

Promoting the development of new quality productive forces through institutional innovation in administrative reform

Xingxiang Zhang and Guan hao Zeng
School of Economics, Xiamen University, Xiamen, China

Abstract

Purpose – This paper examines the role of institutional innovation in developing China’s new quality productive forces (NQPFs), with a specific focus on the policy evolution from early “deregulation” to contemporary “Fang Guan Fu” (the reform of delegation, regulation and service). It aims to analyze how this institutional change has facilitated the advancement of NQPFs in the context of China’s economic transformation.

Design/methodology/approach – Employing a historical and systematic analysis, this study traces the trajectory of China’s administrative reforms over the past four decades. It integrates perspectives from political economy, institutional theory and innovation studies to evaluate the impact of these sequential reforms on the emergence and growth of NQPFs.

Findings – The study reveals that the reform of “delegation, regulation and service” represents a critical institutional innovation that has significantly catalyzed the development of NQPFs. This reform signifies a fundamental shift from initially empowering enterprises through deregulation to constructing a sophisticated ecosystem that blends regulation with services, thereby underpinning technological innovation. This institutional transition has been instrumental in enabling the transition from traditional to advanced, high-tech productive forces and in fostering an innovation-conducive environment for strategic emerging industries.

Originality/value – This paper provides a comprehensive analysis of the role of institutional innovation in driving economic transformation in China. By connecting the reforms of “deregulation” and “delegation, regulation and service” to the development of NQPFs, the paper offers fresh insights into how institutional reforms can adapt to the demands of technological revolutions, providing valuable guidance for other economies undergoing similar transitions in the digital age.

Keywords Deregulation, Delegation, Regulation, Service, New quality productive forces, New relations of production

Paper type Translated paper

In the second half of 2023, during field investigations in Sichuan, Heilongjiang, Zhejiang and Guangxi, President Xi Jinping emphasized the need to integrate scientific and technological innovation resources and advance the development of strategic emerging and future industries, accelerating the cultivation of new quality productive forces (NQPFs) (Xi, 2024). Later, Xi elaborated on the concept of NQPFs, characterizing them as the outcome of a qualitative leap in the combination of labor, means of labor and objects of labor, representing an advanced form of productivity consistent with the new development philosophy (People’s Daily, 2024).

The formation of NQPFs encompasses not only a technical and economic process but also a systematic political and social endeavor (Zhao and Ji, 2024). As Xi stressed, “the relations of production must conform to the development requirements of productive forces,”

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emphasizing that to develop NQPFs, it is essential to “comprehensively deepen reform and establish new forms of relations of production that are compatible with these forces, which necessitates deepening reforms across economic, science and technology management and other related systems to remove institutional barriers hindering the advancement of NQPFs (People’s Daily, 2024).

The accelerated development of NQPFs relies on the provision of institutional public goods. The reform of “delegation, regulation, and service” – streamlining administration, delegating power, improving regulation and upgrading services – functions as a form of deregulation and empowerment in the new era. It constitutes a government-led institutional innovation designed to adapt to the development of NQPFs, with its focus on establishing new relations of production. It represents a key initiative in improving the socialist market economic system and therefore holds overarching significance for accelerating the development of NQPFs.

1. The essential connotation, main characteristics and evolution path of new quality productive forces

On January 31, 2024, President Xi, during the 11th Collective Study Session of the Political Bureau of the CPC Central Committee, for the first time, systematically elaborated on the concept and connotation of NQPFs from perspectives encompassing their fundamental meaning, core indicators, features, key elements and essential nature (People’s Daily, 2024). NQPFs represent a qualitative leap in the evolutionary trajectory of productive forces, embodying profound connotations and demonstrating distinctive characteristics of this era.

1.1 The essential connotation of new quality productive forces

Marx stated that productive forces constitute “the development of productive capabilities and their constituent elements” (Marx, 2009a, p. 1000). In Marx’s view, changes and development in productive forces give rise to new relations of social production, thereby propelling history forward (Marx, 2009b, p. 724). Furthermore, Marx attached great importance to the role of science and technology in transforming productive forces, emphasizing that “science and technology are included within the productive forces” (Marx, 2009c, p. 188). Consequently, NQPFs, in their essence, do not transcend the conceptual boundaries of productive forces; rather, they represent the latest productive forces that have emerged under the rapid development of the new technological revolution and industrial transformation.

