



FINANCE, COMPETITIVENESS & INNOVATION INSIGHT | INVESTMENT CLIMATE

China's Doing Business Success: Drivers of Reforms and Opportunities for the Future



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ABSTRACT

China has witnessed an unprecedented improvement in its business environment as measured by *Doing Business* over the past few years when—after 15 years of relatively subdued performance in *Doing Business*—it advanced by almost 50 places from 78th position in *Doing Business* 2018 to the 31st position in *Doing Business* 2020 and was included among the top 10 global reformers for two years in a row.

The objective of this working paper is to (i) document China's business environment reform experience over the past few years, (ii) analyze the reform measures and the institutional arrangements that enabled this success, (iii) identify the remaining

opportunities for business environment reforms; and (iv) share lessons learned from China's experience with other economies that also aspire to improve the business environment.



INTRODUCTION TO *DOING BUSINESS*

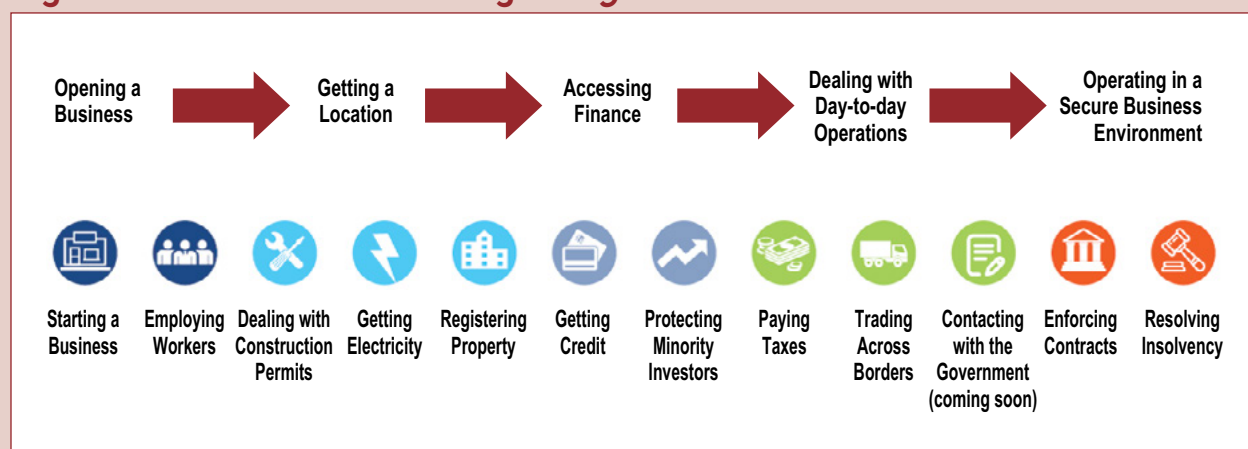
What is *Doing Business*

The *Doing Business* project of the World Bank measures how easy it is to do business for primarily domestic small and medium size enterprises (SMEs) across 190 economies around the world through ten quantitative and qualitative indicators, which measure the cost of doing business and the quality of the regulations and institutions that impact the business environment.

The indicators focus on regulations and their implementation as applied to SMEs throughout their life cycle, from starting a business to resolving an insolvency (Figure 1). *Doing Business* gathers and analyzes comprehensive quantitative data through standardized case studies to compare business regulation environments across economies and over time, with the goal of encouraging economies to compete towards more effective regulations. This means encouraging regulation that is efficient, transparent, easy to implement, and intended to promote private sector development, employment and economic growth.

Doing Business has been evolving over the years. The first *Doing Business* report was launched in 2003 and covered 5 indicator sets and 133 economies. The latest *Doing Business* is the 2020 report, which covered 12 indicator sets and 190 economies. Ten of these areas—starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency—are included in the ease of doing business score and ease of doing business ranking (Table 1). *Doing Business* also measures regulation of employing workers and contracting with the government but these do not currently factor into the ranking.¹

Figure 1: What is Measured by *Doing Business*?



Note: Employing workers is not included in the ranking. Contracting with the government may be included in the future.

Source: World Bank 2020.

Table 1: What does *Doing Business* Measure? 12 Areas of Business Regulation

Indicator Set	What is Measured
Starting a business	Procedures, time, cost, and paid-in minimum capital to start a limited liability company for men and women
Dealing with construction permits	Procedures, time, and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
Getting electricity	Procedures, time, and cost to get connected to the electrical grid; the reliability of the electricity supply; and the transparency of tariffs
Registering property	Procedures, time, and cost to transfer a property and the quality of the land administration system for men and women
Getting credit	Movable collateral laws and credit information systems
Protecting minority investors	Minority shareholders' rights in related-party transactions and in corporate governance
Paying taxes	Payments, time, and total tax and contribution rate for a firm to comply with all tax regulations as well as postfiling processes
Trading across borders	Time and cost to export the product of comparative advantage and to import auto parts
Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes for men and women
Resolving insolvency	Time, cost, outcome, and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency
Employing workers	Flexibility in employment regulation
Contracting with the government	Procedures and time to participate in and win a works contract through public procurement and the public procurement regulatory framework

Note: The employing workers and contracting with the government indicator sets are not part of the ease of doing business ranking in *Doing Business* 2020.

Source: World Bank 2020.

As with any methodology, *Doing Business* has limitations. First, to ensure comparability of data across economies, *Doing Business* indicators are developed using standardized case scenarios with specific assumptions, which come at the expense of country-specific circumstances. Second, *Doing Business* indicators assume entrepreneurs have full knowledge of the existing regulations and seek to comply with them. In practice, entrepreneurs may lose considerable time trying to ascertain

and understand the regulations, and as a result may choose not to comply with them. Third, *Doing Business* does not focus on the informal sector, although it measures one set of factors that help explain the occurrence of informality, and it provides policy makers with insights into potential areas of regulatory reform. Lastly, *Doing Business* focuses on domestic firms and primarily SMEs only and—while often closely correlated with other business environment indicators—may not always

be a good predictor of the investment climate for large companies, including Foreign Direct Investment (FDI).

Doing Business also does not measure many factors that are critical to economies' competitiveness and their economic performance, such as the size of the market, macroeconomic stability, quality of human capital, sophistication of the financial system, level of corruption or the strength of market competition and existence of a level-playing field. The results of *Doing Business* should thus be interpreted with caution and treated as just one of the numerous factors that affect a country's economic potential.

Why *Doing Business* Matters

There is substantive economic literature that documents the relationship between the quality of the business environment and a country's economic performance, as reflected in changes in, for instance, productivity, employment, startup rates for new businesses, and cost of credit. For example, Alesina and others (2005) provide evidence that regulatory reforms, particularly those focused on liberalizing market entry, promote private sector investment. Klapper, Laeven and Rajan (2006) show that high market entry barriers discourage entrepreneurship. Fernandes, Ferreira, and Winters (2018) argue that streamlined business registration in Portugal has enhanced competition and helped improve firm performance. Djankov, Georgieva, and Ramalho (2018) find, based on data for 189 economies for the period 2005–13, that business-friendly regulation is correlated with a lower poverty head count at the economy level, and this association is significant using *Doing Business* data on getting credit and enforcing contracts. *Doing Business* 2020 (World Bank 2020) highlights the importance of various measures of the quality of business environment for economic growth and development.

There is also robust empirical evidence for the positive economic impact of more than 3,500 *Doing Business* reforms that were implemented

between 2003 and 2020 around the world. Haidar (2012) estimates that, on average, each business regulatory reform increases GDP growth by 0.15%. Hanush (2012) shows that improvements in the *Doing Business* index can, on average, lead to a 5.2 percent increase in GDP per capita growth over a 10-year period, with the biggest impact resulting from reforms in getting credit, enforcing contracts and starting a business. Djankov, McLiesh, and Ramalho (2006) argue, based on an analysis of business regulations in 135 economies, that economies with a better regulatory framework grow at a faster pace and that moving from the bottom quarter of the quality of business regulations worldwide to the top quarter would translate into a 2.3 percentage point increase in annual GDP growth. Eifert (2009) analyzes *Doing Business* reform data for 2003–2007 and finds that “relatively poor and relatively well-governed economies grow about 0.4 and 0.2 percentage points faster in the year immediately following one or more reforms, respectively”, while investment rates increase by about 0.6 percentage points a year after the implementation of reforms. Finally, Jayasuriya (2001) argues that *Doing Business* reforms help attract foreign direct investment. Corcoran and Gillanders (2015) find a strong correlation between foreign investment and the ease of doing business ranking for the period 2004–09.

As to the impact of reforms in specific *Doing Business* topics, Djankov et al. (2002) show that more complicated business startup leads to higher corruption and suboptimal quality of public goods, which undermines economic growth. Gathani, Santini and Stoelinga (2013) find that the introduction of one-stop shops to streamline business start-up in Rwanda led to a 188 percent increase in business registrations. Testing the benefits of eased start-up regulation in Vietnam, Demenet, Razafindrakoto, and Roubaud (2016) find that following the reforms the value added to firms increased on average by 20 percent. Lastly, Klapper and Love (2010) argue that high fees and abundant red tape during business registration reduce the number of new firm registrations.²



CHINA'S BUSINESS REGULATORY REFORM EXPERIENCE

China's *Doing Business* Performance During 2005-2020

Since 2005, China has been a consistent, although a relatively subdued *Doing Business* performer. It was only in 2018 and 2019 that China's *Doing Business* reforms accelerated, which helped China leap by 47 positions on the ease of doing business ranking, from 78th place in *Doing Business* 2018 to 31st place in *Doing Business* 2020 (Figure 2). China was also recognized as one of the top 10 most improved economies worldwide for the ease of doing business for two years in a row.

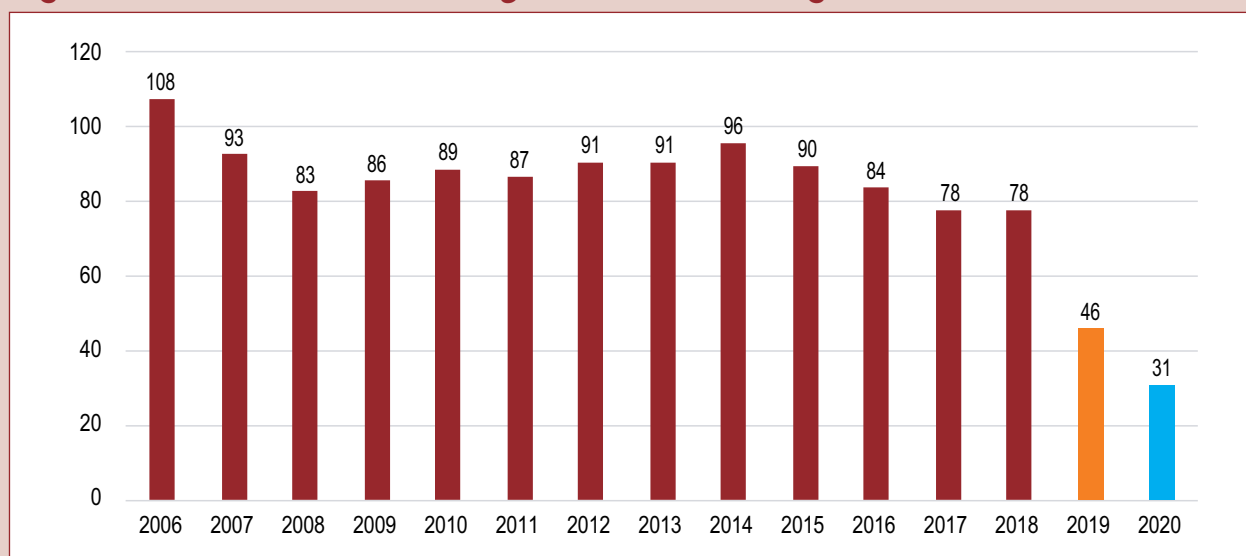
The recent acceleration in business reforms has also helped China become the top reformer among large economies since 2005 (Figure 3).

