

Delivery lessons from China



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We live in the age of the hyperefficient supply chain. Using advanced technology and worldwide logistical networks, multinational companies have perfected the art of shipping parts and finished products to all corners of the globe, quickly and profitably. So why does the social sector still suffer from a delivery problem? Why do so many governments and charities struggle to provide social goods such as nutrition, healthcare, and education to the populations that need them most?

The absence of a profit motive is not a sufficient explanation. The US military is a nonprofit enterprise, yet it operates an efficient global supply chain that delivers equipment and personnel across vast territories at high speed. A more plausible argument is that social goods can be delivered more efficiently to the extent that the social and private sectors cooperate to achieve societal goals. In this regard, it's worth considering the alternative

development model espoused by China, where public and private interests tend to be quite closely aligned.

Under private capitalism, the bedrock of many Western economies, there is generally a clear delineation between public and private sectors. Government is charged with delivering public goods such as education, infrastructure, and national security, providing regulatory oversight, and setting sound economic policies. According to neoclassical economic theory, meanwhile, businesses are supposed to maximize their profits by selling whatever goods the market demands for more than the cost of production.

Under state capitalism as practiced in China, the interests of the state and commercial sectors are far more closely aligned because the government controls much of the domestic economy through an extensive network of state-owned enterprises. In this system, the social and political goals of the government tend to take priority over strictly commercial concerns. For example, the government can leverage the delivery expertise of a state-owned beverage company by instructing it to transport and distribute medicines in distant areas.

Both paradigms have their costs and benefits. While private capitalism has shown an unmatched ability to create wealth, it also tends to create extreme income inequality and a myopic focus on quarterly results at the expense of long-term growth. State capitalism gives companies the freedom to invest for the future rather than obsessing about immediate profits. On the other hand, China's large state-backed enterprises often use their privileged access to capital to crowd out private competitors that might generate far more value on a level playing field.

On the narrow point of improving the delivery of goods and services in the social sector, China's state-based model offers useful lessons on how a symbiotic relationship between the public and private sectors can improve delivery outcomes.

But how do you encourage government and private companies to cooperate in the delivery of social goods if the state lacks the coercive authority that you find in state-led economies like China? At least two things need to happen for greater cooperation to occur.

First, there must be political willingness to accept that the delivery of many social goods and services—activities that have traditionally been the domain of governments—is best left to the private sector. Governments should be willing to cede more power to the private sector, particularly when there is evidence that market mechanisms can deliver superior

outcomes. In essence, governments need to prioritize efficient delivery of quality public services, regardless of who provides them.

Second, we need better measurement and more transparency on outcomes (good or bad). Closer and higher-quality engagement between the public and private sectors will help highlight weaknesses and failures in existing delivery mechanisms, and could form the basis of lasting and impactful solutions from private businesses, which thrive by solving for inefficiencies.

Once policy makers subscribe to the benefits of closer public-private engagement to deliver social outcomes, governments have a range of policy levers at their disposal to influence the behavior of private companies. The promise of tax breaks and subsidies, for example, can induce the private sector to divert more of their financial heft and expertise toward the efficient delivery of social goods.

The good news is that there have already been a number of significant efforts to bridge government and private sector interests. Innovations involving public-private partnerships have been an important step toward linking the social motives of government with the efficient execution of the private sector. In this case, a government service or commercial enterprise is financed and operated through a joint venture between a public-sector agency and a private entity. Education voucher systems, where students apply state-issued financial credits toward tuition to attend private schools, are public-private initiatives that have recorded some success.

It's not hard, under a scenario of closer public-private cooperation, to envisage an integrated system where providers of medicines from the public sector would be alerted when delivery trucks were heading to remote areas of developing countries, and thus could plug into the network of the private company to transport much-needed medications.

If the idea of an immediate pivot to China's state-led model seems too extreme, the Nordic countries show that it is possible to foster greater cooperation between the public and private sectors and generate quality social outcomes, without an aggressive government diktat. Denmark and Norway have already licensed private firms to run public hospitals. All the Scandinavian countries have strong systems in place to measure performance of schools and hospitals. Importantly, the public sector is also highly transparent. In Sweden, for example, everyone has broad access to government records.

Clearly, private capitalism need not be jettisoned to achieve a higher level of public-private cooperation. However, public and private actors must be willing to combine forces and leverage their respective skills for the common good. If such an approach is harnessed, the private-capitalism paradigm could be substantially enhanced, and have a significant and positive impact on many social ills afflicting the world today.

- See more at: <http://voices.mckinseysociety.com/delivery-lessons-from-china/#sthash.PFY6vx7w.dpuf>