From an etymological perspective, the character “new” in NQPFs represents the starting point, “quality” is the key, and the ultimate goal rests on the development of productive forces (Zhai and Xia, 2024). Examining the fundamental components of productive forces, the “new” in NQPFs is primarily manifested in the following three aspects:

First, new workers. Labor has shifted from being primarily physical to predominantly intellectual. Unlike traditional workers who operated simple machinery, the workers engaged in creating NQPFs are skilled in operating intelligent manufacturing equipment and leveraging new digital information technologies. Examples include data analysts and algorithm engineers, representing the application of digital labor.

Second, new means of labor. Disruptive technological advancements have given rise to new forms of technology, thereby reshaping the means of labor. In terms of NQPFs, the scope of the means of labor is more dynamic and extensive. Digital technologies like artificial intelligence (AI) are driving the digitization, automation and intellectualization of the means of labor, giving rise to new means such as high-end manufacturing equipment and industrial robots. Data, computing power and algorithms form the “troika” of AI: data serve as the new means of production, computing power as the new instrument of production and algorithms as the new

mode of production. These three elements are interdependent and indispensable, forming crucial pillars for developing NQPFs.

Third, new objects of labor. The objects of production now encompass more material and immaterial elements. The direct objects of labor are increasingly shifting from physical entities to immaterial elements such as data, information and knowledge. Since data are characterized by its replicability, shareability, divisibility and ease of dissemination, the extensive use of data accelerates the integration of digital technologies with traditional objects of labor, further expanding their scope.

1.2 Main characteristics of new quality productive forces

The entire process of economic development involves transformations in key factors, such as production factors, technological innovation and industrial systems (Du *et al.*, 2023). President Xi Jinping emphasized that NQPFs represent an advanced form of productive forces. They break away from traditional economic growth models and development paths and are defined by three key features: high technology, high efficiency and high quality (People's Daily, 2024).

High technology is reflected in the emergence of original and disruptive scientific and technological innovations. Xi emphasized that technological innovation can catalyze the emergence of new industries, models and growth drivers, serving as the core element in developing NQPFs (People's Daily, 2024). This is manifested in three key aspects:

First, technological innovation gives rise to new industries. NQPFs align with the new demands of the digital economy. The advancement of key generic technologies, such as big data, artificial intelligence (AI) and blockchain, fosters the growth of strategic emerging industries like high-end equipment manufacturing and commercial aerospace. Increased investment in disruptive technological innovations facilitates the early preparation for future industries, such as brain-computer interfaces and generative AI, thereby opening new tracks for industrial development.

Second, technological innovation fosters new models. The technological innovations driving NQPFs spawn new factors of production, with data as a prime example. In turn, by reoptimizing the combination of different elements of productive forces, these innovations drive advancements in industrial structure, management frameworks and application scenarios, ultimately fostering an ecosystem that integrates talent chains, industrial chains, technology chains and mechanism chains.

Third, technological innovation drives new economic momentum. Through disruptive technological advancements driven by innovation, NQPFs led by technological innovation enable a sustained shift in economic momentum. This transforms China's economic growth model from one characterized by high energy consumption, high emissions and high pollution to one characterized by low energy consumption, low emissions and low pollution, ultimately establishing a new paradigm for China's economic momentum.

High efficiency is embodied in the substantial increase in the total factor productivity (TFP). TFP refers to the "residual" in total output that cannot be explained by inputs of conventional factors (such as capital and labor), reflecting the influence of technological level, institutional environment and other factors on output (Lu and Lian, 2012). President Xi Jinping emphasized that "a substantial increase in total factor productivity is the core hallmark of NQPFs" (People's Daily, 2024). The significant improvement in TFP primarily manifests in two ways:

First, digital technologies enhance the efficiency of resource allocation. With their network diffusion effects, digital technologies enable the synergistic integration of data with other production factors, continuously fostering new industries, models and momentum, thereby driving the development of NQPFs. Owing to their properties, such as decreasing marginal costs and strong penetration, digital technologies promote a finer division of labor and more efficient production collaboration, enhancing overall resource allocation efficiency.

