

Research on Institution Quality Analysis, Evaluation and Improvement Strategies

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Abstract. As a social rule, institution can coordinate social economic relations and reduce transaction cost in social economic activities. Institution quality refers to the general name of institution's quality and degree. A good institution can promote the all-round development of economy, society and people, whereas a bad one curbs social development and realization of justice. Most developing countries don't lack corresponding institutions, but quality systems. With the current development pattern of the world economy, the competition among countries is not only manifested in the hardware environment such as economy scale, but also gradually turned to soft power like institution quality. For China, as the most competitive developing country, issues such as how to compete with developed countries in terms of institution, remedying deficiency in its own institution quality, reducing the gap with developed countries, creating its own institution advantage, and promoting sustainable economic and social development have far-reaching practical significance.

1. Introduction

Since the reform and opening up, China has made remarkable economic achievements and gained increasing national economic strength, becoming the center of attention in the world while bringing extensive discussions on its economic growth miracle. With economic practice, China reveals the tremendous energy that institution changes have released for economic growth. Reform is an institution choice, arrangement and innovation made by the Central Committee of the Communist Party of China, and its key feature is institution construction. China has made significant effects in the process of institution construction, which not only strengthens institution quality, but also enhances its competitiveness. However, there are still many problems in China's institution construction, where gaps with developed countries continue to exist. This study aims to propose thoughts and measures to improve China's institution quality according to the reality of institution construction in China in the way of summing up relevant theories.

2. China's institution quality analysis

Since institution is unobservable, scholars generally use its proxy variable to measure its quality. This paper will mainly analyze enterprise business environment index, corruption perceptions index, rule of law index, and index of economic freedom. These indicators quantify the institution quality. Through comparative analysis, this paper provides a preliminary understanding of institution quality gap between China and developed countries and proposes corresponding measures.

2.1 Enterprise business environment index analysis

The enterprise business environment index ranks all economies according to the convenience of their business environments. To some extent, the index reflects the institution quality of a country, which is mainly to quantify the external business environment and its quality.

The published report by the World Bank titled *Doing Business 2018: Reforming to Create Jobs* analyzed and evaluated the business supervisory regulations and property rights protection in 190 economies around the world to measure whether the regulations will help promote or curb business activities. The higher the ranking is, the more favorable the economy's supervisory environment is

to open and operate a local company. The ranking indicators consist of 10 items including starting a business, protecting small and medium investors, paying taxes, and cross-border trade. According to the report, New Zealand topped the list for the second consecutive year while mainland China ranked 78th, the same as that last year. Based on the World Bank's reports from 2013 to 2016, the ranking of China's business environment in the world has moved up by 18 spots.

Table 1. Ease of doing Business Ranking.

Countries	China	New Zealand	Singapore	Denmark	Korea	Hong Kong China	United States
Ease of doing Business Ranking	78	1	2	3	4	5	6

Note: :*Doing Business 2018*.

Enterprise's business environment includes macro-, meso- and micro- environments. According to the chart, the ranking of China's business environment has moved up, but there is still a gap with developed countries. Factors such as a large proportion of state-owned economy, a great number of monopolized industries, and the lack of effective supervision, limit the competition among enterprises, coupled with an incomplete legal protection system, leaving China's business environment with many difficulties.

2.2 Corruption perceptions index analysis

The Corruption Perceptions Index is a list of corruption perceptions index created by world-famous NGO "Transparency International", which reflects the observations of corruption in all countries worldwide by businessmen, scholars and risk analysts around the globe.

Table 2. Corruption perceptions index.

Countries	China	New Zealand	Denmark	Finland	Singapore	Canada	Japan	India
Corruption perceptions index ranking	77	1	2	3	6	8	20	81

Note :Corruption Perceptions Index.

The international organization Transparency International ranks the corruption perceptions indexes of 180 countries and regions around the world with grading standards, including the government's efforts to punish corrupt officials, the universality of bribery in society, and citizens' ability to hold public authorities accountable. The list shows that the least corrupt country is New Zealand while the most corrupt one is Somalia. Thanks to government's continuous anti-corruption actions, China's incorruptness level has risen to 77th, 2 spots higher than the 79th in 2016. The Asian country with the highest ranking is Singapore in the 6th place.

