

Comprehensive Development Strategies in Water Management, Corporate and Community Governance, and Fiscal and Institutional Federalism

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Three Challenges for China's Economic Development and Sustainable Growth:

- (1) Environment constraints, especially water shortage in Northern China
- (2) Short-term behavior at local governments and large SOE managers
- (3) Coordination problem caused by decentralized experiments

Strategic choice:

- (1) Engineering and administrative vs. economic and institutional approach?
- (2) Centralized vs. decentralized approach?

Methodological thinking: from trade-off (either – or) approach to complementary (this and that) approach in mixed economy.

I. Environment Policy in dealing with water shortage in North China

- (1a) Large hydraulic projects of transferring surplus water in South China or Tibet to North China or Yellow river
- (1b) Industrial policy for water-saving and energy-saving technology
- (1c) Economic policy by means of nonlinear differential pricing
- (1d) Private land property and natural reservation policy in Northwest China

II. Corporate and community governance in local developments

- (2a) Improve corporate governance by designing integrated incentive including multi-layer option aimed to short and medium term targets, encouraging people's exchange between public and private sector
- (2b) Advance reform for non-profit sector (education, healthcare, and research) by developing social funds at different levels. Introducing financial management and incentive mechanism for social funds.
- (2c) Socialization rather than privatization of large SOE, by develop social funds for education, healthcare, and research. Large SOE should owned by independent social funds rather than state agency.
- (2d) Legalize grey funds (so-called "small cashbox" or xiao jinku) at local governments, improving accounting standard for government operation, and increase transparency of local government funds
- (2e) Community governance and village assets management is the key for new rural development
- (2f) Develop grass-root democracy in managing community assets, develop a two-layer system of Board of Senior Citizens and Management team.

(2g) Greater transparency about personal property for public servants and corporate leaders of public companies.

III. Fiscal and Institutional Federalism for Innovation and Sustainable Development

(3a) Trade-off between diversified innovation and integrated economy with scale and scope

(3b) Central government sets national standard, minimum requirement, and social insurance, local governments could develop different development strategy and local guideline in financial and cultural affairs. Examples: business regulations, education, property rights and marriage

(3c) Special economic zone in designated inland area for lottery and cultural life.

(3d) Encouraging two-way mobilization between coastal and inland area, rural and urban area, large and small and middle cities by economic incentive and social status in retirement, medical care, housing, and school credit for children and grand children.