-analysis of hundreds of empirical research studies that were mainly done in the United States, finds savings of about 8 percent to 14 percent and no significant change of service quality. Similar data are unavailable in China.

Market/Civil Society Empowerment

CSD must be empowered by the government in order to be sustainable. One issue is to maintain or improve market competition or contestability, especially when governmental expenditures account for a major part of the demand. For example, Kettl (1993) offers the U.S. case of splitting the FTS-2000 system contract 60–40 between AT&T and Sprint, despite the original design of the bid as winner take all, for fear of giving a decisive competitive advantage to AT&T in the telecommunication market. Managed competition and the possibility of *deprivatization* by retaining some in-house production capacity help maintain a competitive market structure (Savas 1982; Warner and Hebdon 2001). In China, little attention has been paid to CSD's consequences on the market's structure and competitiveness, reflecting an underlying assumption that the expansion of CSD improves the operation of the market.

Can governments observe market rules and help build capacity for partners? Surveying 3,282 U.S. business firms, MacManus (1991) finds a negative attitude toward doing business with government because of late payments, narrow bid specifications, obstacles to contacting end users, and excessive paperwork. In addition, scholars have coined the word "publicization" to describe agencies' excessive scrutiny of and intrusion into contracted activities and even related contractor activities based on public law principles (Freeman 2002; Sellers 2003). This can be more serious in China, with

its authoritative government. In 2007, more than 70 percent of procurement contracts were given to small and mid-size enterprises. These contractors have little bargaining power and can hardly bear the cost of bringing lawsuits against governments. They are fragile—and vulnerable if governments unduly shift risks to them.

Government's reputation in contract enforcement has improved in China recently, especially after the enactment of the 1999 Contract Law. For example, in Chengdu City, a water-supply plant was built in 2002 under a build-operate-transfer agreement. The water was to be purchased by the municipal government for 18 years before the transfer. During construction, however, the demand for water dropped significantly. The local government responded not by unilaterally modifying or abrogating the contract, but by limiting the water supply from *public* water plants. Contractors in similar cases are often international companies, showing that international engagement may be a positive force in disciplining the government. Moreover governments are facing increasing legal constraints on using their discretion unscrupulously. For example, in 2006, the Ministry of Health awarded a contract to an unqualified contractor. Beijing North Star SciTech Co., Ltd., contested the award and appealed to the Ministry of Finance, which is responsible for fair competition in procurement. The Ministry of Finance rejected the appeal—twice—but then the company went to court, sued the Ministry of Finance, and won.

Both countries utilize civil society organizations (CSOs) through CSD, but in different ways. There were 1.4 million nonprofits in the United States in 2006. They accounted for US\$666 billion in the national economy. In 2005, public charities—which hold most of the sector's revenues and assets—reported total revenues of US\$1.1 trillion, of which approximately 12.3 percent was from private sector contributions (individuals, foundations, and corporations) and 50 percent was from fees for services and goods from private sources. Governments played a significant role by providing 29.4 percent of the revenues, including grants (9 percent) and fees for services and goods (20.4 percent). The health, education, and research subsectors received 74 percent of all expenditures and an even larger fraction of government-paid fees for service (Wing, Polak, and Blackwood 2008).

In China, CSOs are composed of social groups, civil nonprofit organizations, and foundations, which should be affiliated with an administrative agency and registered at the Ministry of Civil Affairs. Between 1990 and 2007, the number of CSOs increased from 10,855 to 386,916. In 2005, the Pudong District Government of Shanghai spent 41.97 million renminbi (US\$5.12 million) on local CSOs that operate job training, charity, and community services. Deng (2001) finds in a survey that in 1998, CSOs had 49.97 percent of the total revenues from governmental grants and subsidies, and 3.58 percent from governmental program expenditures. In comparison, fees for services accounted for only 6 percent of revenues. Many CSOs are headed by retired officials, creating inbreeding and dependence. As alternative financial resources become available, CSOs have to learn to serve multiple—especially nongovernmental—purposes.

Social Balancing

CSD often requires bridging public and private labor markets by outsourcing low-skilled jobs or reducing their compensation to

market levels. Any resulting unemployment, wage and benefit cuts, loss of trust, and loss of control may demoralize or upset public employees and managers. Union resistance is the most serious constraint on CSD in the United States because of the high level of unionization in the public sector. To overcome legal and political barriers, “fair treatment of employees is becoming the rule rather than the exception” (Clark, Johnson, and Mercer 2000, 206). Federal contractors are required to comply with the minimum wage requirement. In China, despite the absence of organized, union-based resistance, multiple strategies are employed to avoid pure losers. Governments try to give downsized employees the opportunity to form new economic entities, transfer to parallel or low-level agencies or SOEs, retire early, get lump-sum compensation, or study in a university. For public utilities that are taken over by private firms, employee transition plans often require minimizing layoffs and maintaining compensation levels. Although most CSD arrangements are not based on open-bid contracts, governments nevertheless often require their CSD partners to hire the affected workers. The same happens in the United States, where this is often a contractual requirement.