China has improved across almost all *Doing Business* indicators over the last decade, but the progress has been particularly impressive during *Doing Business* 2018-2020, when most *Doing*

Business indicators improved (except for Getting Credit and Registering Property) (Figure 4).

The far-reaching reforms have placed China at the forefront of reform in several areas (Figure 5). In getting electricity, for instance, China is now placed among the global leaders, ranked 12th worldwide. It has also maintained its leading position in contract enforcement, ranked 5th in the world.

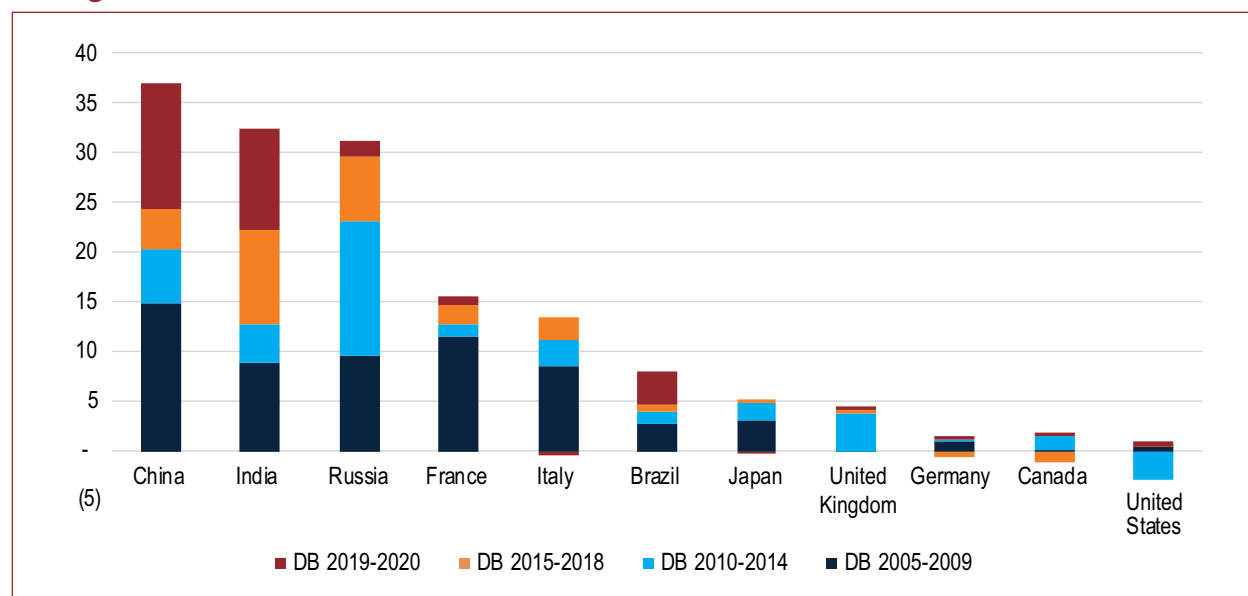
Figure 2: China's Ease of *Doing Business* Rankings, 2006-2020



Note: The ease of doing business ranking ranges from 1 to 190, with the ranking of economies determined by sorting the aggregate ease of doing business scores. New Zealand ranked 1st and Somalia ranked 190th in *Doing Business* 2020. Please note that the methodology of the ranking has evolved since *Doing Business* 2004, including a methodological upgrade in *Doing Business* 2016, which has affected the relative position of economies. The rankings are thus not strictly comparable over time.

Source: Authors' own based on *Doing Business* reports, 2006-2020.

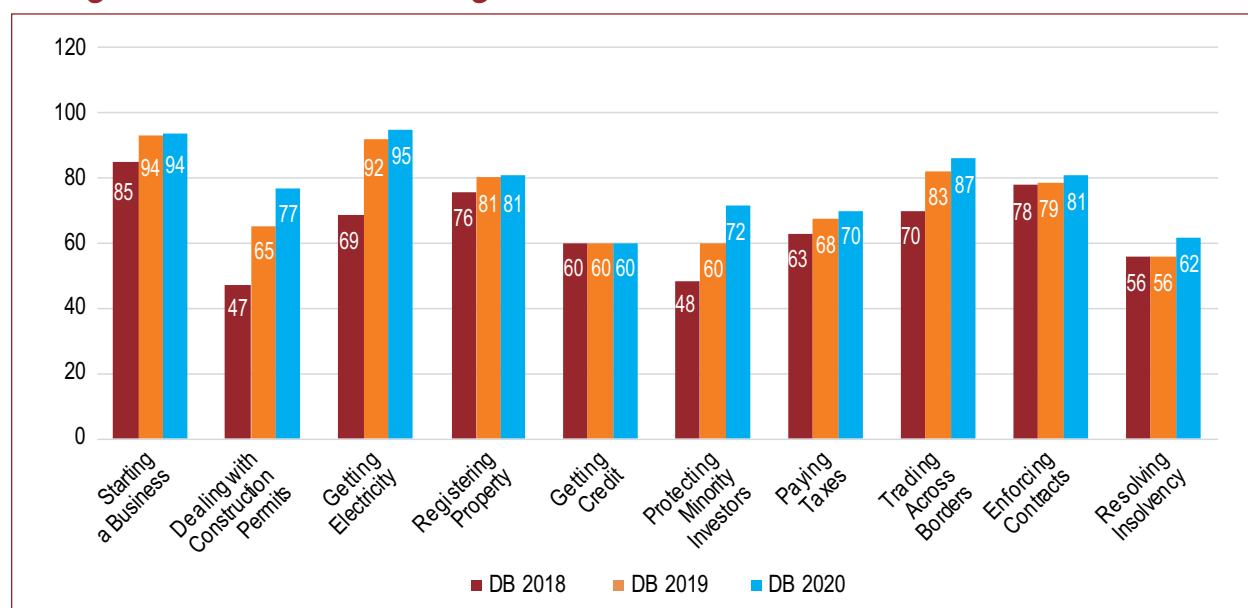
Figure 3: China's Improvements in the Ease of Doing Business Score Since *Doing Business* 2005



Note: The measure is normalized to range from 0 to 100, with 100 representing the best regulatory performance. Because of changes over the years in methodology and in the economies and indicators included, the improvements are measured year on year using pairs of consecutive years with comparable data.

Source: Authors' own based on the *Doing Business* database, 2020.

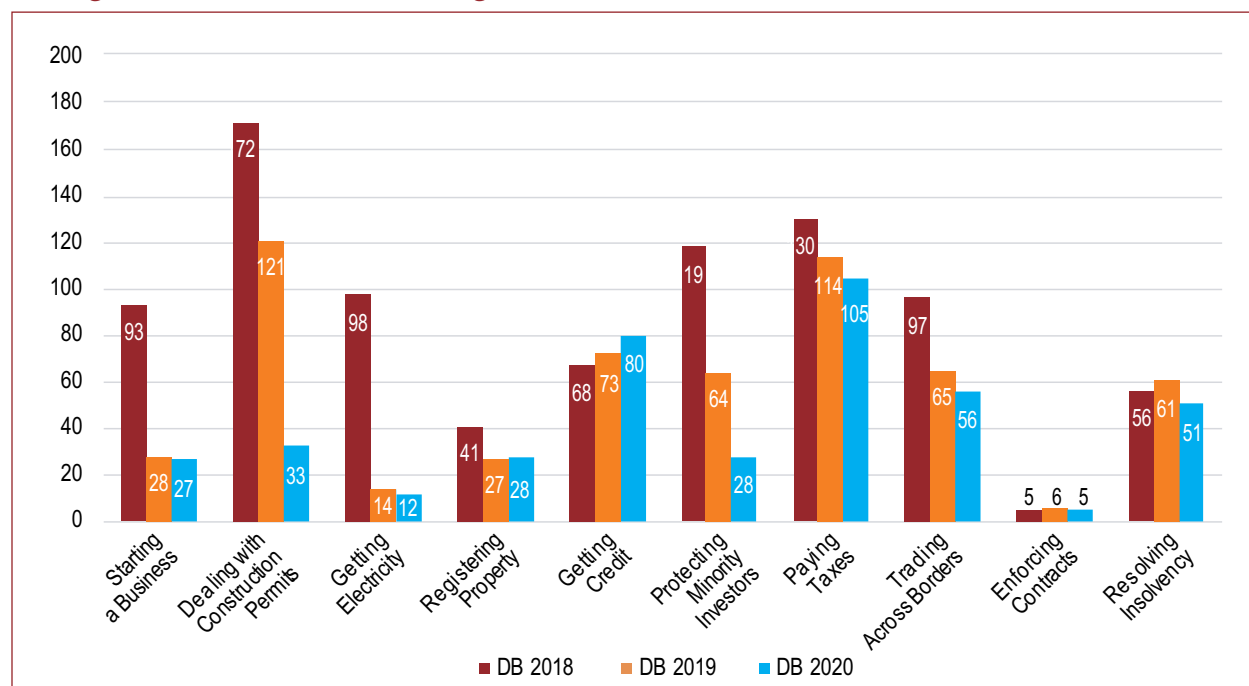
Figure 4: China's Improvements in Ease of Doing Business Score, *Doing Business* 2018—*Doing Business* 2020



Note: The score for each indicator ranges from 1 to 100 with 100 representing the global good practice frontier in a given year. DB: *Doing Business*.

Source: Authors' own based on the *Doing Business* database, 2020.

Figure 5: China's Improvements in the Global *Doing Business* Ranking, *Doing Business* 2018—*Doing Business* 2020



Note: The ranking is from 1 to 190. DB: *Doing Business*.

Source: Authors' own based on the *Doing Business* database, 2020.

China's Business Regulatory Reforms During 2018-2020

Momentum of Accelerating the Business Reform Agenda

In response to a slowing economy and a declining growth in productivity (World Bank Group and DRC, 2019), China's top leadership has prioritized improvement in the business environment as one of the key pillars of its strategy to support economic competitiveness and strengthen the supply-side of the economy. China's Premier Li Keqiang has reiterated on many occasions that "business environment is productivity". The Chinese authorities have started to consider a better business environment as one of the key factors required to push China's economic development towards a sustainable and high-quality development model and now—in the context of the Covid-19 pandemic—to support economic recovery. The government perceives a better business environment

to be an important policy instrument to support entrepreneurship, promote corporate investments, guide expectations of the private sector and signal China's commitment to a more market-oriented economy and further opening of its internal market to global trading partners (Zhang and Ma, 2019).

In 2015, the government launched a national reform initiative (the "Fang Guan Fu" reforms) to delegate power, streamline administration and optimize government services, which laid down the foundations of later reforms, including those captured by *Doing Business* (see Box 1 for details).

