



# LOCAL GOVERNANCE INNOVATION IN CHINA

Experimentation, diffusion, and defiance

Edited by Jessica C. Teets and William Hurst

# Local Governance Innovation in China

Despite a formal centralized structure, Chinese politics and policymaking have long been marked by substantial degrees of regional and local variation and experimentation. These trends have, if anything, intensified as China's reform matures. Though often remarked upon, the politics of policy formation, diffusion, and implementation at the subnational level have not previously been comprehensively described, let alone satisfactorily explained.

Based on extensive fieldwork, this book explores how policies diffuse across China today, the mechanisms through which local governments actually arrive at specific solutions, and the implications for China's political development and stability in the years ahead. The chapters examine how local-level institutions solve governance challenges, such as rural development, enterprise reform, and social service provision. Focusing on diverse policy areas that include land use, state-owned enterprise reform, and house churches, the contributors all address the same overarching questions: how do local policymakers innovate in each issue area to address governance challenges and how, if at all, do these innovations diffuse into national politics?

As a study of local governance in China today, this book will appeal to both students and scholars of Chinese politics, comparative politics, governance and development studies, and also to policymakers interested in authoritarianism and governance.

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# Preface

We first conceptualized this volume during an American Political Science Association annual conference in 2009, when we discussed the remarkable amount of policy experimentation in China given the politically risky nature of local initiative as well as the number of promising experiments that failed to change national policies. At that time, we decided that we needed to explore the microfoundations of policy experimentation and diffusion to understand the political causes driving this process and were able to share our enthusiasm for this theory-building project with our 10 other authors. Together, we attempt to understand why and when local officials innovate to solve governance challenges, how the personnel management systems create incentives for innovation versus stasis, and the politics of varying diffusion patterns. This is a valuable addition to the field of Chinese politics in that our findings illustrate the political nature of policy experimentation and diffusion, and begin to build an explanation of subnational institutional change in China.

In addition to thanking our contributing authors, we would like to thank Hannah Mack and Stephanie Rogers at Routledge and our incredibly supportive families. Theory building is a collaborative enterprise, and we depended not only on the support of the authors in this volume but also upon those whose shoulders we stand, namely, Sebastian Heilmann.



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# Introduction

## The politics and patterns of policy diffusion in China

*Jessica C. Teets and William Hurst*

Many scholars have analyzed decentralized policymaking in China as a key success factor in the policy adaptability underpinning economic reform (Cao *et al.* 1999; Heilmann 2008a; and Perry 2011). Often policy innovations pioneered by local governments drive larger processes of change, as local experiments diffuse to other localities and to the level of central policy.<sup>1</sup> Chinese scholars frequently note how policy experiments in one area are adopted in another, producing decentralized, fragmented, and gradual processes of institutional change (Florini *et al.* 2012). Extant understandings of why and how policy diffusion occurs lack clear theoretical microfoundations, with only a few scholars such as Sebastian Heilmann (2008a) attempting to analyze the process comprehensively (Heilmann and Perry 2011), and fewer still analyzing the incentives of subnational officials to engage in risky policy change. Although much of this literature presents the diffusion process as a technocratic one where socially optimal policies diffuse and the suboptimal are halted, many examples exist where suboptimal ideas diffuse rather than socially optimal ones (Fewsmith 2013). Also, examples exist where the central government blocked local experimentation, but the policy diffuses to other places regardless, such as land auctions and direct township elections in Sichuan (Cai, Chapter 3; Kennedy and Chen, Chapter 5).

We agree with previous scholars that decentralized political institutions and experimental policy formulation and implementation in China enable policy diffusion, but contend that distinct policy preferences and political authority at the local level shape specific patterns of this diffusion. We focus on the microfoundations of the policy diffusion process to examine why local officials engage in the politically risky behavior of policy innovation and change, and examine the resulting patterns to understand how policy diffusion occurs. Policy diffusion is thus more complex and interactive than previously theorized – not simply a Darwinian process in which the best policies rise to the national level as often presented in the economic reform literature, but rather a *political* process through which socially suboptimal policies might diffuse while more equitable or effective policies remain trapped at one level of government or in one locality or region.

