In their article “On the Development of Public–Private Partnerships in Transitional Economies: An Explanatory Framework,” Yongheng Yang, Yilin Hou, and Youqiang Wang create a generic framework to explain the environment for public–private partnership (PPP) development in transitional economies. As a former World Bank senior economist who has spent more than 10 years working with developing countries to help them enhance their public service delivery system, I find the framework useful and credible.

The proposed framework employs a tripod structure that operates on three mutually supporting and reinforcing pillars: the market, the operating environment, and the government. My experience in China tells me that these are indeed essential components of successful PPP implementation in China.

The Market
In China, PPPs have been implemented for more than two decades. They increasingly have been recognized as an effective mechanism for public service delivery. The emergence and development of PPPs in China was accompanied by market liberalization reforms of public facilities and services, which provided private investors with lucrative market space that was originally controlled by the government.

In addition, China is now undergoing an unprecedented urbanization process in human history, with the urbanization rate jumping from 17.9 percent in 1978 to 51.3 percent in 2011. This rapid urbanization process has created explosive demand for urban services that cannot be satisfied by relying solely on public funding. As the article states, “Transitional economies that previously relied on government expenditures have . . . begun to adopt PPPs as a supplemental strategy, particularly at the local level to finance hard infrastructure.” From 1990 to 2011, there were 1,018 infrastructure projects with private participation in China in sectors such as energy, telecom, transport, water and sewerage, with a total investment of US$116.4 billion.1

The Operating Environment
In order to facilitate the implementation of PPPs in China, the relevant central authorities have actively introduced a series of policies relating to the provision of public services by the private sector, such as the Opinions on Acceleration of Privatization Process of Public Facilities (December 2002) by the Ministry of Construction (now the Ministry of Housing and Urban-Rural Development). Local governments have followed the directives of central authorities and provided guidance such as the Regulations for Franchised Operation of Beijing Basic Urban Facilities by the Beijing municipal government in March 2006. These policies and guidance have provided an enabling environment for and facilitated the development of PPPs in China.

In the meantime, partly because some of the policies are short on detailed operational rules, their implementation has not been satisfactory. For example, even though China’s Tendering and Bidding Law states that the tendering process should be open and fair, the reality has often been the opposite, as evidenced by many bribery cases publicly announced. In addition, there has been a lack of administrative framework for PPP projects in China. The approval of a PPP project may involve many government departments. Among them, it is often not clear which one has the authority to negotiate and sign a contract. Thus, some overseas investors may insist on the passing of relevant rules or regulations for a PPP project to ensure that the signed agreement will be enforceable.

The Government
In China, there has been more emphasis on attracting private investment than on building government credibility and capacity. In order to attract private investment, some local governments tend to overpromise to the degree of hurting their own interests. When government officials change, new officials may look for ways to terminate those agreements that seem unfair or to change or renegotiate the
contract terms to align with their new plans. Some local governments suffer heavy losses from PPP projects because of poor preparation and a lack of competency. According to the World Bank, around 4 percent of PPP projects in China have been cancelled or are in distress.\(^2\)

With the increasing popularity of PPP projects, the Chinese government has started to improve its capacity in PPP operations by training its officials to upgrade their professional skills and by recruiting professional consultants with specific expertise to make up for its inadequate knowledge on particular aspects of the projects. Over the years, PPPs have raised substantial private funds for China’s public facilities and services, improved the quality and efficiency of public service delivery significantly, and helped redefine the role of the government to some extent.

Going forward, as suggested by the authors, China still has much room for improvement in terms of deepening market liberalization, bettering institutional operating environment, and enhancing government capacities—all of which serve as critical conditions for the further development of PPPs and successful urbanization process in China.

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