Following the start of a close collaboration with the World Bank, the business environment reform agenda was reinvigorated in 2017. In contrast to previous concerns as to whether the *Doing Business* ranking correctly reflected the quality of China's business environment, this time the Chinese authorities decided to embrace the *Doing Business* ranking as a useful monitoring and motivating mechanism to improve the business environment,

Box 1: The “Fang Guan Fu” Reform Initiatives

The “Fang Guan Fu” reform initiatives, as key measures to change the role of the government and improve the business environment and revitalize market activities, focus on redefining the relationship between the government and the market through deregulation, streamlined administrative procedures and improved public services. Deregulation includes reducing regulation and micro-management by the government, and letting the market play the dominant role in economic activities. Streamlined administrative procedures imply simpler and fewer administrative approval procedures, as well as the transformation towards more risk-based ex-post supervision by the government rather than intensive administrative approval at the early stage of business activities. Improved public services include those that better respond to the real needs of businesses and the public, and more efficient services thanks to increased emphasis upon the internet and digital technologies. The “Fang Guan Fu” reform initiatives emphasize the combination of reforms in these three aspects to remove institutional barriers to a better business environment and sustainable economic development.

Source: Authors’ own based on the website of China’s State Council, http://www.gov.cn/xinwen/2019-07/31/content_5417514.htm

spur economic growth and enhance China’s international image. The *Doing Business* ranking has also been adopted to evaluate the effects and progress of the “Fang Guan Fu” reforms (Song and He, 2018).

China’s Premier Li Keqiang started to announce the *Doing Business* results during the annual “Fang Guan Fu” conference. The decision to embrace the *Doing Business* indicators helped galvanize reforms, coordinated by the Ministry of Finance at the national level and in Beijing and Shanghai, the two cities covered by *Doing Business*. During the period 2018-2020, there have been an unprecedented number of reforms at the national level and in the two cities to improve the business environment, which are in line with both the areas measured by *Doing Business* and the national “Fang Guan Fu” reform initiative.

Business Regulatory Reforms at the National Level

During 2018-2020, China implemented significant business reforms at the national level. For instance, in March 2019, the Supreme Court of the PRC issued judicial interpretations of the 2006 Enterprise Bankruptcy Act that enhanced the overall insolvency framework by further clarifying creditors’ rights, streamlining insolvency procedures and increasing transparency.³ Other reforms reduced the tax burden

on firms in China by replacing the business tax with a value-added tax and reduced the VAT’s rate from 17%-11% to 16%-10% in 2018 and further, to 13%-9% in 2019. In January 2018, the State Tax Administration introduced preferential treatment on the corporate income tax rate for small and thin-profit enterprises (STEs). STEs meeting certain criteria could cut their annual taxable income by half and be subject to a corporate income tax rate of 20% (State Tax Administration of China, 2019).

In 2016, the General Administration of Customs of China, along with 24 other government agencies, began setting up a standard “single-window” for trade and over the next two years developed its key functional modules. The single-window for trade is currently being implemented across the whole country and, according to the government, has connected the data of 25 relevant agencies, with 16 functional modules covering various ports and around 600 types of cross-border business.⁴

In January 2020, the new “Decree on Optimizing the Business Environment” released by China’s State Council became effective. The Decree specifies the principles and directions for fostering a stable, fair, transparent and predictable business environment and detailed efforts on cutting red tape, streamlining administrative approval, and improving supervision and administrative law enforcement.⁵ Key principles

stated by the Decree include reducing government intervention of market activities, promoting equal treatment for all types of market entities (that is, the equal treatment of domestic firms versus foreign investment firms and private firms versus SOEs) and strengthening protection for the legal rights of market entities including intellectual property rights through establishment of penalty and compensation mechanisms. The Decree also included specific reform guidance on the 11 *Doing Business* topics and a set of good reform principles based on international good practices (The State Council of China, 2019) —see Box 2 for more details.

Business Regulatory Reforms in Beijing and Shanghai

Beijing implemented intensive business regulatory reforms in 2018-2020, which were focused on streamlining administrative procedures and reducing transaction costs and time for companies and individuals. In 2018, Beijing released a *Three-Year Action Plan to Further Improve Business Environment in Beijing* (2018-2020) which outlined the city's business reform agenda and listed 298 reform tasks with a phased implementation roadmap.⁸ Following the *Action Plan*, Beijing also released three Business

Box 2: The State Council's "Decree on Optimizing the Business Environment": Key Reform Principles

Starting A Business: There should be standard and consistent guidelines on business registration by using uniform data standards, service platforms and social credit codes.⁶ The administrative procedures for business licensing should be streamlined across the country by removing administrative approvals, converting approvals into record keeping and applying the "notification and commitment-based approval procedures". Business licensing administration shall be categorized to facilitate smooth operation of firms. Except for some particular industries, business licensing should not be a pre-requirement for business registration. The number of procedures required to set up and operate a business should be reduced. Each jurisdiction shall set and publicize the processing time which should be fewer than 5 business days across the whole country by the end of 2019.⁷

Property Registration: Cross-agency coordination shall be strengthened to enable property registration, transaction and taxation to be applied and processed through a single window to reduce processing time and costs. Each jurisdiction shall set and publicize the processing time within the time frame as set by the national regulation: the current Provisional Decree on Property Registration requires all property registration to be completed within 30 business days.

Getting Electricity: The public utilities including power supply companies shall make information on service quality and pricing standards publicly available. They shall provide safe, convenient, stable and reasonably priced utility services. Unreasonable charges are not allowed in any form. Each jurisdiction shall streamline the procedures to get power connection and set and publicize the time needed to get connected. The overall time should be reduced to fewer than 45 business days across the whole country by the end of 2019.

Paying Taxes: The subnational tax authorities shall streamline the taxation procedures and document requirements, reduce the tax filing frequency, reduce and publicize the tax processing time, promote the use of electronic invoices and gradually achieve e-services for all tax issues.

Source: Authors' own based on the State Council's "Decree on Optimizing the Business Environment".

Environment Reform Schemes (BERS) with more detailed reform tasks to be completed each year. Beijing launched the first BERS in 2018 to cover reform tasks in line with the ten areas measured by *Doing Business*. The list was twice expanded in 2019 to include additional areas of reform, including protection of intellectual property rights, market supervision, international talent attraction, access to finance by small and micro enterprises (SMEs), innovation support and setting up of corporate and individual credit systems. The three BERS specified around 400 reform tasks and policies in total.⁹ Major reforms included streamlining the approval procedures for business establishment and operation, integrating the approval procedures by different government agencies and setting up “one-stop shops” to simplify the application and approval process, establishing a municipal level e-government service platform to promote online application and enhancing data sharing among agencies through the use of cloud technologies.

In 2020, Beijing released a “Decree on Optimizing the Business Environment in Beijing”, made effective on April 28, 2020, which institutionalized the business reform agenda in the city based on the State Council Decree. By benchmarking international good practices, the decree provides solutions for business reform areas including those measured by *Doing Business*. It focused on: (i) improving administrative efficiency through “notification and commitment based approval procedures”, a credit-based supervision system, standardized administrative services and intensive use of information technologies such as block chain technologies; (ii) creating a level playing field for all market entities; (iii) strengthening the coordination mechanism for business reform agenda by widely involving stakeholders and establishing periodic reporting system on business reform progress; and (iv) implementing a joint business reform agenda between Beijing and its neighboring Tianjin Municipality and Hebei Province. Box 3 provides further details on the business regulatory reforms in Beijing.

Box 3: Reforms to Improve the Business Environment in Beijing During 2018-2019¹⁰

Since 2018, Beijing has re-engineered procedures to make it easier and cheaper to do business in the city and become more oriented towards the needs of the business community and the broader public. By the end of 2019, 54 municipal government agencies had set up windows in one centralized municipal government service center, and, according to the government, 70 percent of the administrative approvals can be applied for and processed through a single window. In 2019, 95 percent of new business set-up procedures were completed through the e-window online service platform.

Beijing has also pioneered reforms in other areas. For instance, in August 2019, to improve SME access to finance, Beijing set up the country's first SME Credit Renewal Center where 15 banks are located to provide on-site loan and renewal services to SMEs. The center has made it easier and more transparent for SMEs to get credit by applying standard application procedures among the banks in the center and streamlining the approval process. The applicants can be informed of the credit decisions within ten business days after the application.

Beijing was also the first city in the country to pilot a unified registration system for movable assets. Based on the World Bank Group's advice, it moved the role of registering pledge of production equipment, raw materials, semi-finished products and products from the original responsible agency, the Municipal Administration of Market Regulation, and combined it with the Credit Reference Center of the People's Bank of China into a unified registration system. The movable collateral registration system officially entered into operation in April 2019, which—according to the authorities—has largely reduced the collateral registration procedures and costs. This practice was also included in the State Council 2019 list of reforms to be replicated across the country.

Source: Authors' own based on the Beijing Municipal Government, http://www.gov.cn/xinwen/2019-12/12/content_5460480.htm

Shanghai has also accelerated its business environment reforms during 2018-2020. Following a city-wide meeting to mobilize the business reform agenda at the end of 2017, business reform became the top priority for Shanghai authorities. Leveraging the World Bank Group's technical assistance and policy recommendations, in 2018 Shanghai launched its first BERS, which put in place more than 40 reform tasks and policies and 20 online administrative processing systems. The city launched two more BERS in 2019 and early 2020, covering in total 188 reform tasks under the local jurisdiction and 58 reform policies.¹¹ The latest BERS version "3.0" aims to (i) introduce "a single window portal" for all approval procedures through institutional restructuring and wide use of digital technologies to allow for cross-agency data sharing and joint approval; (ii) improve Shanghai's performance in *Doing Business* and the domestic business environment evaluation carried out by the central government; and (iii) include other regulatory reforms as reflected by the business community to boost market vitality and support economic growth (Shanghai Municipal Government, 2020). In addition to *Doing Business* reforms, the reform agenda in Shanghai also included major reform tasks underlying the national "Fang Guan

Fu" reform initiative, including opening up market access in finance, modern services and advanced manufacturing industries, strengthening protection of intellectual property rights, providing tailor-made services to the private sector and increasing support to SMEs.¹²

In April 2020, Shanghai adopted a "Decree on Optimizing the Business Environment in Shanghai", which builds on the national decree and emphasizes the following key reform principles: (i) the business environment reform agenda in Shanghai will be centered around the real needs of the business community and the public and will be evaluated by their perceptions; (ii) Shanghai will encourage local reform policy experimentation and piloting in areas including Shanghai Free Trade Zone and Zhangjiang National Innovation Demonstration Zone; (iii) Shanghai will strengthen cooperation with other provinces and cities in the Yangtze River Delta on reforms for a better business environment with consistent regulations on market access and supervision; and (iv) Shanghai will continue improving administrative efficiency. Box 4 shows more detailed examples of business reforms in Shanghai to streamline administrative procedures.

Box 4: Reforms to Improve the Business Environment in Shanghai During 2018-2019¹³

During 2018-2019, Shanghai authorities have taken a number of measures to streamline administrative procedures and cut red tape. For instance, in 2019, the Shanghai government introduced simplified "notification and commitment-based approval procedures" to replace the traditional complicated and lengthy approval process¹⁴, which according to the government, has become widely used in business licensing and construction permitting. Shanghai was among the first cities in China to pilot simplified approval procedures and the first city to institutionalize the new system through the release of an official regulation in 2018.¹⁵

In 2019, Shanghai carried out pilot reforms in the city's Pudong New Development Zone to consolidate multiple licenses for business start-up into one "industrial license that reduces the number of procedures and the time needed for business registration. Previously, it was necessary to obtain five licenses from five separate public agencies to, for example, open a convenience store, but with the present reform in place, only one "industrial integrated license" is required. According to the government, so far such reforms have been implemented in ten pilot business activities, including convenience stores, restaurants, hotels, and fitness centers.