Most often out of necessity or expediency in the face of governance challenges associated with rapid economic reform and slow political reform, policy experimentation has occurred relatively constantly since 1978. This volume examines

how local-level officials innovate to solve governance challenges, such as rural development, enterprise reform, and social service provision, and how this innovation sometimes drives larger processes of change, such as when local experiments diffuse eventually to the level of central policy. We also examine how the interaction between formal rules established by the central government and ad hoc local solutions can sometimes (though not always) facilitate policy adaptation at multiple levels of the state apparatus. The authors in this volume expand our examination of the politics and patterns of diffusion in China across various policy areas, and this microlevel analysis highlights three important macroimplications of our research. First, significant fragmentation creates space for non-state actors, like civil society, to participate in policy formulation and implementation in ways not formally allowed by the institutions of a single-party state. Second, local officials possess more power over policy decisions than theorized under the “experimentation under hierarchy” approach (Heilmann 2008a, p. 29). And third, policy outcomes in China are frequently the results of political compromise rather than technocratic evaluation. Recognizing these three aspects of policy diffusion should lead scholars to place more emphasis on disaggregating the state, the role of non-state actors such as civil society and house churches, and the interaction between levels and types of government. This volume represents an important step in understanding policy change in China by theorizing the microfoundations of subnational policy innovation.

This chapter provides an introductory analysis of the politics and pathways of policy diffusion in China. We first disaggregate the state into different levels of government to differentiate types of governing authority. We then offer a typology of the patterns of policy diffusion that helps us see how grassroots experimentation and adaptation can influence more macrolevel institutional change. Several distinct patterns of diffusion stand out, including a bottom-up transfer of policy from local government to the central government, a top-down adoption of central initiatives by local authorities, and a bounded diffusion within a specific region or province, or only one level of government (e.g. the village level). Finally, we analyze a single case of policy diffusion of in-home elder care to generate hypotheses explaining the political factors influencing diffusion. These hypotheses then are “tested” in the other chapters in the volume resulting in a thorough analysis of the complex causality of policy diffusion in China. We find that different factors support unique diffusion patterns, such as central factional support facilitating a broad, fast, and vertical diffusion, and local governance challenges motivating a slow, limited, and horizontal diffusion pattern.

### **Patterns of policy diffusion in China**

Studies of policy change in China implicitly examine policy diffusion, but only a few scholars directly analyze this process. For example, Heilmann and Perry’s (2011) edited volume addresses the dilemma of how the Chinese Communist state has been adept at responding to challenges, despite predictions of its imminent demise since Mao Zedong’s death over 30 years ago. The authors argue

that China's political system, specifically local institutional features such as "guerrilla-style decision making," allows for more diverse and flexible input than might be predicted from its formal structures.

Sebastian Heilmann (2008a), one of the most prolific authors on decentralized policy innovation and diffusion, finds that these norms of experimental policymaking derive from three main sources: revolutionary history institutionalized into People's Republic of China (PRC) administration, cycles of administrative centralization and decentralization, and international theories of pragmatic rather than ideological policymaking. The historical revolutionary experience of the Chinese Communist Party (CCP) required a cellular policy structure for survival from the collapse of the United Front until Rectification in the Yan'an Base Area (1928–1943). Maoist revolutionary experiences led to a conception of policymaking as a process of ceaseless change, tension management, continual experimentation, and ad hoc adjustment (Heilmann and Perry 2011, p. 3). This survival strategy led to the institutionalization of "experimentalism" (*shiyan zhuyi*) in the new polity:

An experimental policy process of "proceeding from point to surface" (*youdian daomian*) entails a policy process that is initiated from individual "experimental points" (*shidian*) and driven by local initiative with the formal or informal backing of higher-level policymakers. If judged to be conducive to current priorities by Party and government leaders, "model experiences" (*dianxing jingyan*) extracted from the initial experiments are disseminated through extensive media coverage, high-profile conferences, intervisitation programs and appeals for emulation to more and more regions.