Second, institutional innovation accelerates the transformation of scientific research achievements into practical applications. Improving new relations of production is an inherent requirement for accelerating the development of NQPFs. Institutional innovations, such as the reform of “delegation, regulation, and service” (streamlining administration, delegating power, improving regulation and upgrading services), as well as the science and technology management system reform, help remove bottlenecks and obstacles in applying technological innovations to industries and supply chains, which shortens the time required to convert scientific and technological research achievements into productive forces, further enhances the efficiency of this conversion and facilitates the unimpeded flow of various advanced production factors for the development of NQPFs.

High quality reflects how NQPFs align with the new development philosophy. President Xi Jinping emphasized, “New quality productive forces have already taken shape in practice and served as a strong driving force and supporting force for high-quality development” (People’s Daily, 2024). He further noted, “accelerating the achievement of high-level technological self-reliance and self-improvement is the only way to promote high-quality development” (Gu et al., 2023). With scientific and technological innovation at its core, the development of NQPFs is highly consistent with the innovation-driven approach essential to high-quality development. Moreover, as Xi stressed, “green development is the foundation of high-quality development, and NQPFs are green productive forces” (People’s Daily, 2024). NQPFs differ from traditional development models rooted in high resource inputs and high energy consumption. Instead, they embody a new form of productive force better aligned with the new development philosophy – one that represents a pathway toward a green, coordinated and sustainable development model.

1.3 Evolution path of social productive forces

Marx and Engels (2012, p. 160) noted in *The German Ideology*: “... a certain mode of production, or industrial stage, is always combined with a certain mode of co-operation, or social stage, and this mode of co-operation is itself a ‘productive force’.” In other words, productive force constitutes a historical category. The continuous renewal of its constituent elements and the evolving roles of these elements within the productive force system have driven the evolution of human society from lower to higher forms. Therefore, it is essential to adopt a historical and dynamic perspective – integrating the historical evolution of production tools, qualitative states of productive forces and industrial forms – to study the evolutionary pathway of NQPFs.

Throughout the long course of human history, the concrete forms of productive forces have continually evolved. In pre-capitalist societies – including primitive, slave and feudal societies – natural power, human labor and animal power served as the dominant sources of productive forces, which can be collectively referred to as traditional productive forces. With the emergence of capitalist society, the first three industrial revolutions were characterized by mechanical power, electric power and digital power successively, which are together termed modern productive forces. Currently, the Fourth Industrial Revolution, where computing power represents the core force, gives rise to NQPFs. To put it concisely, the productive forces of human society have achieved a leap from traditional productive forces through modern productive forces to NQPFs. We have organized this process, as shown in Table 1:

Since the emergence of human societies, early humans utilized simple stone tools for hunting, gathering and rudimentary agricultural practices. The subsequent development of bronze and iron tools significantly enhanced productivity by improving farming efficiency and facilitating animal domestication, thereby increasing overall output. The Industrial Revolution marked a major transition to modern productive forces, characterized by the mechanization of production. Currently, the technological revolution – driven by industrial digital transformation and the rise of artificial intelligence – signals the shift toward NQPFs. These

Table 1. The evolutionary pathway of social productive forces

Social formations and industrial revolutions	Since the emergence of capitalist society*						
	Primitive society	Slave society	Feudal society	First industrial revolution	Second industrial revolution	Third industrial revolution	Fourth industrial revolution
Form of Productive Forces	Natural power (human, animal, etc.)			Mechanical power	Electric power	Digital power	Computing power
Nature of Productive Forces	Traditional productive forces			Modern productive forces			NQPFs
Production Tools	Stone tools	Bronze tools	Iron tools	Steam engine	Internal combustion engine, electric motor, etc.	Nuclear energy, computers, bioengineering, etc.	Big data, cloud computing, blockchain, AI, etc.
Industrial Forms	Hunting, gathering and primitive agriculture	Traditional agriculture, stock farming, domestic workshop and manufacture		Large-scale mechanized industries	Electrical industry	Electronic information industry	Strategic emerging industries and future industries
Note(s): *During the Second Industrial Revolution, the October Revolution in Russia marked the birth of socialism							
Source(s): By Authors							

2. Landmark events and development history of institutional innovation in administrative reform

During the initial phase of reform and opening-up, the “deregulation” movement unleashed market vitality and social creativity, emerging as a landmark event in liberating and developing productive forces. Essentially, deregulation and decentralization aimed to grant enterprises and markets greater autonomy while reducing bureaucratic constraints imposed by the centralized system. This institutional innovation was designed to break bottlenecks hindering productivity development.