Box 4: Reforms to Improve the Business Environment in Shanghai During 2018-2019 (continued)

In 2018, Shanghai also set up a “single window portal” for administrative approvals across all agencies and districts in the city. Prior to this, administrative applications needed to be made separately at the respective agency within each district of the city. With the “single window portal”, all administrative approvals can be applied for through the new portal. According to the government, the new portal has connected the business management systems of 49 agencies supported by the city’s Big Data Center. The portal lists guidance for applicants based on more than 110 specific business types such as “opening a restaurant” and “opening a supermarket”. It includes specific guidance on topics including the Doing Business indicators as well as others such as investment project online approval, guide for foreigners in Shanghai and full-range business service cloud, which provides detailed information on all types of business services.¹⁶ This portal now covers more than 2,000 administrative service items. It is maintained by the Shanghai Big Data Center, which was set up in 2018 to support digitalized public services in the city.

Source: Authors’ own based on public sources and information from the Shanghai Development and Reform Commission (DRC), 2020.

Private Sector Perception of Improved Business Environment

Beyond official reports, there is additional evidence that the business community in China has benefited from the recent business reforms. According to the business environment evaluation survey carried out by the “All-China Federation of Industry and Commerce”, among more than 41,000 privately owned firms of different sizes and industries in 200 cities in China, the private sector perception of business environment in China as a whole has been improving. Beijing and Shanghai, along with Shenzhen, Guangzhou and several other cities, are the top performing cities in terms of firm satisfaction with the business environment; administrative efficiency is rated as the area where firms have felt the biggest improvement, as compared to their perception of the legal institutions, the innovation environment and market conditions.¹⁷ Another survey carried out by the State Council in 2019 among 6,000 firms across the country indicated that around 90 percent of them were highly satisfied or satisfied with the business environment, and more than 70 percent of them benefited from the tax cut.¹⁸ In the 2018 survey by the “Academy of China Council for the Promotion of International Trade” of 4,000 privately owned,

state owned and foreign investment companies in 25 provinces/cities/autonomous regions in China, around 93 percent of the firms perceived an improvement in the business environment in 2016-2018, and 87 percent of them were “highly satisfied” or “satisfied” with the business environment, an increase of 16 percentage points relative to the results in 2016; foreign investment companies gave the best ratings (4.19 out of a total of 5) among all types of firms; and of all the industries, the high tech firms gave the highest ratings (4.22 out of 5).¹⁹

Reforms Captured by *Doing Business*

The strong reform momentum in China has also been recognized in *Doing Business*. For reforms to be captured by the *Doing Business* report, they have to be relevant to the areas measured by the *Doing Business* indicators, fully implemented and enforced by the public sector, and adopted by the business community and the practitioners. *Doing Business* 2019 recorded seven areas of reforms for China, while *Doing Business* 2020 captured reforms in eight areas, the biggest improvements that China has ever experienced since the start of the *Doing Business* project in 2003 (before 2018, on average only 2-3 reforms were captured by *Doing Business* each year).²⁰ Over the last two years,

Doing Business has recorded continuous reforms in starting a business, dealing with construction permits, getting electricity, protecting minority investors, paying taxes and trading across borders. The reforms

helped substantially to improve China's performance on these indicators (Figure 5). Box 5 provides more details on the reforms in starting a business, dealing with construction permits and getting electricity.

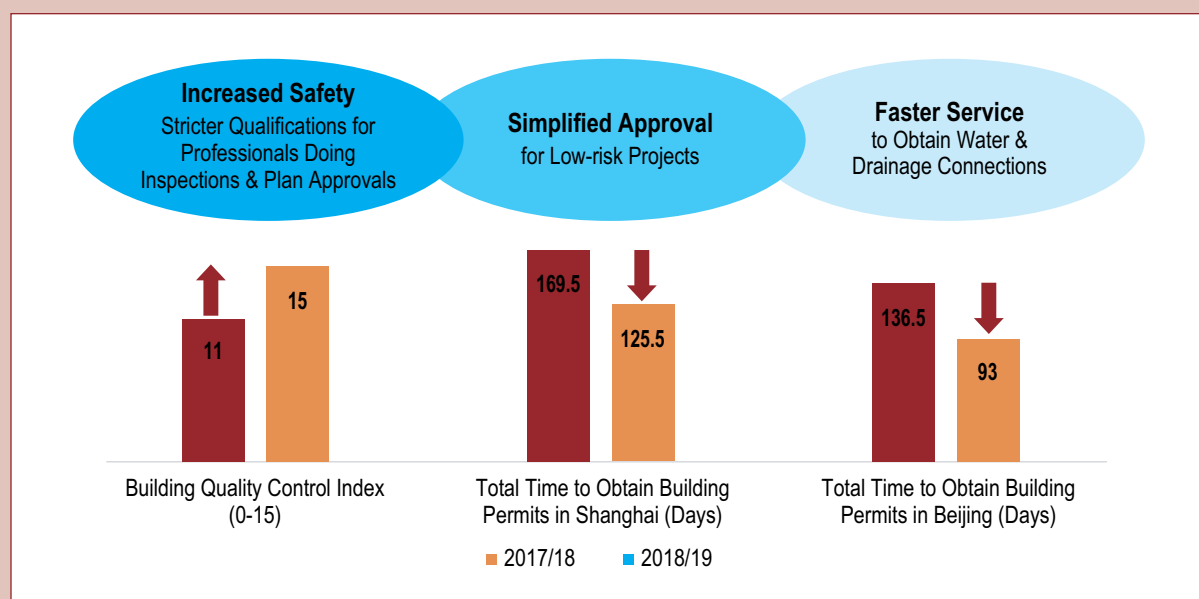
Box 5: Reforms in Starting a Business, Dealing with Construction Permits and Getting Electricity Recorded by *Doing Business* During 2017-2019

Starting a Business: during 2017-18, China made it easier to start a business by launching online company registration and simplifying social security registrations in both Beijing and Shanghai. In 2018, the one-stop shop for business start-up in Beijing started to provide a company seal together with company registration, free of charge. Previously the seal was requested through the one-stop shop and obtained at the seal-makers. Now the process is fully integrated into the Beijing one-stop shop. Starting a business in Beijing became easier and more streamlined, as the number of interactions required to register a company was further decreased.

Dealing with Construction Permits: during 2017-18, Beijing and Shanghai streamlined the process of obtaining the building permit, receiving the certificate of completion and registering new buildings with the real estate registry. They also improved the building quality control by introducing stricter qualification requirements for professionals in the construction industry and improving public access to information.

In 2018-19, both cities made additional steps to make obtaining building permits easier, by simplifying the requirements for low-risk construction projects and by reducing the time to get water and drainage connections. China also made construction safer by imposing stricter qualification requirements for professionals in charge of technical inspections and verifying architectural plans as well as differentiated building quality supervision schemes.

Figure 6: China Made Dealing with Construction Permits Easier in 2017-2019



Box 5: Reforms on Starting a Business, Dealing with Construction Permits and Getting Electricity Recorded by *Doing Business* During 2017-2019 (continued)

Getting Electricity: China made getting electricity easier in Beijing and Shanghai by expanding network capacity so that all connections of power loads of 160kV or less are now made directly to the low voltage network, for which the connection process is carried out entirely free of charge by the utility. Beijing and Shanghai also rolled out a new mobile application for customers that reduced the time to obtain an electricity connection. In 2019, Beijing and Shanghai simplified power connection requests so that customers can now apply for electricity and sign a supply contract online. Both cities also made electricity tariffs more transparent by announcing tariff changes one billing cycle in advance of their implementation.

Source: Authors' own based on *Doing Business 2019* and *Doing Business 2020*.

Thanks to the ongoing reforms, Beijing and Shanghai have become global top performers in selected *Doing Business* areas. For instance, Beijing is one of only a few cities in the world where the process of starting a business is almost free. It takes 3 procedures and 8 days to complete a business start-up in Beijing, whereas it takes on average 6.5 procedures and 25.6 days in the East Asia and Pacific (EAP) region and 4.9 procedures and 9.2 days in OECD high-income countries. In dealing with construction permits, it now takes only 93 days to complete the building permitting procedures in Beijing, and both Shanghai and Beijing received a score of 15 out of 15 in the quality index of the indicator, compared to the region's average of 132 days and 9 out of 15 points, respectively. Finally, China now ranks 12th globally in getting electricity and became one of the global best performers, with only 2 steps to get a commercial electricity connection. It now takes 32 days to obtain a power connection in China, half the EAP average of 63 days.

Business environment reforms in Beijing and Shanghai are likely to have promoted entrepreneurship and enhance competitiveness. At the end of 2019, there were in total around 1.65 million of firms registered in Beijing; around 185,800 new firms were registered in the year, almost 90 percent of which were privately owned domestic firms.²¹ As of the end of 2019, Beijing also had 83 unicorn companies.²² Beijing is also becoming more

innovative: during 2018-2019, more than 150,000 new tech companies were registered in the city, or more than 200 per day.²³

Shanghai has also seen an increase in entrepreneurship: as of the end of 2019, there were in total around 2.2 million firms registered in Shanghai, around 367,620 firms were set up in the year, growing by 8% annually.²⁴ There are currently more than 2.5 million market entities in Shanghai, one for every ten people in Shanghai.²⁵

The Economic Impact of Business Environment Reforms

A less business-friendly environment, as captured by *Doing Business* before the reform acceleration in 2018, does not seem to have prevented China's GDP per capita from growing at a fast pace, exceeding 8 percent per year during 2005-2018, supported by high public investment, a large labor supply and growing exports. However, China can no longer rely on these engines of growth, as marginal returns to public investment have diminished, growth in labor supply has fallen (in line with population aging) and growth in exports has stagnated. As China's economy matures and continues to move from upper-middle income to high-income status, the regulatory constraints on the business environment are likely to become more binding. This is particularly the case in the leading cities in China, such as Beijing and

Shanghai, which increasingly compete with the top performing global cities such as Tokyo, Seoul, Singapore or San Francisco that benefit from high-quality business environments.

There are no direct estimates of the potential impact of Doing Business reforms yet²⁶, but at the city level, the Beijing government estimates that the business environment reforms over the last two years directly saved RMB 3 billion or around

US\$425 million in operating costs of enterprises, enhancing their economic competitiveness and supporting the city's economic growth.²⁷ Similarly, along with an improved business environment, Shanghai has attracted 6,168 new foreign investment projects in February-November 2019, an almost one-third increase over the same period a year before, with US\$17.8 billion of new foreign investment in place, an increase by one-tenth compared to the previous year.²⁸



DRIVERS OF BUSINESS REGULATORY REFORMS IN CHINA

China's successful reforms may be attributed to six key factors:

- high-level leadership and ownership of the reform agenda,
- local policy experimentation,
- strong enforcement of the reform agenda and accountability for results,
- robust private sector participation and effective communication,
- intensive use of digital technologies and e-government services; and
- international knowledge sharing.