(Heilmann 2008a)

In the 1970s, the post-Mao leadership transposed policy experimentation from its original context of the mass campaign into the administration of the newly bureaucratic state. More generally, since 1954, cycles of centralization and decentralization have caused the pattern of experimental policymaking to toggle between a bottom-up to a top-down process (Heilmann 2008a, p. 13). We contend that regardless of the level of central power, local officials maintain discretion in policy adoption; thus, we focus on two specific dynamics: first, the process through which local institutions and governance challenges encourage policy innovation, and second, how the patterns and politics of policy diffusion from these localities sometimes impact the construction and reimagining of national-level institutions.

The existing literature focuses on two patterns of diffusion – from the center down to subnational governments and from subnational governments up to the center. The dominant "experimentation under hierarchy" approach examines how central policymakers encourage local officials to innovate in response to governance challenges and then integrate the local experiences back into national policy formulation, such that national policymakers wishing to change central economic policies often used the results of experimental programs to overcome opposition

from defenders of the old policies (Heilmann 2008a). Policy experimentation is thus a “purposeful and coordinated activity geared to producing novel policy options that are injected into official policymaking and then replicated on a larger scale, or even formally incorporated into national law” (Heilmann 2008b). However, we also find cases of independent local innovations that do not diffuse upward to the center but remain trapped at the subnational level (Reny, Chapter 7; Kennedy and Chen, Chapter 5; Cai, Chapter 3). In fact, these local innovations often are remarkably resistant to central sanctioning (Mei and Pearson, Chapter 1).

In contradistinction, Florini *et al.* (2012) argue that the “experimentation under reform” system historically encouraged local innovation to address governance problems, with the role of the center merely being to facilitate or hinder diffusion of these innovations (p. 46). Shaoguang Wang (2011) finds that local patterns of diffusion are often more sustainable than center-initiated experimentation in the case of the cooperative medical system (CMS). Through his analysis, he highlights how shifts in ideology or factional power at the center influenced the success of center–local diffusion. For example, due to the strength of neoliberal ideology, even though the CMS pilots showed favorable results, the central government enacted user-pay and private insurance systems in the early 1990s: “one reason is that although the central policy makers encouraged rebuilding the CMS, various central ministries enacted regulations barring any forced attempt to raise cooperative medical funds from farmers, thus pouring cold water on the emerging cooperative medical scheme” (Wang 2011, p. 120). Still, local leaders continued to experiment with CMS, even when the center seemed disinterested, because rural health care was a perennial problem in provinces. When factional coalitions at the center eventually shifted, these reforms could be taken up and diffused by the center quickly in the early 2000s (Wang 2011, p. 121). Similarly, Baogang Guo, Dennis Hickey, and their contributors (2009) note that meaningful reform in China has been mostly via local experimentation and diffusion. For example, Jon Bond and Diqing Lou (2009) focus on bottom-up policy diffusion via bureaucratic competition to explain how municipal people’s congresses in Wuhan have developed considerable complexity and oversight powers (Guo and Hickey 2009). This local discretion argument relies on the fragmented authoritarianism model (Lieberthal and Oksenberg 1988).

In this volume, we propose a basic theory of the pathways of diffusion. First, we disaggregate the state into different levels and branches of government. Each of these has distinct preferences and enjoys specific authority over a scope of issues. Looking at the components of the state apparatus this way lets us examine processes of local innovation in response to governance challenges more accurately. Although local officials are the unit of analysis, other actors play important roles in social innovation depending on the issue area, such as business owners, non-governmental organizations (NGOs), intellectuals, and community-based organizations. Second, we offer a typology of patterns of diffusion and, in the next section, examine the political factors around each pattern to offer hypotheses as to why diffusion occurs in some scenarios but not others.