According to the chart above, Chinese government's anti-corruption actions have achieved good results in improving its corruption perceptions. However, the market economy dominated by public ownership in China also brings rent-seeking problem, which will affect its institution quality to a certain extent. In addition, with the development of China's market economy in recent years, problems such as larger income gap, increasing cost of stability maintenance, rent-seeking and corruption also affect its institution quality.

2.3 Index of economic freedom

The Index of Economic Freedom is an annual report issued by *The Wall Street Journal* and Heritage Foundation, one of the world's authoritative evaluating indicators of economic freedom and an important indicator to measure institution quality.

Table 3. Index of economic freedom.

Countries and regions	China	Hong Kong China	Singapore	New Zealand	Switzerland	Australia	United States
Index of economic freedom	111	1	2	3	4	5	17

Note : The Heritage Foundation.

The Index of Economic Freedom report uses 12 indicators, including fiscal health, trade and financial freedom as evaluating factors and hundred-point system as its scoring method, the higher the score, the higher the degree of economic freedom. Otherwise, the lower the degree of economic freedom. Figure 2 shows the *2017 Index of Economic Freedom* published by the Heritage Foundation. Among the 180 economies in the world, Hong Kong, China, topped the list with 89.8 points, followed by Singapore with 88.6 points and New Zealand with 83.7 points. Hong Kong has been in the first place of the list for 23 consecutive years. Among other economies, Britain ranked 12th, the United States 17th, Germany 26th, Japan 40th, and China 111th with 57.4 points. The Index of Economic Freedom examines the level of government's interference with economy. In general, the higher the degree of economic freedom, the higher the rate of economic growth.

Factors that affect China's index of economic freedom include low inflation rate in recent years, monetary policy score close to world average, lower tariffs, more favorable comments on trade policies, the gap between its taxation system design and international rules and practices, lack of transparency in policies, insufficient security regulation, inadequate exposure of stock market information which results in low capital flow and foreign investment evaluation, less openness in banking and insurance sectors, and incomplete property rights incentive mechanism.

2.4 Nomocracy level

Nomocracy level in a country is an important aspect of quantifying governance institution quality and one of the key factors that determine a country's institution quality and nature. Meanwhile, democracy plays an extremely important role in the formation and innovation of institution which are both institutions and factors that determine institution quality. It also determines the quality and nature of market economy in a sense.

According to the report of the *Annual Assessment Report on China's Law-based Government (2018)*, in the evaluation of 2018, the overall level of nomocracy construction nationwide has improved, and 80% local governments had passing scores in the evaluation. In spite of the facts that the phenomenon of imbalance in various regions exists objectively, the gap among cities in eastern China is increasing while that among the cities in central and western regions shows signs of shrinking, the institution construction of law-based administration and administrative enforcement of law are always weak with low scores; though e-government has been growing rapidly, its user experience is not good. With insufficient service functions, many local government websites lack consulting service function, and should enhance its interactive function. It can be seen that there are still many weaknesses in China's nomocracy construction, especially in the fields of nomocracy implementation and effect systems. Although there are quite a few laws and regulations regarding market economy, the phenomena of institutions existing in name only and ineffective enforcement are more serious.

3. Measures to improve China's institution quality

3.1 Improve the institution environment and efficiency

3.1.1 Build and improve the anti-corruption system to ensure the effective implementation of institution

In order to enhance institution quality, China still needs to constantly improve the anti-corruption system, scientifically and rationally design a long-term implementation mechanism and a scientific operation mechanism along with other measures such as establishing and improving the supervision

and inspection mechanism for institution implementation, expanding supervision channels, integrating supervision resources, improving the accountability system, completing the restriction and supervision mechanism of power, and ensuring the implementation of relevant institutions. It is needed to implement a government information exposure system, improve the information exposure mechanism, strengthen the anti-corruption efforts, and ensure the scientific and effective implementation of institution.