High-level Leadership and Ownership of the Reform Agenda

Business environment reforms have become a top national priority for China over the past few years as a means to sustain fast economic growth and maintain its rapid convergence with the most developed economies in the world. The reforms were championed by the country's top leadership: in 2017, President Xi announced that China should "create a stable, fair, transparent and predictable business environment and speed up efforts to build an open economy in a bid to promote the sustainable and healthy development of the Chinese economy," and urged mega-cities like Beijing, Shanghai, Guangzhou and Shenzhen to implement pioneering business reforms.²⁹ At the first "China International Import Expo" in 2018, he announced that "building a world-class business environment" was an important goal of China's further opening. He has reiterated the importance of business environment reforms on multiple other occasions.³⁰ Business environment reform was also the first topic discussed at the first executive meeting of the State Council of China chaired by Premier Li Keqiang in January 2018. At the meeting, Premier Li called

for more efforts to remove barriers to market access and lower transaction costs. All local governments were asked to explore new ways to create a healthy business environment for fair competition to encourage market players to provide products and services of high quality.³¹

China's State Council directly guides the country's business reform agenda. During 2018-2020, the State Council held regular executive meetings on business environment reforms to receive updates on the reform progress and lay out new reform plans and key tasks. The State Council has also issued a series of national policy documents covering various aspects of business environment reforms, and the latest key policies include a decision to replicate the good practices of Beijing and Shanghai on business regulatory reforms in the rest of China and implement the Decree on Optimizing the Business Environment. Moreover, as requested by the State Council, the National Development and Reform Commission (NDRC) carried out evaluations of the business environment across the country to further incentivize business reforms among cities in China. The first round of pilot business environment evaluations was carried out in 22 cities in 2018 and was expanded to 40 cities in 2019. The domestic evaluation system was based on the *Doing Business* indicators and other topics, including protection of intellectual property rights, market supervision, digitalization, e-government, innovation and entrepreneurship vitality. However, the results of the survey have so far been kept confidential, except for the three top performing cities (Beijing, Shanghai and Shenzhen).

The local governments are mandated to follow the reform agenda outlined by the central government under the broadly centralized governance system in China. The business reform agenda is thus also

a top priority for local governments of Beijing and Shanghai and has been directly guided by top leaders in the two cities. The city top leaders are also involved in planning, implementing and supervising the reforms. For instance, at the end of 2017, Shanghai held a plenary meeting to mobilize the business reform agenda with participation of all the top leaders; 2018 was designated as the “Year of Business Reform” in Shanghai; and a top-leader plenary meeting was held in Shanghai to discuss the reform agenda on the first working day after the New Year in 2019 and 2020. In 2019, Beijing’s top leaders led the team that visited Shanghai to exchange their business reform experience, frequently visited firms and government service centers to get first-hand information and were directly involved in the planning of specific reform tasks such as the “butler service” scheme.³² Beijing’s mayor was responsible for coordinating the reform agenda around *Doing Business* topics. He invited experts from the global best performing economies in *Doing Business* reforms such as Singapore and Hong Kong to share their experience, requested the World Bank’s technical assistance in promoting business reforms, and personally led multiple on-site inspections on the implementation progress. The strong reform momentum permeated down to the lower levels of government officials across the city.

Local Policy Experimentation

Under the central government’s guidelines of improving the business environment, local governments in China are encouraged to experiment with tailored and localized business reform policies. In 2017, the top leaders urged leading cities like Beijing, Shanghai, Guangzhou and Shenzhen to pioneer business reforms. The State Council advertised a list of local good practices of business regulatory reforms in 2018 and issued a decision in 2019 to replicate the good reform practices in Beijing and Shanghai across China. The model of local policy experimentation on business reforms is also institutionalized in the Decree on Optimizing the Business Environment.

In July 2018, the State Council released a list of 28 local good practices on business regulatory reforms by provinces/cities across the country, covering six major areas—streamlining business investment approval procedures, making it easier for business set-up and operations, facilitating cross-border trade, adopting innovative governance methods such as classified credit management and big data-based governance, providing high-quality public services and promoting the “one portal, one-stop shop, and one-time” services. The State Council also required local authorities to benchmark with and learn from such good practices and delivered a clear message to support local experimentation of pioneering business reforms.³³

The September 2019 decision of the State Council made it mandatory for all cities in China to follow good business environment reforms adopted by Beijing and Shanghai, which is likely to accelerate business reforms across the whole of China and further enhance their impact.³⁴ The State Council’s decision requires cities across China to replicate and scale up 13 good business reform practices of Beijing and Shanghai, including starting a business, getting electricity, registering property, paying taxes, trading across borders and enforcing contracts. The decision also listed another 23 good practices from the two cities to be voluntarily replicated, in the above six areas and in construction permitting.³⁵

The Decree on Optimizing the Business Environment also encourages the local authorities to take innovative and differentiated measures to improve the business environment within the legal framework. Deviations and/or faults in the local policy experimentation process, if reasonably justified, can be exempted from sanctions. Such a principle is also included in Beijing and Shanghai’s Decree on Optimizing the Business Environment implemented in April 2020.³⁶

Strong Enforcement of the Reform Agenda and Accountability for Results

China has been able to implement the reform agenda effectively in the past few years thanks to several key factors: (i) the strong capacity of central

and local governments, (ii) robust multi-level and multi-stakeholder coordination mechanism, and (iii) an effective monitoring and evaluation system with performance incentives.

Strong Capacity

State authorities in China both at the central and local level have strong conceptual, organizational and implementation capacity. According to the World Bank's Worldwide Governance Indicators, China's Government Effectiveness is significantly higher than the average for other upper-middle income economies and only slightly lower than the average for the high-income OECD countries (Figure 7).

Strong government effectiveness is supported by a largely meritocratic system of leadership appointments, supported by annual performance reviews. National and city leaders have substantial professional and public service experience.³⁷ Civil servants are selected and promoted based on China's long tradition of meritocratic examinations and strong performance supervision. Civil service jobs are considered highly prestigious and are eagerly sought after by young graduates. There have been more than one million candidates signing up for the

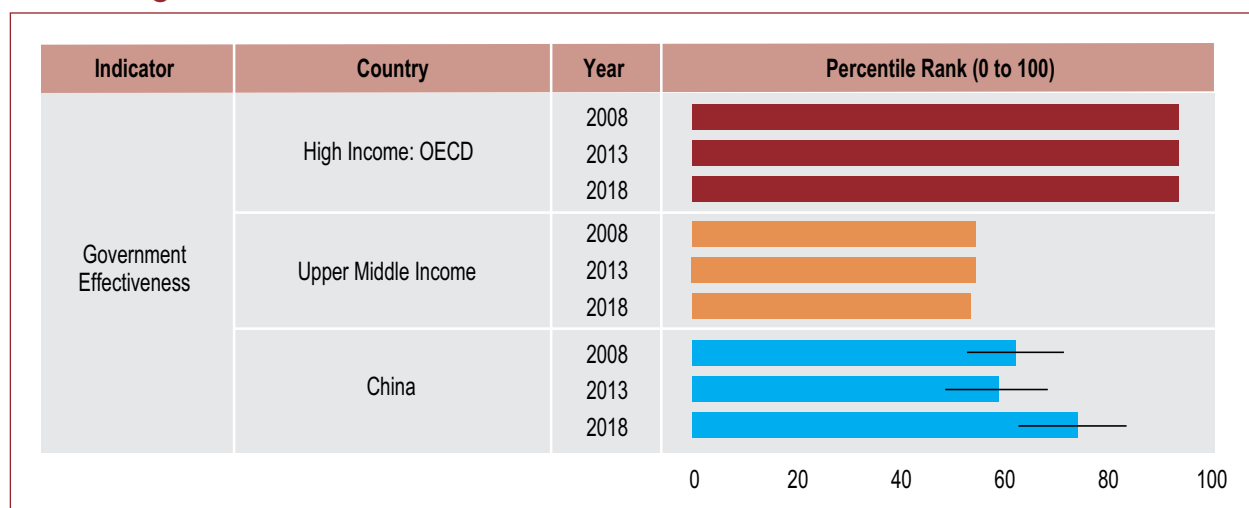
national civil service examination each year for the last ten years in China. In 2018, around 1.66 million candidates competed for in total around 28,000 national civil service job openings, with on average 59 candidates competing for one job opening. The civil service enrollment rate has been below 1/50 in the last five years (China Economic Weekly, 2018).

Robust Multi-level and Multi-stakeholder Coordination Mechanism

Coordination mechanism at the central level

Over the last several years, China has set up a multi-level and multi-stakeholder coordination mechanism to put forward its business environment reform agenda, with National Development and Reform Commission (NDRC) and Ministry of Finance (MoF) as the central-level key leading agencies.³⁸ NDRC takes a leading role in developing the investment climate reform strategy and coordinating its implementation in China, which goes beyond areas measured by *Doing Business*, while the MoF leads the reform agenda specifically focused on *Doing Business*.³⁹ NDRC and the MoF report directly to the State Council and the Premier.

Figure 7: Government Effectiveness: China, Upper Middle Income and OECD High Income Countries, 2008-2018



Source: Authors' own based on <https://info.worldbank.org/governance/wgi/>

In July 2018, the State Council set up an inter-ministerial coordination group for the “Fang Guan Fu” reform agenda, whose responsibilities include coordinating the development and implementation of key reform policies, proposing the list of reform topics to be discussed at the State Council executive meetings, addressing key reform challenges in a coordinated way and providing guidance to local authorities in enforcing the reform agenda. This group is directly led by the Vice Premier and consists of two State Councilors and the ministers of important central government agencies.⁴⁰ Under these there is a dedicated working group for business environment improvement, along with four other working groups on streamlining administrative procedures, promoting innovation and entrepreneurship, deepening business system reforms and improving social services, respectively. The working groups directly report to the State Council and the Premier. In addition, there are four supporting teams: (i) a general support team that coordinates among the working groups and supports the daily operations of the coordination group office; (ii) a legal team responsible for reviewing, proposing and enforcing the necessary legal reforms to put forward the “Fang Guan Fu” reforms; (iii) an inspection team that inspects the implementation progress and collects information on challenges faced by local authorities and feedback of the public; and (iv) an expert team to provide research support and policy advice as well as third-party evaluation of key reform tasks (The State Council of China, 2018).

The business environment working group consists of 12 ministries and central government agencies, including the NDRC, MoF, Ministry of Industry and Information Technology (MIIT), Ministry of Housing and Rural-Urban Development (MoHURD), the People’s Bank of China (PBoC) and others (Figure 8). The working group on business environment improvement organizes regular consultation meetings with representatives from the public agencies and the private sector, foreign chambers of commerce and foreign owned companies in China.⁴¹ The agenda of the working group on business environment reform includes removing institutional barriers to fair market

competition, enhancing market access of foreign firms, promoting private investment, improving trade facilitation, improving the fee and expense supervision system, promoting intellectual property rights protection and speeding up reforms in the public utilities industry. Moreover, the agenda of working groups on streamlining administrative procedures and on deepening business system reforms are also essentially concerned with business environment reforms through deregulation and rendering the approval procedures more efficient.