For our purposes, there are four levels of government of interest as illustrated in Figure I.1. The central state in Beijing coordinates national policy and can pass

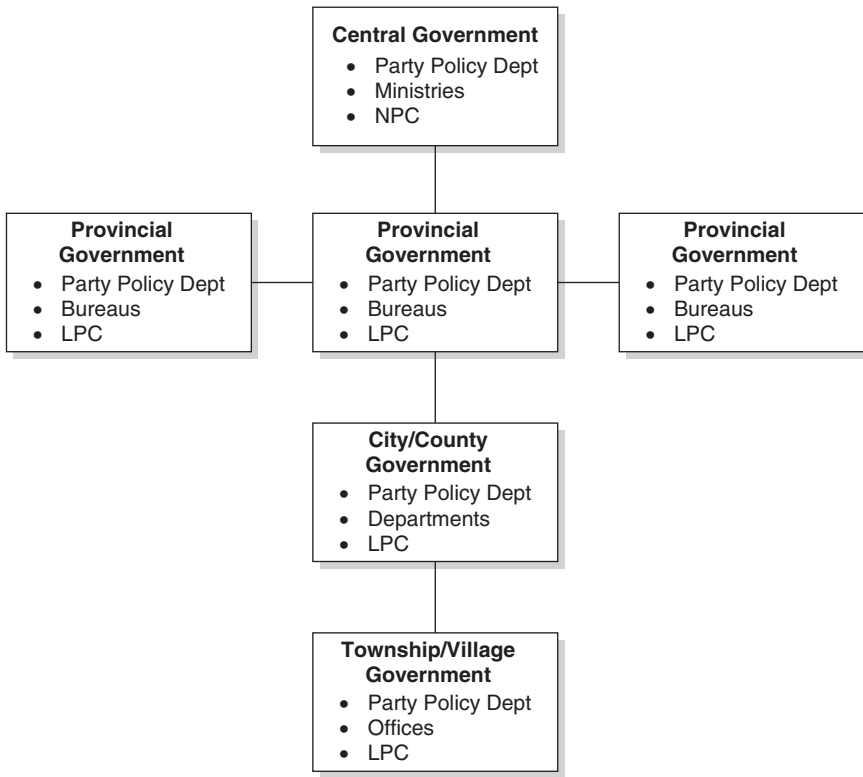
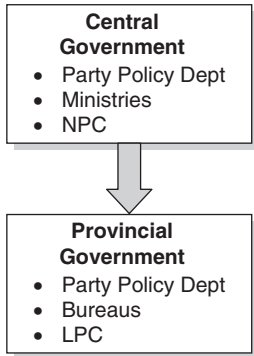


Figure I.1 Disaggregating the state

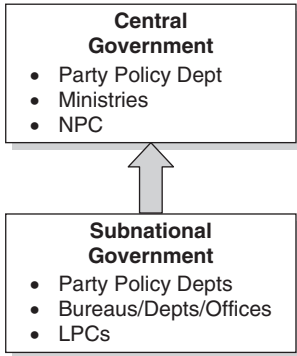
Note: NPC: National People's Congress; LPC: Local People's Congress.

judgment on local experiments or initiatives. Provincial governments oversee political entities larger than many countries and coordinate policy across the cities and prefectures under their authority, while also interfacing with the center. We treat the two levels of county and city/prefecture as one for analytic purposes in that these exist between the province and the most local branches of state authority. Governance at the township, village, district, or street committee level is the lowest rung on our hierarchy of state authority and enjoys less discretion than other levels. Within each level, various functional state bureaus interact with each other, as well as with Party Committees and People's Congresses, in the formation and implementation of policy.

Broadly speaking, we identify four pathways of diffusion, as depicted in Figures I.2–I.5. Although these pathways are often interactive, we separate them based on the point of origin. For example, a district-level official might develop a new policy that might diffuse upward to the province and then from the provincial leaders down to all other levels. We would identify this pattern as a bottom-up one due to the point of origin at the district level. First, a central–local pattern is visible



*Figure I.2* Center-down diffusion pattern



*Figure I.3* Bottom-up diffusion pattern

when policy is decided upon in Beijing, then diffused to the provinces and down as illustrated in Figure I.2. Second, a local–central pattern can be seen when local initiatives percolate up through provinces to the center, as illustrated in Figure I.3. These are the two patterns most identified in extant literature, especially in the “experimentation under hierarchy” approach.