3.1.2 Improve basic institutions and create a good institution environment

In the future institution construction, China should accelerate the establishment and improvement of basic institutions, especially the construction of legal and property rights institutions. Only a good institution environment and an explicit property rights institution can generate a huge incentive mechanism to advance technology development fundamentally. Additionally, it should also strengthen institution constructions including product market rules, financial market regulations, infrastructure and labor market rules. Reform of education system should be accelerated, and investment in basic education needs to be increased while the quality of labor force should be improved to expand the accumulation of human capital. Social security system, medical and health system, and taxation system should be perfected to reduce income gap and promote social equity.

3.1.3 Improve the business environment and institution quality at the enterprise level

At present, China needs to continuously improve the business environment of enterprises and provide all the resources they need, including micro institution environment, infrastructure, fund and well-educated workforce. It should attach importance to rational and equitable distribution of social resources, enables enterprises to use resources effectively to create value, combined with other measures such as establishing a scientific incentive mechanism and an efficient financial system, encouraging enterprises to create economic value for society through a good institution system, and improving institution quality at the enterprise level.

3.2 Strengthen democracy and legal system, and promote institution innovation

3.2.1 Advance political system reform and attach importance to institution quality

For the phenomena above, the key to improving China's institution quality is to advance political system reform as political system determines a country's institution quality to a certain extent. China's transformation of the economic development mode should also focus on the improvement of institution quality instead of the increase of institution quantity. A more extensive, complete and sounder people's democracy along with a socialist political civilization should be developed. It is necessary to establish a system of power operation, restriction and supervision to put power into the cage of institution. Supervision inside the party, by people, society and public opinion should be perfected while exposure of party affairs, government affairs, judicial affairs and affairs in all areas should be implemented.

3.2.2 Deepen the reform in the administrative law enforcement system and improve China's nomocracy level

In order to improve nomocracy level and institution quality, China needs to continuously deepen the reform in the administrative law enforcement system. It is necessary to promote comprehensive law enforcement and establish an administrative law enforcement system with unified powers and responsibilities as well as authority and efficiency. China also needs to strengthen the supervision of administrative law enforcement, fully implement the administrative law enforcement responsibility system and promote fiscal exposure to ensure strict, standard, equitable and civilized law enforcement. The educational mechanism of law popularization in society should be improved and national nomocracy awareness should be enhanced. People's participation in judicial channel should be expanded. The judicial guarantee system for human rights, the mechanism for prevention of misjudged case, correction, and accountability and the legal aid system should be improved.

It is important to improve the legal system and economic legal system, establish a more explicit and standard legal system, strengthen the construction of a supporting legal system as well as the consistency between laws and regulations and socialist market economy. China needs to standardize the behavior of market entities, improve the transparency and sustainability of government

intervention as well as the authority of law, incorporate the power of government intervention into legal system, establish relevant legal security systems and a fair, just and public legal mechanism, promote market competition, and connect China's legal system with general rules of the world.

3.3 Make institution decision and choice on the basis of freedom

3.3.1 Strengthen property rights protection and exert the resource allocation function of property rights market

China needs to strengthen the protection of property rights, personal property and state-owned enterprise property rights system, establish a reasonable property rights system, exert the resource allocation function of property rights market, and accelerate capital flow and foreign investment. It is needed to strengthen the construction of the enterprise's property rights system and credit system as well as the circulation rate of property rights, protect intellectual property rights, and gradually establish a capital market with standardized property rights.

3.3.2 Promote financial marketization and allocate financial resources properly

The government has continuously reduced its intervention in credit allocation, accelerated the reform of commercial banks, strengthened interest rate marketization and the marketization of insurance funds, improved the efficiency of foreign companies' local financing, the exchange rate formation mechanism and market transparency. It also changes the current status of the financial system, promotes financial marketization, expands financing channels, and allocates financial resources properly.

3.3.3 Transform government functions and strengthen the stability and standardization of institution

Government needs to transform its functions, establish a service-oriented government, provide public services, maintain market order and foreign trade balance, further strengthen the stability and standardization of institution and redistribution policies, optimize economic structure, ensure economic stability and complete employment, improve social welfare and safeguard measures, and realize social equity and coordination of interests. It is necessary to strengthen environmental control, reduce interference in the judicial system and the number of unnecessary monopoly industries, increase the punishment of administrative monopoly behavior, introduce competition, and continuously improve economic freedom.

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