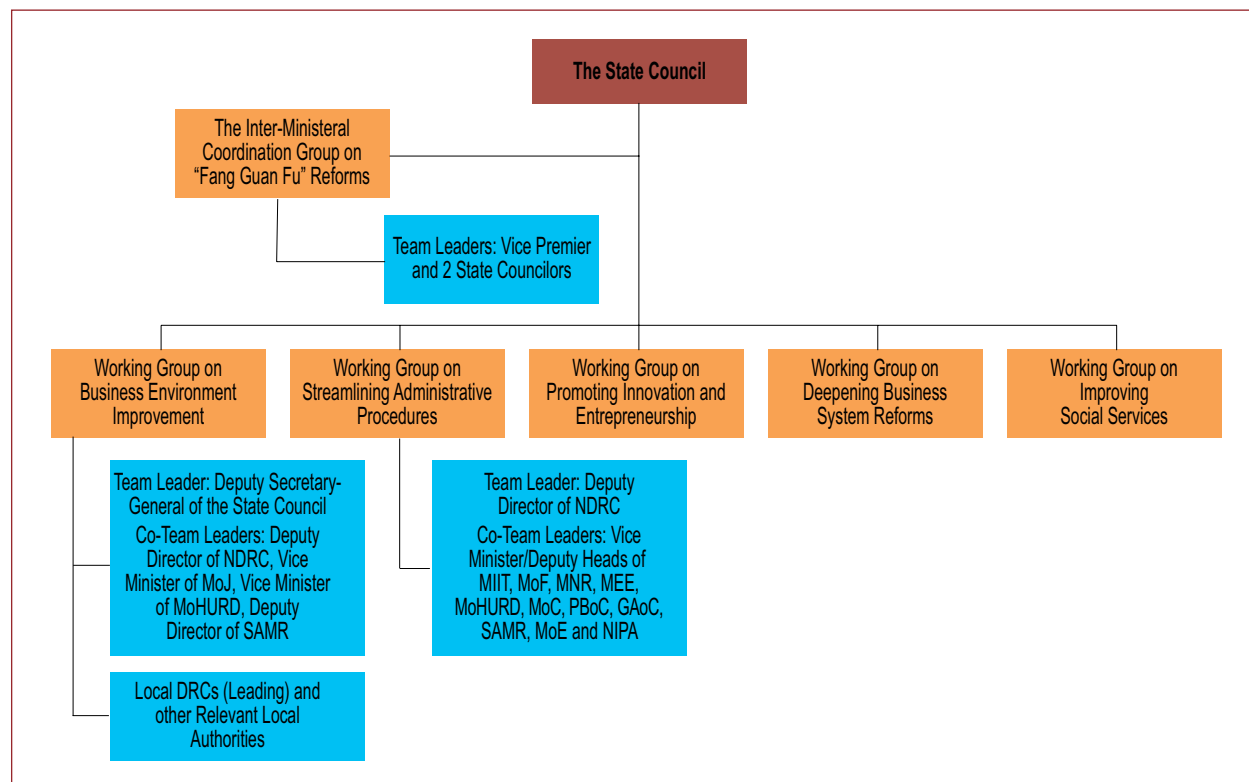
There is also a coordination mechanism led by the MoF around the areas measured by *Doing Business*, which involves central government agencies and city authorities of Beijing and Shanghai. The MoF is responsible for developing annual reform plans on how to improve China’s performance in *Doing Business* and organizes quarterly joint meetings with central and local agencies. Beijing, Shanghai and other ministries are fully consulted on the development of such annual reform plans. By benchmarking with global best performers in each topic, the annual plan includes a detailed results-oriented reform agenda. Its enforcement and real progress, particularly by Beijing and Shanghai, is being monitored and discussed at regular joint meetings. In June 2019, the MoF set up a dedicated *Doing Business* division to further strengthen the coordination around the *Doing Business* reform agenda.

Coordination mechanisms in Beijing and Shanghai

At the city level, Beijing and Shanghai also put in place a multi-level coordination mechanism to put forward the reform agenda. The system in Beijing is described in detail here for illustrative purposes:

A leading group is set up, consisting of top municipal government leaders, to provide overall guidance on the reform agenda across the city. The Beijing municipal Development and Reform Commission (DRC) is the leading agency for coordinating the implementation of the whole reform agenda with other peer agencies and communicating with the MoF and other ministries. In 2019, Beijing DRC

Figure 8: The National-Level Coordination Mechanism for Improving Business Environment in China



Note: MNR—Ministry of Natural Resources; MEE—Ministry of Ecology and Environment; MoC—Ministry of Commerce; GAoC—General Administration of Customs; SAMR—State Administration for Market Regulation; MoE—Ministry of Energy; NIPA—National Intellectual Property Administration; MoJ—Ministry of Justice.

Source: Authors' own.

set up two dedicated divisions to focus on business environment evaluation and policies. There is also a specific leading agency designated at the municipal level for each reform area measured by *Doing Business*. Regular inter-agency joint meetings are held to discuss the list of reform tasks, the implementation progress and its challenges. In 2019, more than 60 such meetings were chaired by the mayor/vice mayor and high-level municipal officials and more than 200 cross-agency meetings took place at the working level. The multilayered inter-agency coordination system ensures concentrated reform efforts and removes barriers of silo work. Box 6 provides more details on the multi-level coordination system in Beijing, which allows the city to integrate reform efforts at the national, municipal and lower district levels and coordinate among various agencies

of the municipal government and between Beijing and its peer cities.

Effective Monitoring and Evaluation System with Performance Incentives

China adopted a target driven performance management system of government officials with a formalized “objective responsibility system” in the mid-1990s. In this nationwide system, governments at higher administrative levels set targets for lower-level administrators and hold them accountable for meeting them. Over time, targets have become increasingly specific, quantifiable, and linked to civil service performance evaluation. The system also helps the central government to guide and influence local governments (Burns and Zhou, 2010).

Box 6: The Multi-level Coordination Mechanism in Beijing to Put Forward the Reform Agenda

- A working group was established with 165 representatives from 56 relevant agencies and 16 districts in Beijing to implement business reforms, organized around each reform area.
- A top-down communication mechanism was set up connecting dedicated personnel at the municipal level agencies and lower district level agencies, and Beijing DRC is leading the efforts to promote district agencies set up their own dedicated departments on business environment reform.
- Beijing municipal government gets inputs from and consults with the private sector on business reform policies through the institution of Municipal Standing Committee of People's Congress where the private sector representatives also sit.
- Beijing set up a joint working group with the neighboring Tianjin Municipality to put forward cross-border trade reforms as the most widely used border crossing for Beijing is the port of Tianjin. The working group is led by the responsible vice mayors of the two cities and regular meetings are held between the two cities.
- Beijing has set up a mechanism to hold regular peer exchange activities with provinces/cities like Shanghai, Tianjin, Chongqing and Hebei Province to share experiences and lessons in the reform process.

Source: Authors' own based on public interviews with the relevant government officials and news reports on business reforms in Beijing.

Specifically concerning the business reform agenda, the State Council holds a nation-wide video conference every year on “Fang Guan Fu” reforms and business environment improvement to summarize the annual reform progress and deploy the work plan for the next year. The video conference is chaired by the Premier and/or Vice Premier and is attended by top leaders of all relevant government agencies at the central and local levels. Following the conference, a detailed work program is distributed to all levels of government, listing in detail the key reform tasks with designated responsible agencies and a completion deadline. The implementation progress by each relevant government agency needs to be reported in writing to the State Council by the end of the year, including the achievement of major milestones and discussion of key challenges.⁴²

The State Council also carries out annual on-site inspections in selected provinces/cities to check the real progress in implementing “Fang Guan Fu” reforms and other topics. For instance, in 2019, the State Council sent an inspection team

led by ministerial officials to 16 provinces, cities and autonomous regions to check on the progress with reform implementation, including tax and fees reduction, business environment reforms and innovation promotion.⁴³ Issues with reform implementation are delegated to relevant agencies for correction and underperforming leaders are disciplined.⁴⁴ The State Council publicizes on its website and circulates a notice of criticism of selected local malpractices found during inspections, as well as a list of recommended good reform practices.⁴⁵

The MoF, along with other relevant central government agencies, carries out annual joint inspections on the implementation progress around reform areas measured by *Doing Business* in Beijing and Shanghai. The inspections are usually carried out unannounced, as a way of “checking by seeing and experiencing” on the site. An inspection summary report focusing on the shortcomings is then shared with Beijing and Shanghai and relevant agencies for them to take remedial actions.

There is a top-down monitoring and evaluation system to ensure effective implementation of the reform agenda in Beijing. It includes regular progress reporting (weekly progress reporting since 2019), random checks and unannounced field inspections. Beijing municipal government has hired third parties to carry out regular surveys of the public and business community recording their satisfaction with and comments on the business environment in Beijing. A detailed list of all the issues and challenges found by the progress monitoring activities are recorded, discussed and allocated to relevant agencies for further actions, with a timeline of completion.

Many countries around the world have introduced incentives for public officials to promote *Doing Business* reforms. China is no different. Over the past few years, enforcement of the business reform agenda has become an important component of the performance evaluation of each responsible agency and the public officials involved.⁴⁶ For instance, in the annual performance evaluation of individual public officials, there is usually a fixed quota for the maximum number of individuals that can get a top rating of “excellent”. In 2018-2019, a high proportion of civil servants in Beijing who implemented the business reform agenda got such a top rating and other municipal-level honorary titles. Given the high-profile of the business reform agenda, a number of public officials were promoted during the last two years owing to their strong performance in implementing business reforms.

Robust Private Sector Participation and Communication

There has been increasing consultation and collaboration with the private sector in the reform process in China, along with growing awareness that business regulatory reforms should be centered around the private sector’s needs. As pointed out by the top leader of the Shanghai Municipal Government, the question of whether the business environment is good or not heavily depends on the feedback of the enterprises. Therefore, Shanghai has made great efforts to engage the private sector. During 2018-2019, the municipal government organized 16 working meetings with private sector

representatives, carried out in-depth interviews with 120 entrepreneurs and business owners in Shanghai and sent out 1,077 questionnaires to get feedback from the private sector on the business environment in Shanghai in 2019.⁴⁷ In 2019, Shanghai also established an advisory committee on business reforms, the first such committee in the country. It consisted of 24 members who were all experienced practitioners and experts from various sectors including foreign and local business associations, industrial parks, law firms, accounting firms, academia and research institute, high-tech industry, medical industry and information technology industry.⁴⁸ Each member has a tenure of two years, which could be further extended.

Beijing has also become more active in engaging with stakeholders on business regulatory reforms. For instance, in 2019, the Beijing municipal government organized 133 consultation meetings with more than 1,000 representatives from the private sector, the academia and other sectors for their comments and suggestions for the upcoming BERS version 3.0.⁴⁹ The government agencies also organized information sessions for firms and professional agencies including law firms, accounting firms and architecture studios to apprise them of new policies and receive their feedback—more than 1,900 such information sessions were organized in 2019.⁵⁰

Reform policies were also communicated to the public through diverse online channels including the wide use of social media, mobile apps and others. For instance, specific columns were set up on Beijing’s municipal government portal with policy links in both Chinese and English and videos explaining the reform policies. Like Shanghai, besides the government service portal, Beijing also launched a “Beijing Tong” mobile app, and public services were also made available on WeChat and Alipay, the two most popular multi-functional social apps in China.⁵¹ These mobile channels provide similar online e-government services as the portal. More than 600 service items can be applied and processed online or through mobile apps including “Beijing Tong” app, WeChat and Alipay.⁵²

Beijing government has also launched a special “one-on-one butler service” scheme to directly engage the private sector, understand their needs and feedback and address their challenges in business operations in the most efficient way. In such a butler service system, the Beijing DRC as the “chief steward” is responsible for coordinating the implementation of the city’s “service package” system and various industrial regulatory authorities as “industry stewards”, formulating service plans according to firm requests; and the municipal investment promotion center as the “service steward” provides firms with “one-on-one” services. The “butler services” have been provided to 1,624 companies by the end of 2019, the vast majority of which are foreign invested or privately-owned enterprises.⁵³