Third, a regional or horizontal pattern can be found where policies diffuse from a given province to others in its vicinity or at a similar level (e.g. districts in different provinces) without direct intercession from Beijing. This regional pattern is illustrated in Figure I.4. Fourth, we see an intra-provincial pattern where policies diffuse within a given province with the sponsorship of the provincial government, but do not diffuse outside of the province as illustrated in Figure I.5. Often in the experimentation literature in China, the horizontal or provincial diffusion patterns seen in Figures I.4 and I.5 count as “failed” instances of diffusion because they do not influence national-level policy change. However, we find that these patterns of policy diffusion are still important to study because



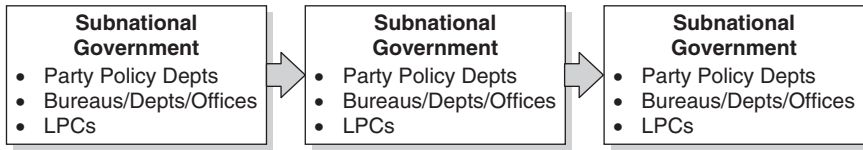


Figure I.4 Regional (or horizontal) diffusion pattern

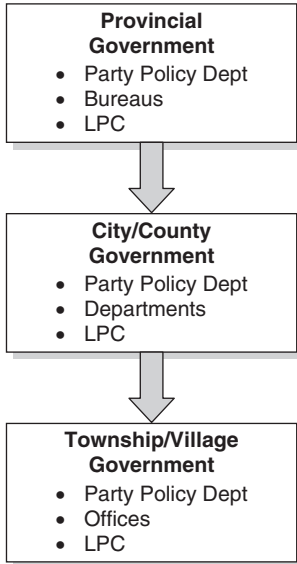


Figure I.5 Intra-provincial diffusion pattern

these policy changes at the local level impact citizen welfare and might over time diffuse upward as Wang (2011) finds in the case of CMS. Additionally, studying both the failed and successful cases of diffusion is vital to determine the factors encouraging policy diffusion.

The cases presented in this volume illustrate the variation among these patterns, with Hurst's chapter describing a variant of top-down diffusion, and the Farid case of civil society experiments and Chen and Kennedy case of village nomination procedures corresponding to bottom-up diffusion. The Mei and Pearson case of local defiance tactics, Reny's examination of churches and state-society relations, and the Cai case of land auctions match regional or horizontal diffusion patterns, and the Chen and Kennedy case of direct elections at higher levels corresponds to the intra-provincial pattern. Additionally, we see cases where innovation does not diffuse but instead stagnates or disappears (Lora-Wainwright, Chapter 2; Fewsmith 2013). In the next section, we first identify the political

factors supporting or inhibiting diffusion and influencing the type of diffusion pattern that emerges, and then we develop hypotheses “tested” in the eight chapters in this volume.

### **Politics of policy diffusion in China: Local officials as policy entrepreneurs**

In this section, we analyze the political factors supporting or inhibiting diffusion, and then through the specific case of local government contracting in-home elder care to non-profit organizations, we generate hypotheses to “test” in the chapters of this volume.<sup>2</sup> Specifically, why do local officials adopt policy innovations? Policy change may be risky, especially without clear outcomes for early adopters and innovators, so why do we observe the prevalence of policy diffusion in China?