2.1 Landmark event in institutional innovation of administrative reform: the “deregulation” event

2.1.1 The background of the “deregulation” event. Since 1978, when 18 farmers in Fengyang County, Anhui Province, signed groundbreaking contracts to implement the household responsibility system, rural areas experienced unprecedented agricultural growth. However, the urban economic system remained stagnant, evident in three key aspects:

First, constraints of the planned economy system: The centralized planned economy imposed rigid controls on state-owned enterprises (SOEs), leading to operational inefficiencies. SOEs functioned as government subsidiaries with no autonomy in production or management. Resource allocation and innovation required government approval, creating systemic bottlenecks.

Second, inefficiency of state-owned enterprises: As administrative extensions of the government, SOEs suffered from soft budget constraints, lacking incentives to improve economic efficiency. Without profitability requirements or performance evaluation mechanisms, their inefficiencies hindered national economic development.

Third, failed pilot programs for enterprise autonomy: Early attempts to grant SOEs greater autonomy, such as the 1978 trial in Sichuan Province (Zhang *et al.*, 2021), yielded limited results. Reforms exacerbated conflicts between SOEs and the government, particularly over income distribution and profit-sharing.

In this context, the Fujian Provincial government set an industrial growth target of 10% in total industrial output value for 1984 (Mei and Yang, 1998). However, SOEs, burdened by administrative controls and lacking autonomy, struggled to meet this goal (Xu, 2018). Facing internal systemic constraints and external pressure, 55 enterprise leaders in Fujian jointly called for deregulation policies to grant greater operational independence to enterprises.

2.1.2 Review of the “deregulation” petition event. From March 22 to 24, 1984, 55 managers of major SOEs in Fujian convened at the inaugural meeting of the Fujian Provincial Factory Directors (Managers) Research Association to explore strategies for revitalizing enterprises and improving management. During the session, representatives from Fujian’s first Sino-foreign joint venture, Furi Company and the Fuzhou Pencil Factory – both of which enjoyed greater autonomy than typical SOEs – shared their experiences in reforming enterprise management. Their insights resonated strongly with the audience, gradually building a consensus in support of deregulation.

At the urging of Huang Wenlin, then Deputy Director of the Fujian Provincial Economic Commission and head of the Provincial Enterprise Management Association, a petition titled “Please deregulate our enterprises” was drafted and submitted directly to the office of Xiang Nan, then Secretary of the Fujian Provincial Committee of the Communist Party of China. Xiang Nan responded promptly with approval. The following day, *Fujian Daily* (1984) published the petition under the headline: “Fifty-five factory directors and managers call for ‘deregulation’”. Widespread coverage by major media outlets, including Xinhua News

Agency, *People's Daily*, *Economic Daily*, *Red Flag* and CCTV, sparked a nationwide wave of reform in SOEs, marking a critical milestone in China's economic restructuring.

This petition played a significant role in breaking through bottlenecks in SOE reform, set a precedent for separating government functions from enterprise management and further advanced the reform of the administrative system. It stands as a major achievement in China's efforts to liberalize thinking and innovate institutional frameworks.

2.1.3 Xi Jinping's strong endorsement of the "deregulation" petition. During his tenure in Fujian, Xi Jinping expressed strong approval for the "deregulation" petition and commended the entrepreneurial initiative shown by the factory leaders involved. On March 24, 2001, while attending a commemoration and awards ceremony for Fujianese entrepreneurs, Xi praised their pioneering spirit, invoking the motto "dare to lead the world" and highlighting how this ethos was embodied by the 55 factory directors and managers who advocated for "deregulation" in 1984 (Wu *et al.*, 2017).