Intensive Use of Digital Technologies and E-Government Services

Shanghai has substantially improved its administrative efficiency and made it easier to do business by setting up China’s first “single window portal” integrating city-wide cross-agency government services through block chain, big data and other digital technologies. Cross-agency data sharing has historically been a bottleneck for administrative efficiency. To address such challenges, in 2018 Shanghai set up a Big Data Center, which leads the agenda of integrating and sharing public service-related data across the city. It has organized databases covering demographic data, corporate information, geographic information, credit information, data of electronic licenses and permits, macroeconomic data, and other topic-specific databases.⁵⁴ Supported by the big data center, Shanghai subsequently launched the municipal government service single window portal where public services are structured around the users of the system. When first launched, it connected 46 municipal public agencies, 16 district governments and 220 street level government service centers. Besides the portal, the city also launched a mobile app with the same functions where registered users can access service guidelines, make appointments, check progress and even file

complaints. Each registered individual or firm (either on the single window portal or on the app) will be granted a permanent identity that allows the user to access the applicable services based on the identity and verified eligibility information shared among agencies connected to the portal. By the end of 2018, the “single window portal” had around 7.5 million registered individual users and almost 2 million registered corporate users, and the App had more than 10 million registered users (Tao, 2019). Currently, all public services are available online. Shanghai has also used cloud technologies to connect administrative service data on the portal with data from the offline government service offices.⁵⁵

E-government services are also widely used in Beijing, with more than 90 percent of services by the municipal and district level governments made available online. Beijing has applied digital technologies to set up a “catalog block chain” that integrates the “responsibility catalogue” and relevant data of 53 municipal agencies into a city-wide “data catalog”. Such a catalog allows for timely and orderly sharing and reviewing of all the relevant data of connected agencies.⁵⁶ Beijing has also adopted block chain technologies in specific areas like property registration and business start-up. For instance, Beijing started a pilot application of block chain technologies in property registration in its Haidian District, which has allowed for sharing of 12 types of national and municipal data such as demographic data, business license data, cadastral data and litigation data. More than 1,500 property registration cases have been processed with block chain technologies since May 2019, and the reviewing and verifying time of each application document has been reduced from 15 to 2 minutes, according to the government.⁵⁷ The courts have also been increasingly using online systems for case filing and processing in Beijing. Since 2019, general cases can be filed online at the website of Beijing court system or through the courts’ account on WeChat app.⁵⁸ Following the establishment of the Beijing Internet Court in September 2018, the entire process of certain types of internet related cases from filing to enforcement can be completed online.⁵⁹ By February 2020, the Beijing Internet

Court has completed the processing of around 44,000 cases; all of them were filed and fully archived online and 99.6% of the court trials took place online.⁶⁰

International Knowledge Sharing

The Chinese authorities emphasized the importance of leveraging international good practices in business regulatory reforms and sharing practitioners' knowledge to guide the reforms. To that end, for instance, the Ministry of Finance and the World Bank Group co-organized high-level international conferences on Doing Business Practice and Reforms with the Shanghai Municipal Government in Shanghai in March 2018, and with the Beijing Municipal Government in Beijing in November 2018 and 2019, respectively. The objective of the peer-to-peer conferences was to (i) discuss the results of the substantial reforms in improving the business environment in Beijing and Shanghai, (ii) share the lessons learned with other cities in China and abroad, and (iii) support the Chinese authorities in their further efforts to improve the business environment by sharing global good practices in doing business reforms from successful reformers such as the Russian Federation, New Zealand, the Republic of Korea, United Kingdom, Singapore and Japan.

The conference each year focused on several priority areas selected by the Chinese authorities, such as starting a business, construction permitting regulations, registering property, getting credit, resolving insolvency and trading across borders, but it also discussed how business regulatory reforms were effectively implemented in other economies.

The conferences have garnered much interest among policy makers and stakeholders from China and abroad. Close to 200 and around 350

participants attended the conference in 2018 and 2019, respectively. The conferences were attended by top level officials from China and abroad, including the Deputy Secretary General of the State Council of China, the Minister of Finance, the mayors of Beijing and Shanghai, the President of the World Bank Jim Yong Kim, and high-level policy makers from the Russian Federation, New Zealand, the Republic of Korea, Singapore, Cambodia, Vietnam and Mongolia. There were also representatives of central and local authorities from across China, foreign officials and World Bank experts. The representatives from China and the participating economies shared reform experiences and good practices on the selected topics.

Moreover, with the assistance of the World Bank, a delegation of policy makers from the MoF and other central government agencies went on an international study tour to Singapore in 2018 to study that city's high-performing business environment and to Russia in 2019 to learn about the country's successful business reforms, including in property registration, construction permits, and paying taxes, which over the previous five years helped catapult Russia from 92nd place in *Doing Business* 2014 to 28th place in the *Doing Business* 2020 ranking.

International financial institutions provided additional support for China's knowledge absorption and business reforms. The World Bank, for instance, supported China's business reforms by sharing just-in-time policy advice, providing reform memoranda, policy papers and diagnostic reports on international good practices in business reforms for key regulatory areas and how they apply to China, and organizing multiple technical workshops and other engagements. Other international institutions such as the International Monetary Fund (IMF) have provided additional support through their annual Article IV consultations.



CONCLUSIONS AND POLICY RECOMMENDATIONS

China has achieved remarkable success in reforming its business environment over the last few years, as reflected in the country's improvement by almost 50 positions in the *Doing Business* ranking and becoming a top 10 global reformer for two years in a row.

There were six key drivers of this success. First, China has shown strong leadership and ownership of the reform agenda, which has been championed by the President, the Premier and the State Council, as well as the top leaders in Beijing and Shanghai. Such strong leadership has generated a considerable reform momentum under a broadly centralized governance structure in China.

Second, China has encouraged local governments to undertake tailored and localized business reforms and pioneer policies that could then be promoted at a larger scale. Such approaches to local policy experimentation has helped strengthen the local governments' incentives to innovate and promote successful reforms through policy learning and adaptation.

Third, to ensure effective implementation of the reform agenda, China has put in place a strong incentive and accountability system and robust multi-stakeholder coordination system at both the central and city level (in Beijing and Shanghai) that integrated the reform efforts across various agencies and sectors. There is regular monitoring and evaluation of the reform progress, which is also an important component of the performance evaluation of government officials. High state capacity, based on largely meritocratic appointments, strong work ethos and the high prestige of civil servants, have also been helpful.

Fourth, stronger engagement with the private sector was key. Beijing and Shanghai have both moved from a government-driven work model towards a more open way to put forward the reform agenda, with more engagement and communication with the private sector. This helped ensure that the reforms effectively addressed entrepreneurs' concerns and

removed the key barriers that prevent them from starting, operating and growing their businesses.

Fifth, China's success in reforms was driven by an intensive use of big data, block chain and cloud computing technologies to facilitate e-government services. Beijing and Shanghai leveraged China's well-developed digital economy to re-organize government functions to link administrative databases together and put government services online. Both cities have now become global leaders in the use of e-government in supporting private sector development.

Finally, Chinese authorities were eager to learn from others and absorb international best practices in *Doing Business* reforms. They sought assistance from international institutions, such as the World Bank Group, co-organized multiple events to learn from the practical experience of other economies, and implemented the selected best practices, tailored to local context.

However, despite the recent progress, the Chinese authorities are aware that past success does not guarantee future success and further efforts are needed to put China among the global best performers across all *Doing Business* topics and beyond. As often emphasized by the Chinese policymakers, "there is no best business environment, only better business environment[s]".

Within the *Doing Business* framework, further improvements can be achieved in areas such as getting credit, resolving insolvency, paying taxes and trading across borders, in which China lags behind its global and regional peers. There is also room to further improve construction permitting, starting a business and registering property, including by following

practices adopted by the global top performers such as New Zealand, Singapore and the Republic of Korea. Finally, many of the reforms adopted in the last two years still need to be supported by more robust cross-agency coordination. Enforcement of new regulations also needs to be enhanced.

Going forward, it will be critically important to effectively replicate the good reform practices deployed in Beijing and Shanghai around the whole country and upgrade the institutional and regulatory frameworks to sustain the momentum of reform. While Beijing and Shanghai were the top two

Table 2: Key Reform Recommendations for Selected Doing Business Areas in China

Indicators	Medium- to Long-Term Recommendations
Starting a Business	<ol style="list-style-type: none"> 1. Transition to a fully integrated electronic data-centric company registration system 2. Introduce electronic seal and invoicing 3. Introduce systematic user feedback mechanisms.
Dealing with Construction Permits	<ol style="list-style-type: none"> 1. Strengthen risk-based approaches for all types of buildings 2. Improve inter-agency coordination and ensure clear and consistent building regulations and their application 3. Strengthen regulation of building professionals including through licensing, auditing and probity regime of building practitioners and an obligatory liability insurance regime
Registering Property	<ol style="list-style-type: none"> 1. Further consolidate all information related to the property through one connected database with a single access point (and certificate) 2. Create an electronic platform for the Real Estate Registry and introduce the possibility of online property transfers (including fee and tax payments) 3. Complete the formal registration and mapping of land plots across China
Trading Across Borders	<ol style="list-style-type: none"> 1. Strengthen cooperation and coordination of all border agencies by promoting adoption of risk-based compliance management solutions by other cross border regulatory agencies 2. Strictly implement paper-free processing and consider upgrading China's port-based platforms for providing e-services to traders and logistics operators 3. Develop automatic Time Release Study (TRS) measurements for all processes and services covered by the Trade Single Window, logistics control and clearance systems, as part of the ongoing plans to streamline and simplify procedures.
Getting Credit	<ol style="list-style-type: none"> 1. Reform the current law into an integrated legal and institutional framework that deals to the fullest extent possible with all types of debtors and creditors, businesses and consumers, for the widest possible range of debts and obligations, covering the widest possible range of movable assets, and all forms of secured transactions 2. Make institutional amendments for a centralized computerized notice-based system 3. Design and implement a system for disseminating decisions among the judiciary, for information and guidance, and to improve consistency across the regions on cases with similar facts
Resolving Insolvency	<ol style="list-style-type: none"> 1. Improve the commencement process by introducing incentives to initiate proceedings in case of financial distress and providing greater clarity on commencement issues 2. Consider creating a new pre-insolvency proceeding, and/or substantially reinforce the existing "composition process" 3. Strengthen the insolvency administrator's regulations by homogenizing rules and enhancing predictability throughout the country 4. Enhance training of the judges and provide capacity building to insolvency administrators

Source: The World Bank.

performers in China's own business environment ranking carried out by the NDRC, other cities in China lag behind the two top-performing cities, often substantially.⁶¹ Given the size of China's economy, upgrading the regulatory frameworks in all cities around the country would have a tangible impact on China's and the global economy.

Table 2 highlights selected policy recommendations for the remaining reforms in a few *Doing Business* areas, identified through discussions with the government and the private sector and based on the World Bank's analytical and advisory work,⁶² which would help China sustain its reform momentum and continue to improve its business environment, including as reflected in *Doing Business*.

However, *Doing Business* reforms are only one element of the overall business environment and investment climate. China also faces broader institutional, political economy and legal challenges in further improving its business environment.

First, despite a massive improvement in e-government service platforms, data sharing among various government institutions continues to be a major challenge. Public access to data is also difficult, including to domestic business environment evaluations such as the NDRC ranking, which remains confidential.

Second, there is much scope to further strengthen the quantity and the quality of feedback from the private sector. The current surveys tend to happen only ad hoc. There is no clarity on the feedback loop within the government and the results of the surveys are rarely available publicly.