In the existing literature, scholars find two main factors encourage policy diffusion: persistent local problems linked to promotion criteria and central consensus or dominant factional support. Factional elite struggles sometimes exert powerful influence on policy diffusion. In one of Heilmann’s (2008a) examples, after securing the informal consent of the prefecture Party Committee, the Party Committee of Yongjia County (in Wenzhou, Zhejiang) initiated experiments with new incentives for peasant households in response to declining agricultural production resulting from collectivization policies in 1956. The successful experiments rapidly diffused throughout the prefecture. Due to the “anti-rightist campaign,” however, the experiments were labeled “anti-socialist,” and local cadres were expelled from the party and sent to labor camps (Heilmann 2008a). Interestingly, the same prefecture-level leaders who tacitly endorsed the experiments a few months earlier ended up repressing them at the height of the campaign. Although this example deals with party institutions, factional interests might also drive a similar process through the different levels of government or bureaucracy institutions. Shifting constellations of ideology and factional power can play a key role in policy diffusion, especially given the informal nature of the experimental policy process.

In the system of experimentation under hierarchy, decentralized experimentation minimized the risks and the costs to central policymakers by placing the burden on local governments and providing welcome scapegoats in cases of failure (Heilmann 2008b, p. 21). If experiments went awry, they could be phased out silently, rather than terminated by public formal administrative decisions or documents (Heilmann 2008a, p. 28). Sometimes, central leaders sent subtle signals to local officials warning that their projects had lost support, but rarely did failing experiments endure public scrutiny. Such interactions occur in an informal setting, where the politics of policy diffusion are both subtle and contextual. This runs counter to the findings of those who contend that Chinese-style experimentation results uniformly in evidence-based policy selection, such as the arguments found in the economic reform literature (Sachs and Woo 1994; Montinola *et al.* 1995; Cao *et al.* 1999).

In summary, factions within the central state may allow particular local innovations to be taken up as central policies or accelerate the wide

top-down implementation of directives that may lack local support. For example, pet projects supported by key central leaders (e.g. experiments linked to The Harmonious Society under Hu Jintao) are often given preference in top-down diffusion, sometimes with clearly suboptimal results (e.g. the Great Leap Forward). Conversely, policies not strictly attached to specific factional or ideological groupings, such as environmental regulations, appear more likely to diffuse. Thus, either strong central support or lack of organized opposition supports top-down diffusion. This explanation is represented by hypothesis 1, which we label “central support.”

Additionally, power struggles among government agencies at all levels in the hierarchy might play a role in encouraging or discouraging diffusion, as we observe in the fragmented authoritarianism literature. Competition between bureaucracies with overlapping responsibilities motivates officials to advocate policy innovation as a strategy of increasing agency ownership of an issue, or motivates competing officials to attempt to halt the innovation. We separated this explanation from the central consensus/factionalism one in order to explore the bureaucratic politics argument more comprehensively, and have labeled this hypothesis 2 as “bureaucratic competition.” We believe that after initial diffusion, changes in the factional configuration of political power can halt or reverse the process, rendering such relatively politicized diffusion found in hypotheses 1 and 2 not as sustainable as the more bottom-up form identified in hypothesis 3.

Scholars focusing on bottom-up diffusion contend that local needs or problems motivate local officials to experiment and adopt innovative policies. In this literature, local officials maintain authority for policy change regardless of policy shifts and fads at the center. For example, Sheng Ding (2009) discusses how the CCP’s top-down transparency and accountability initiatives have not successfully diffused due to local cadre opposition (Guo and Hickey 2009). Although factional politics at the center might dictate how open local governments might be about these innovations, policy change is driven by local officials responding to governance challenges that impact their chances of promotion. For example, the county party secretary in Buyun township in Sichuan, Madam Zhang Jinming, viewed initiating the first direct and competitive elections for the mayor of a township as a solution to the difficult situation the government faced in which local residents refused to cooperate in any project launched by the township government (Florini *et al.* 2012, p. 63). Madam Zhang was willing to take on the political risk of innovation, which was later halted by the center, in order to reestablish the social stability in her township necessary for her career success (Kennedy and Chen, Chapter 5). In this account, political factors at the center play a secondary role in the willingness of local officials to adopt new policy innovations. Instead, this cause of diffusion is more strongly rooted in local innovations as a response to common governance problems, due to how the cadre evaluation system links governance problems to individual cadre success. This creates the political will necessary for social innovation for most cadres. Often initial innovation emerges from policy entrepreneurs active in this area, such as business owners, NGOs, intellectuals working in think tanks, and community-based organizations, and is then developed into policy by local officials. This partnership allows

for informal and ad hoc public participation in the policy process unanticipated by the formal system (Teets 2013). This explanation is represented by hypothesis 3, which we have labeled “local need.”