After assuming national leadership, Xi repeatedly cited the "deregulation" petition as a milestone in the history of China's economic system reform. On May 18, 2014, 30 entrepreneurs from Fujian wrote to Xi regarding measures to revitalize enterprises and accelerate reform. In his response dated July 8 of that year, Xi reflected on the 1984 petition, noting, "Thirty years ago, 55 enterprise leaders in Fujian boldly called for 'deregulation,' which swiftly galvanized a nationwide consensus and became an important chapter in economic system reform. I still have vivid memories of this event". He further emphasized, "Today, governments at all levels are accelerating the transformation of their functions and streamlining administrative procedures—yet another major step in the ongoing process of deregulation and empowerment" (Fujian Daily, 2014). Xi's alignment of the historic "deregulation" movement with contemporary reform efforts underscores the continuity of China's institutional innovation and its critical role in adapting to new economic realities. His recognition of the "deregulation" petition also serves as an important directive for deepening the reforms in "delegation, regulation, and service" today.

2.2 The evolution of institutional innovation in administrative system reform: from "deregulation" to the reform of "delegation, regulation, and service"

Following the "deregulation" petition, China's administrative system reform progressed through four developmental stages. Alongside the continued advancement of the socialist market economy, each stage deepened and expanded the process, linking the transition from early deregulation to the comprehensive reform of delegation, regulation and service. This progression reflects both a historical convergence and the ongoing evolution of reform. The simplification and delegation of authority can be categorized into the following four stages.

2.2.1 Phase of enterprise empowerment and streamlining administrative processes (1984–1991). This phase primarily focused on gradually reforming and dismantling the government structure inherited from the planned economy system, aiming to eliminate institutional barriers and constraints. In May 1984, the State Council issued the Provisional Regulations on Expanding the Autonomy of State-Owned Industrial Enterprises, which granted state-owned enterprises greater decision-making power in production, sales, resource utilization and personnel management (State Council of China, 1984a). Although enterprise autonomy was progressively expanded and specified, the long-time absence of a clear separation between government and enterprise functions – coupled with centralized authority – meant enterprises often operated merely as extensions of government agencies, hindering their capacity for independent operation. In response, the Third Plenary Session of the 12th Central Committee of the CPC explicitly proposed the principle of separating government from enterprise management and streamlining administrative procedures in October 1984 (State Council of China, 1984b). In April 1988, the First Session of the seventh National People's Congress adopted the State Council Institutional Reform Plan, which aimed to reduce government

intervention in enterprise management, enhance macroeconomic regulation and alleviate administrative burdens on enterprises (State Council of China, 1988).

2.2.2 The stage of market empowerment and government function transformation (1992–2000). The central objective of this phase was to develop an administrative system suited to the socialist market economy. Although the administrative reforms of the 1980s enhanced enterprise vitality from an economic standpoint, they primarily involved a reallocation of administrative powers within the government structure without fundamentally challenging the planned economy system. This led to a recurring cycle of “downsizing and expansion” (Zhou, 2018). Consequently, the central government gradually shifted its focus to reforms aimed at transforming government functions. In 1992, the 14th National Congress of the CPC emphasized the need to enhance enterprise vitality by exposing them to market forces, a central element in establishing the socialist market economy (Jiang, 1992). In 1993, the First Session of the eighth National People’s Congress (State Council of China, 1993) and later in 1998, the First Session of the ninth National People’s Congress (State Council of China, 1998), adopted reform plans that moved beyond simply streamlining or merging government bodies. Instead, the emphasis shifted toward adapting to the demands of the socialist market economy, recalibrating government authority, clarifying responsibilities and improving administrative mechanisms.

2.2.3 The phase of deregulation and strengthening public services (2001–2012). This phase aimed to enhance the government’s public service role to strengthen the market’s fundamental function in resource allocation. As administrative reforms advanced, systemic shortcomings became more apparent, such as an overemphasis on economic growth at the expense of social development, resulting in a growing mismatch between public service demand and supply. In response, the 16th National Congress of the CPC in 2002 formally recognized public service as one of the government’s four core functions, alongside economic regulation, market supervision and social management. The Congress also advocated for reducing and standardizing administrative approvals (Jiang, 2002). Specific plans for building a service-oriented government were outlined in the 2005 Government Work Report delivered at the Third Session of the 10th National People’s Congress in 2005 (Wen, 2005). Between 2001 and 2012, the State Council carried out six rounds of administrative reforms, abolishing or adjusting over 2,000 items (Zhang et al., 2022). These measures were instrumental in strengthening public service delivery and reinforcing the market’s role in the economy.