Corruption is another troublesome issue. Public managers may suddenly be given new discretion in transactions with large amounts of cash, yet appropriate control and accountability systems may not yet be in place. While both countries strive to control corruption in CSD, the effect is largely dependent on the general level of public integrity, professional ethics, and external control. The 2006 Transparency International Corruption Perceptions Index ranks the United States twentieth and China seventy-third out of 180 countries and regions. Both need improvement. Corruption has become a serious social problem in China since the late 1970s. Low salaries, extensive economic regulation, huge public assets, opaque government processes, and ineffective law enforcement have created strong incentives for rent seeking in government's new investment and spending activities (Ding 2000). A large proportion of corruption cases have involved the bribing of government officials by private contractors, including the 2006 Shanghai Social Security case that led to the imprisonment of a top official in the country.

Legitimization

CSD may challenge the political legitimacy of the state by delegating to private contractors the power of implementation or decision making that affects the public interest. Public values such as integrity, honesty, probity, accountability, and impartiality may be weakened (Jørgensen and Bozeman 2002). Moe (1987) argues against the privatization of sovereign functions from a public law perspective. Circular A-76 operationalizes the inherently governmental functions as “the exercise of sovereign government authority or the establishment of procedures and processes related to the oversight of monetary transactions or entitlements.” Yet it remains difficult to judge what can be delegated, what has been delegated, what has been done within the range of delegation, and who should be accountable in what way and to whom. Despite the finding by Becker and Mackelprang (1990) that state legislators are reluctant to privatize coercive functions, by 2003, 40 U.S. states had contracted to house their prisoners in private prisons, and so had the federal government and many local governments. The court has refrained from taking a value-laden perspective and a hands-on approach. A trial-and-error attitude and a pragmatic political consensus loom large.

China's context is different. The gradual process of replacing old Soviet-style laws with a market-based legal system lacked sufficient attention to state legitimacy issues. The real legitimacy problem lies in the contradiction between two conflicting mandates: promoting the economy, which has to be deregulated, decentralized, and diversified, and maintaining the political regime, whose incremental adaptation may be interrupted if challenging political powers grow rapidly and uncontrollably. Accordingly, the basic strategy of building partnerships is not to risk inviting outside strangers, but to divest, in a limited way, the many economic and social functions of the planned regime and to build strategic coalitions with the new operators. Quasi-public and quasi-private organizations quickly emerged from the matrix of the planned economy (Francis 2001). These organizations have both profit-making incentives and rule-making authority, or have both civil society initiatives and policy implementation obligations. CSD mainly links governments with such partners, creating a vague, unmarked boundary between what is and what is not essentially public. Despite this, China maintains a strict public monopoly over sovereign and coercive functions.

Evolving rhetoric reflects the legitimacy issue. In the United States, "privatization" and "contracting out" have generally been supplanted by "public-private partnership," "competitive sourcing," and "networked government." While this softer language may be intended to mitigate opposition, it also signals a trend from competition to cooperation and from policy-administration dichotomy to collaborative management (Hodge and Greve 2007). In China, "privatization" (*si you hua*) is avoided in official documents. Semantically neutral terms such as "contracting out" (*he tong wai bao*), "peoplization" (*min ying hua*), "outsourcing" (*wai bu gou mai*), "socialization" (*she hui hua*), or "marketization" (*shi chang hua*) are used to describe such practices. "Public-private partnership" has also become a buzzword.

Conclusions

Despite the worldwide enthusiasm for CSD, its success is far from automatic. We suggest that in order to manage CSD effectively, governments should improve four major capacities: contract management, empowering market and civil society, social balancing, and legitimization. Further, governments must be able to reconcile the potential conflicts among these capacities through compromise.

We have made a broad and preliminary China-U.S. comparison. While the two countries have different institutional environments, they were driven to CSD by some similar ideological, political, and pragmatic forces. We identify some similarities and differences regarding methods of CSD, methods in establishing CSD, service partners, the scope of services, and aggregate level. Regarding capacity development, we find some common efforts, and some subtle and even significant differences in the four capacities. Both countries need to raise their performance in these areas. As a general conclusion, we find that China has a state-affiliated strategy of CSD (i.e., using agencies affiliated with the state), while the United States has a competition-oriented strategy. Such a difference consistently influences all of the comparisons

in this paper and determines the manner and performance of the two countries in managing CSD. One cannot conclude that one country is more successful than the other because they have different priorities, different starting points, and different missions for CSD. Although we expect more convergence in the future as China increasingly modernizes its public sector management, dependence on past history may well extend into the future. We hope this preliminary comparison can further empirical research in both countries and shed light on their CSD practices.

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