Analysis of the policy diffusion process therefore identifies two factors likely to facilitate diffusion: governance challenges linked to cadre promotion and factional politics within the central state or bureaucracies. In the case of elder care examined in the next section, we find that both factors play a role in the formation of an initial stagnation followed by rapid diffusion pattern. Initially, several district governments with unsustainable expenditures for high levels of elderly populations contracted out in-home elder care to for- and non-profit organizations, such as in Shanghai and Nanjing. This policy innovation, despite being endorsed by the Ministry of Civil Affairs (MoCA) as early as 2006, did not diffuse widely until 2013. Although the initial diffusion to meet persistent local governance challenges did occur, it was slow, limited, and plagued with intergovernmental competition over policy ownership. However, reaffirmation of central political will after the leadership transition from Hu Jintao to Xi Jinping led to an accelerated and expanded diffusion. In short, we find that bureaucratic competition discourages diffusion because overlapping responsibilities in the governance structure allow agencies to block implementation or funding, and political support at the local and central levels are necessary for complete policy diffusion. Support from local leaders is sufficient for a slow and limited process of diffusion among leaders facing similar problems, but central support vastly accelerates and expands this process. The question of sustainability is of course not known at this point, but because this policy addresses both local governance challenges of a quickly graying population and ideological commitments of the ruling faction at the central level, we believe that elder-care contracting will likely diffuse to all provinces and persist at least under Xi Jinping’s administration.

By tracing the diffusion of this specific policy temporally using interviews and archival materials, we intend to identify the political factors supporting the diffusion of this policy. One case is not enough to challenge or confirm any of these hypotheses, but might highlight unknown interactions between the hypotheses, identify missing variables in the diffusion process, or help determine the weighting of these different causal variables. These variables may then be further “tested” on additional cases of policy diffusion. In this volume, our contributors describe additional diffusion pathways as well as focus on the politics surrounding each pattern causing local innovations to diffuse (or fail to diffuse). Innovative responses to governance challenges generally support the continued success of the regime through adaptive mechanisms, but do not always enjoy support beyond their local contexts. The other cases in this volume generally support these findings. As illustrated in Table I.1, innovation in response to local need is common to all successful limited diffusion patterns, such as the horizontal, regional, and intra-provincial ones. However, local need and central support are necessary to successful broad diffusion patterns, such as the top-down and bottom-up patterns dominant in the economic reform and experimentation literature. In the majority of the cases examined in this volume, classical bureaucratic politics play at most a minimal role in diffusion.

Table 1.1 Comparative analysis of the politics of diffusion

<i>Cases</i>	<i>Factors</i>			
	<i>Central support</i>	<i>Bureaucratic competition</i>	<i>Local need</i>	<i>Pattern</i>
In-home elder care ( <i>Introduction</i> )	Post-2012		x	Regional/horizontal; after 2012 – bottom-up/top-down
Defiance over steel ( <i>Chapter 1</i> )			x	Regional/horizontal
Land policies ( <i>Chapter 2</i> )		In some places	x	Mostly horizontal, often more of a local partial reform equilibrium
Land quotas ( <i>Chapter 3</i> )	Chongqing only		x	Horizontal and intra-provincial
SOE restructuring ( <i>Chapter 4</i> )	x	x		Top-down initiatives selectively implemented by firms working with local political actors
SOE reform ( <i>Chapter 5</i> )	x	At some points		Top-down initiatives bent to local actors' advantage leading to partial reform equilibrium through "warped" diffusion
Civil society ( <i>Chapter 6</i> )		Facilitating role	x	Local-center and intra-provincial
PSB-house churches ( <i>Chapter 7</i> )			x	Horizontal
Direct elections ( <i>Chapter 8</i> )	Village only		x	Village – bottom-up/top-down Township – intra-provincial

Note: SOE: state-owned enterprise; PSB: Public Security Bureau.