2.2.4 The phase of streamlined administration, integrated regulation and service and optimized services (2013–Present). The primary goal of this stage is to balance the roles of government and market, allowing the market to play a decisive role in resource allocation while improving regulatory efficacy. Since the 18th National Congress of the CPC, China’s economic development has entered a “new normal,” transitioning from high-speed to medium-high-speed growth amid increasing downward pressure and structural imbalances. As market entities gained vitality, insufficient government regulation and oversight led to economic disruptions in certain sectors. Hence, the “delegation, regulation, and service” reform emerged to address the challenges of this new economic phase.

In 2013, the State Council identified streamlined administration and integrated regulation and service as the central thrust and first step in government reform. By 2014, the reform expanded to “strengthen the synergy between delegation and regulation”. In 2015, then Premier Li Keqiang introduced the integrated vision of “delegating power, improving regulation, and upgrading services,” emphasizing that deepening administrative system reforms and transforming government functions should achieve a balance among these three elements (Li, 2018). President Xi Jinping further highlighted the need to “transform government functions, streamline administrative procedures, and innovate regulatory approaches” in his report to the 19th National Congress (Xi, 2020, p. 31). The Fifth Plenary Session of the 19th CPC Central Committee reaffirmed the importance of transforming government functions and pressing ahead with reforms to streamline administration and delegate power, improve regulation and upgrade services (People’s Daily, 2020).

3. Deepening the reform of “delegation, regulation, and service” to accelerate the development of new quality productive forces

In the new era, the “Delegation, Regulation, and Service” (DRS) reform represents both a continuation and an advancement of earlier deregulation and decentralization efforts. This reform should be understood not merely as a transfer of powers but as a more comprehensive and high-level approach to governance. It constitutes an institutional innovation aimed at balancing development and governance, with the explicit goal of fostering and adapting to the requirements of NQPFs.

First, the DRS reform surpasses earlier deregulation and decentralization in both scope and depth. While earlier efforts primarily focused on devolving specific powers – such as personnel management in SOEs – to enhance their operational autonomy, the DRS reform encompasses a broader agenda. It not only streamlines administration and delegate authority but also integrates enhanced regulation and optimized public services into a cohesive framework. Methodologically, the DRS reform is not a simple aggregation of three separate initiatives; rather, it functions as a systematic and organic whole. Within this framework, “delegation” serves as the core, “regulation” as the key policy lever and “service” as the foundational institutional support. These components operate in a mutually reinforcing and progressive manner, reflecting a sophisticated and coherent policy logic (Shen, 2019).

Second, the DRS reform exhibits deep structural continuity with earlier deregulation and decentralization. Both share the overarching objective of redefining the state–market relationship by transforming government functions, establishing an administrative system compatible with the socialist market economy and unleashing market vitality and creativity. At a fundamental level, the historical evolution from deregulation to the DRS reform – across four distinct stages – represents an ongoing pursuit of institutional configurations that align production relations with the development of productive forces. Through iterative adjustments to production relations, these reforms aim to ensure their adaptability to and promotion of evolving productive forces, particularly in the context of NQPFs.

President Xi has emphasized that “technological innovation is the core driver of developing NQPFs” and that “we must accelerate the application of technological advancements across specific industries and supply chains” (People’s Daily, 2024). However, various institutional and procedural barriers hinder the seamless translation of technological achievements into tangible productive forces in China (Xi, 2017a, p. 135). Integrating technological innovation with institutional innovation is essential to catalyze a fundamental shift in economic development (Xi, 2017a, p. 140).

The DRS reform represents a critical component of this broader institutional transformation, serving as a key strategy for enhancing China’s business environment. This reform is deeply interconnected with fostering NQPFs and advancing China’s transition toward an innovation-driven economy. Its continued deepening is crucial to eliminating institutional constraints that inhibit technological innovation (Xi, 2017a, p. 135), increasing systemic efficiency and ensuring the successful application of innovations in real production.

Below are three key mechanisms through which the DRS reform supports the rapid development of NQPFs.