Third, the existing legislative framework needs to be further upgraded to ensure strong enforcement of business reforms. For example, current legislation makes it difficult to implement electronic licenses,

stamps and signatures or to implement joint approval for firm investment projects (Zhang and Ma, 2019). There is also lack of predictability in enforcement of regulations in some cases because of inconsistent discretionary authority of entities at both the local and the central levels (Ding and Zhou, 2020). More transparency, stronger cooperation with the private sector and additional institutional and legal reforms would be essential for China to sustain its business reform momentum.

Fourth, the political economy of reforms will be a challenge, as vested interests that stand to lose from market opening, lower barriers of entry and decreasing rents, may oppose further reforms. China will need an efficient mechanism to mitigate these political economy risks going forward (Bai, et al, 2019; Long et al, 2020).

Finally, despite the recent reforms, there is still a large unfinished reform agenda focused on strengthening the rule of law, promoting competition and ensuring a level-playing field for all companies, including private and foreign-owned companies. There is also much to be done to open the remaining sectors of the economy, especially services, effectively implement the provisions of the FDI law, and adopt international norms such as the OECD competitive neutrality principles on the treatment of SOEs (World Bank Group and DRC, 2019, PBoC and IMF, 2019). It would also be useful to further strengthen effective IP protection, invest in human capital and make public support policies more transparent, including by increasing the participation of the private sector, publishing all regulations online and opening up access to data. All these measures would not only help reinvigorate the growth of the domestic economy, including that of the private sector, but at the same time also address the concerns of China's trading partners.



ENDNOTES

1. Contracting with the Government may be included in the future. More information on Doing Business is available at <https://www.doingbusiness.org/>.
2. See Doing Business 2020 for additional studies on the economic impact of Doing Business reforms.
3. Provisions (III) of the Supreme People's Court on Several Issues concerning the Application of the Enterprise Bankruptcy Law of the People's Republic of China (the new Judicial Interpretation).
4. The single window can be accessed at <https://www.singlewindow.cn/>.
5. The Decree is available at http://www.gov.cn/zhengce/content/2019-10/23/content_5443963.htm.
6. A uniform social credit code is a “digital identity” code unique to each firm and institution in China. More information can be found at <https://www.cods.org.cn/zhfw/dmzs/>.
7. For more information, see http://www.gov.cn/zhengce/zhengceku/2019-11/08/content_5450252.htm.
8. According to Beijing DRC, the *Three-Year Action Plan to Further Improve Business Environment in Beijing* was developed jointly by Beijing DRC and other 55 municipal government agencies as well as State Grid, after rounds of discussions on key reforms. It was also consulted with the members of the municipal people's congress and SME representatives. The following three BERS were mainly detailing and updating the reform tasks outlined in the *Three-year Action Plan*.
9. More information about the BERS in Beijing is available at: http://www.beijing.gov.cn/zhengce/zhengcefagui/rmzc/201911/t20191113_499712.html.
10. Based on information from the government. There are no corresponding private sector data.
11. Press release by Shanghai DRC, http://www.cnr.cn/shanghai/tt/20190809/t20190809_524725569.shtml.
12. See more at <http://www.shanghai.gov.cn/nw2/nw2314/nw2319/nw12344/u26aw58411.html>.
13. Based on information from the government. There are no corresponding private sector data.
14. Under the system of “notification and commitment-based approval procedures”, a business applicant may be granted a license or a permit based on a written commitment, which can be later audited. See more at <http://www.shanghai.gov.cn/shanghai/node27118/node27386/node27408/n44161/n44220/u26ai57991.html>.
15. The full text of the Administrative Measures for the Notification and Commitment of Administrative Examination and Approval in Shanghai can be accessed at <http://www.shanghai.gov.cn/shanghai/node27118/node27386/node27408/n44161/n44220/u26ai57991.html>.
16. The single window portal for public services can be accessed at <http://zwtdt.sh.gov.cn/govPortals/index.do>.
17. More results of the survey can be found at http://www.acfic.org.cn/yw/qlyw/201911/t20191104_144853.html.

18. The State Council of China, December, 2019, http://www.gov.cn/zhengce/2019-12/19/content_5462450.htm.
19. For more detailed information, see the Survey Report of Business Environment in China in 2018, available at <http://www.ccpit-academy.org/v-1-4174.aspx>.
20. A full list of business reforms in China acknowledged by the Doing Business report can be found at <https://www.doingbusiness.org/en/reforms/overview/economy/china>.
21. Beijing Administration for Market Regulation, http://scjgj.beijing.gov.cn/zwxx/tjsj/202003/t20200318_1720563.html. A reason for the small growth in the number of new firms set up in Beijing is that Beijing started an initiative to de-register firms and restrict certain types of new firm registration in the city in 2017 in line with its capital city repositioning. Beijing also has the largest number of SOEs in the country.
22. A unicorn company is a start-up company with a valuation of at least US\$1 billion. The data are provided by the Beijing municipal government.
23. Economy Daily, Dec. 12, 2019, “Business Environment Improvement in Beijing”, http://www.gov.cn/xinwen/2019-12/12/content_5460480.htm.
24. Based on data from Shanghai Administration for Market Regulation accessed in March 2020.
25. Xinhua News, January 3, 2020, “Shanghai launched its Business Environment Reform Scheme 3.0”, http://www.xinhuanet.com/local/2020-01/03/c_1125417088.htm.
26. A new World Bank project aims to estimate the impact of the business reforms in Beijing and Shanghai. The first estimates are projected to be available by the end of 2020.
27. The RMB 3 billion savings in operating costs were calculated by Beijing municipal government, which included an annual saving of around RMB 60 million in stamp fees for firms through providing free stamps, an annual cost saving of around RMB 600 million through conversion into electronic bidding process for construction projects and an annual saving of around RMB 800 million through free connection of utilities for small and micro businesses.
28. Xinhua News, January 3, 2020, “Shanghai launched its Business Environment Reform Scheme 3.0”, http://www.xinhuanet.com/local/2020-01/03/c_1125417088.htm. The numbers are quoted from Shanghai municipal government.
29. Xinhua News, July 17, 2017, “Xi urges faster opening up, better business environment”, <http://chinaplus.cri.cn/news/china/9/20170717/8975.html>
30. Chengdu Daily, 2019, January 13, “President Xi talks about business environment reforms”, <http://www.cdrb.com.cn/epaper/cdrbpc/201901/23/c34618.html>.
31. Xinhua News, January 7, 2018, “The State Council makes plan for business environment improvement”, http://www.xinhuanet.com/politics/2018-01/07/c_1122220789.htm.
32. The “One-on-one butler service” scheme is designed to directly engage and serve the private sector. The next section on “Robust private sector participation and communication” provides more details on this initiative.

33. The State Council's "Circular by the General Office of the State Council on Some Typical Local Practices in Improving the Business Environment" can be accessed at http://www.gov.cn/zhengce/content/2018-08/03/content_5311523.htm.
34. For more details, see "The State Council Notice on Replicating and Scale-up of Good Practices in Business Environment Reforms available at http://www.gov.cn/zhengce/content/2019-09/19/content_5431319.htm.
35. A detailed information of all the good practices of Beijing and Shanghai can be found at http://www.gov.cn/xinwen/2019-09/19/content_5431347.htm.
36. The Decree on Optimizing the Business Environment released by the State Council can be found at http://www.gov.cn/zhengce/content/2019-10/23/content_5443963.htm; the Decree released by Beijing can be found at http://www.beijing.gov.cn/zhengce/zhengcefagui/202004/t20200401_1781837.html; the Decree released by Shanghai can be found at <http://www.shanghai.gov.cn/nw2/nw2314/nw2319/nw12344/u26aw64686.html>.
37. The mayor of Beijing, Chen Jining, for instance, is the former President of Tsinghua University, one of the leading universities in China and globally, and Minister of Environmental Protection. The mayor of Shanghai, Ying Yong, is a former President of the Shanghai High Court. In February 2020, in recognition of his strong performance, Ying was appointed Party secretary of Hubei (with a capital in Wuhan) to fight the coronavirus pandemic.
38. The National Development and Reform Commission (NDRC) is in charge of China's macroeconomic planning. It is responsible for formulating and implementing strategies for national economic and social development and coordinating major economic operations. More information on the NDRC can be found at <https://en.ndrc.gov.cn/>.
39. The Ministry of Finance mostly takes the lead in the coordination work with Beijing, Shanghai and the World Bank on how to improve China's performance in *Doing Business*.
40. It is directly led by Vice Premier Han Zheng and two State Councilors, Wang Yong and Xiao Jie.
41. NDRC, http://www.gov.cn/xinwen/2018-10/30/content_5335891.htm, accessed in February, 2020.
42. The latest annual reform agenda released in August 2019 can be accessed at the website of the State Council at http://www.gov.cn/zhengce/content/2019-08/12/content_5420694.htm.
43. The State council, http://www.gov.cn/zhengce/2019-10/24/content_5444426.htm.
44. The state Council, http://www.gov.cn/guowuyuan/2019-11/12/content_5450989.htm.
45. A list of malpractices in implementing the "Fang Guan Fu" Reforms and business reform agenda discovered during the 6th national inspection in 2019 can be found at http://www.gov.cn/guowuyuan/2019-11/12/content_5450989.htm.
46. Long tenure is a key merit of the civil service jobs in China, and it is rare to fire public servants unless they breach party discipline or break the law. The performance evaluation system is directly linked to promotions, which matter the most in the hierarchical political system in China.
47. Jurisprudence Daily, September 27th, 2019, "Beijing and Shanghai's experiences in improving business environment to be replicated by the State Council", <http://www.chinanews.com/gn/2019/09-27/8966754.shtml>.

48. A full list of the first 24 advisory committee members can be found at <http://fgw.sh.gov.cn/xxgk/cxxxgk/36586.htm>.
49. Beijing Youth Daily, November 13, 2019, “Beijing Launched Business Reforms Version 3.0”, http://epaper.ynet.com/html/2019-11/13/content_341627.htm?div=-1.
50. Beijing DRC.
51. WeChat and Alipay both provide access to many types of city services such as making utilities payments and medical appointments.
52. Beijing municipal government website, http://fgw.beijing.gov.cn/index_13945/xwfb/202001/t20200114_1575039.htm#top.
53. Data provided by Beijing DRC.
54. Construction of such databases is still ongoing.
55. Shanghai municipal government, accessed in March ,2020, available at <http://www.shio.gov.cn/sh/xwb/n809/n814/n845/u1ai18576.html>.
56. Beijing Daily, November 7, 2019, “Block chain used in Beijing for Administrative Catalogue among 53 agencies”, available at http://www.gov.cn/xinwen/2019-11/07/content_5449622.htm.
57. Beijing DRC, available at http://fgw.beijing.gov.cn/index_13945/xwfb/202001/t20200114_1575039.htm#top.
58. The website of Beijing courts, <http://bjgy.chinacourt.gov.cn/article/detail/2019/05/id/3875975.shtml>.
59. Beijing Internet Court is responsible for cases including e-commerce cases, internet services dispute cases, internet copyright cases, cases related to domain name, and so on. <https://www.bjinternetcourt.gov.cn/qtmodel/index/ssfwpt.html>.
60. <http://legal.people.com.cn/n1/2020/0221/c42510-31599123.html>.
61. Beijing Youth Daily, August 28, 2018, “ Beijing ranked top 1 in the national business environment evaluation”, <http://news.sina.com.cn/gov/2018-08-28/doc-ihixzkm1698288.shtml>.
62. World Bank. 2018. “Doing Business Reform Memorandum”, unpublished report, February.

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