3.1 Streamlining administration and delegating power to stimulate technological innovation, driving the growth driver transformation of NQPFs

Streamlining administration and delegating power constitute a form of governmental self-reform, which is an institutional innovation that balances market vitality with effective governance. By reducing administrative approval processes and subjecting government powers to clear institutional constraints, these reforms enhance market dynamism. As President Xi noted, “Many new technologies, industries, and products emerge not through government design, but are ‘released’ via market competition” (Xi, 2017b, p. 82). This

highlights how technological innovation thrives under institutional arrangements that encourage entrepreneurship and innovation.

From an institutional perspective, this reform operates through two dimensions – streamlining administration and delegating power – which together enable specialized and innovative enterprises, gazelle firms and unicorns to achieve disruptive technological breakthroughs, thereby generating new momentum for developing NQPFs.

First, streamlining administration reduces institutional transaction costs and strengthens firms’ willingness to innovate. Institutional transaction costs refer to the extra expenses incurred by market actors in complying with public institutional requirements, beyond ordinary operational costs (Cheng, 2017). These can be categorized as (1) objective costs arising from inefficient institutional designs due to bounded rationality, and (2) subjective costs resulting from friction between market actors and institutions caused by opportunism (Zeng and Huang, 2020). Streamlining administration addresses both aspects: it lowers objective barriers to market entry by cutting redundant approval procedures, expanding entrepreneurial opportunities – especially for specialized and innovative SMEs – and it reduces institutional interference in areas such as technological upgrading, fostering a flexible environment that encourages iterative experimentation and reinforces firms’ motivation to innovate.

Second, delegating power improves resource allocation efficiency and stimulates corporate innovation. Delegation aims to minimize direct government intervention in markets, allowing firms to engage in innovative activities fully and thereby maximizing the efficiency of resource allocation. A well-functioning socialist market economy requires adherence to the principle that the market plays the decisive role in resource allocation. Excessive government intervention can induce unproductive rent-seeking behaviors, distort institutional arrangements and divert firms’ resources toward non-productive activities such as relationship building. It also undermines fair competition, dampening incentives for innovation. By expanding enterprise autonomy in sectors without market failures, the government leverages market mechanisms, encourages firms to advance along the innovation quality ladder, enhances the competitiveness of innovative products, facilitates the shift in growth drivers and ultimately cultivates new momentum for developing NQPFs.

3.2 Integrating delegation and regulation to foster strategic emerging industries, leading the efficiency transformation of NQPFs

Building on administrative streamlining, the integration of delegation and regulation strengthens government oversight through institutional innovation. Mechanisms such as “random inspections with prompt public disclosure of results” transform unilateral government management into multi-stakeholder collaborative governance. This institutional arrangement better integrates an effective market with a capable government. As President Xi has emphasized, “scientific and technological innovations must be rapidly applied to specific industries and supply chains” (People’s Daily, 2024). This reflects the logic of converting institutional advantages into governance efficacy. The growth of emerging industries, the cultivation of future sectors and improvements in industrial efficiency all depend on deepening such institutional innovation.

First, integrating delegation and regulation addresses market failures by directing resources toward strategic emerging industries. The term “strategic” signifies industries tied to national economic security and public welfare, which require substantial capital investment. “Emerging” implies reliance on disruptive technological breakthroughs, often with long development cycles, necessitating sustained financial support. Since market mechanisms alone often underallocate resources under these conditions, government intervention – through diversified investment and financing systems blending public funds and social capital – becomes essential. This ensures continuous support for basic research, frontier innovation and the transformation of technological achievements, securing long-term development for these industries.

Second, integrating delegation and regulation breaks down barriers within industrial clusters and promotes deep integration to advance strategic emerging industries. These industries depend on the free flow of technology and data, as well as cross-sector integration. By developing innovation infrastructure, facilitating the mobility of innovation factors and establishing cross-regional collaborative platforms, governments foster the formation of industrial clusters. Such clusters unleash agglomeration, linkage and diffusion effects, enhance productivity and drive the efficiency transformation of NQPFs.

Third, integrating delegation and regulation encourages inclusive and prudent supervision, optimizing the business environment for strategic emerging industries. Data, as a key production factor, can significantly boost productivity but is also vulnerable to risks such as theft, misuse and monopolization. By adopting adaptive regulatory approaches, governments improve market supervision frameworks and provide a stable, fair and transparent business environment. This reduces operational costs, channels financial resources toward innovation and promotes fair competition that rewards efficiency and quality. Such an environment guides firms toward innovation-driven growth, optimizes resource allocation and accelerates the shift in growth drivers.

3.3 Advancing high-quality development through the DBS reform, driving the quality transformation of NQPFs

Institutional innovation in administrative management is epitomized by the DBS reform, which integrates streamlining administration, delegating power, combining delegation with regulation and optimizing public services into a cohesive framework. This reform constitutes the core objective of administrative system modernization (Gao, 2022). As noted in Xi's Report to the 19th CPC National Congress, "China's economy has transitioned from a phase of rapid growth to a stage of high-quality development" (Xi, 2020, p. 23). Xi's Report to the 20th CPC National Congress further underscored that high-quality development is the paramount task in building a modern socialist country in all respects (Xi, 2022). NQPFs align closely with the imperatives of high-quality development in the new era. By transforming growth models, upgrading industrial structures and shifting growth drivers, this reform advances high-quality development and facilitates the quality transformation of NQPFs.

First, the DBS reform facilitates the transformation of growth models. Previous government-led growth strategies generated rapid economic expansion but also encouraged extensive growth patterns reliant on high resource consumption, driven by distorted resource pricing and GDP-centric performance evaluations. As the cost advantages derived from large-scale resource inputs and energy-intensive production diminish amid tightening environmental constraints and rising demands for sustainability, transitioning to new growth models has become imperative. By deepening the market-oriented institutional arrangements, establishing unified regulatory frameworks and implementing an effective market-exit mechanism, the DBS reform fosters fair competition and further compels firms to improve product and service quality, accelerates the green transition of industries and supports the development of environmentally sustainable NQPFs.

Second, the DBS reform drives the optimization and upgrading of industrial structures. Although China's economic structure has continuously adjusted under the "new normal," structural challenges persist, including weak momentum in traditional resource- and labor-intensive industries and underdeveloped strategic emerging sectors. Deepening the reform reduces direct government intervention, eliminates institutional barriers to industrial upgrading and facilitates the efficient commercialization of scientific and technological achievements. This helps cultivate strategic emerging industries while promoting the integration of traditional sectors with high-value-added, technology-intensive activities, thereby advancing structural modernization.

Third, the DBS reform accelerates the transformation of growth drivers. China is currently at a critical juncture in shifting from old to new growth momentum. With declining marginal

returns in traditional industries, new drivers must be created through technological innovation, supported by knowledge, data and other advanced production factors (State Council of China, 2017). The reform facilitates the transformation of economic growth drivers by safeguarding technological innovation and improving institutional innovation. Specifically, streamlined administration and strengthened regulation in strategic emerging industries help remove institutional barriers that hinder the free flow of high-quality talent and production resources, thereby reducing the costs associated with technological innovation and the transformation of scientific and technological achievements. Moreover, optimized public service platforms and accelerated government functional transformations create an institutional environment more conducive to developing new technologies, industries, business forms and modes.

4. Conclusion

The development of NQPFs is a pivotal driver of societal advancement, particularly in the new technological revolution and industrial transformation. As President Xi has emphasized, accelerating the development of NQPFs requires not only technological innovation but also institutional innovation to remove systemic barriers that hinder progress (People's Daily, 2024).

From the initial “deregulation” initiatives to the comprehensive “delegation, regulation, and service” reform, China’s administrative system has undergone a progressive and sustained evolution. These reforms have established the necessary institutional conditions for nurturing NQPFs, aligning with the new development philosophy that prioritizes innovation, coordination, green development, openness and shared benefits.

The DBS reform, centered on streamlining administration, empowering markets and enhancing regulatory efficacy, has proven to be a critical institutional innovation in adapting to the demands of NQPFs. This reform has been instrumental in dismantling institutional obstacles, improving operational efficiency and creating an environment conducive to technological innovation. It also plays a central role in ensuring that NQPFs contribute substantively to high-quality economic development.

Going forward, deepening the DBS reform will be essential to fostering the expansion of NQPFs. As technological change accelerates, institutional frameworks must evolve in tandem to provide sustained support. Therefore, continuous institutional innovation is imperative to ensure NQPFs remain at the forefront of China’s economic trajectory.

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Corresponding author

Xingxiang Zhang can be contacted at: jjzz@xmu.edu.cn