The important implication of our findings in this volume is that policy diffusion is inherently a political process with different nodes of power and interests that might ultimately allow a "bad" idea to diffuse and "good" ideas to stagnate or disappear. For scholars studying the policy process in China, these findings stress placing more emphasis on disaggregating the state, the collaborative role of local officials and non-state actors as policy entrepreneurs, and the interaction between levels and types of government actors. The political nature of policy diffusion should indicate to Chinese policymakers that the existing adaptive policy process does not naturally allow optimal policies to diffuse and suboptimal to disappear but that stronger institutions for supporting policy innovation and capturing knowledge are needed. Much innovation exists at the local level in China, but

without a formal process for technocratic evaluation, opportunities are lost for improving governance.

### **Case study: Contracting in-home elder-care services (居家养老服务)**

In this single case, we find that two factors facilitated diffusion: governance challenges linked to cadre promotion and central factional support. In the case of elder care, governance challenges around a rapidly graying population encouraged several local governments to innovate a contracting system for in-home elder care. Persistent shared problems like family planning and problems paying for required social spending confront nearly all township and village governments in China. The presence of such common problems can facilitate diffusion without the direct involvement of the central state. This idea is similar to Heilmann's (2008b) proposition that strong local benefits, and not simply the machinations of central leaders, are necessary for successful experimentation (p. 2). The cadre evaluation system links the resolution of governance challenges to the individual career success of local officials generating political will for social innovation. As Joseph Fewsmith (2013) finds in his study of direct election experiments, local officials often innovate to improve conditions in their area regardless of central support or condemnation. However, this policy innovation, despite being endorsed by MoCA as early as 2006, did not diffuse widely until 2013. Although the initial diffusion was motivated by local governments sharing persistent local governance challenges, this diffusion was slow, limited, and plagued with intergovernmental competition over policy control.

However, reaffirmation of central political will as signaled in the 12th Five-Year Plan and through the leadership transition to Xi Jinping led to an accelerated and expanded diffusion. Factional divisions in the central state can allow particular local innovations to be taken up as central policies and accelerate the top-down implementation of directives that may lack local support. This might also mean that policies not strictly attached to specific factional or ideological groupings and thus without political risk, such as environmental regulations, would be more likely to diffuse. Often political will at the central level accelerates positive policy change as noted in the Heilmann and Perry (2011) edited volume; however, pet projects supported by key central leaders are given preference in top-down diffusion with sometimes suboptimal results. This reinforces Heilmann's (2008b) finding that the political risk attached to experimentation helps determine the likelihood of successful diffusion. Even when policies diffuse, changes in the factional configuration of political power can halt or reverse the process, rendering such relatively more politicized diffusion not as sustainable as more bottom-up forms. In short, we find that support from local leaders is sufficient for a slow and limited process of diffusion among leaders facing similar problems, but central support vastly accelerates and expands this process. Support from these two levels facilitates particular diffusion patterns, with local support needed for sustainability.

Although one case is not enough to challenge or confirm any of these hypotheses, we use the following case of policy diffusion to analyze support for three

hypotheses determining policy diffusion, namely, why local officials adopt a contracting system for in-home elder care. First, did the policy develop at the local level in response to a widely shared governance challenge? Second, did a ruling faction or consensus at the central level support the initial diffusion? Third, did one agency support the innovation based on intergovernmental competition? We hypothesize that elder-care pilots diffused to localities with large elderly populations, when encouraged by central elites, and where the Civil Affairs Bureau allied with the local government to provide these services. We then further “test” these hypotheses on the eight other cases compiled in this volume, ranging from policies on house church registration to land quotas.

Due to the success of the one-child policy and increasing life expectancy, China now has the largest graying population in the world, which will increase from 111.7 million in 1995 to 407 million in 2040, and fewer children to care for the elderly.<sup>3</sup> A Ministry of Health survey from 2003 revealed that 44.8 percent of urban residents and 79 percent of rural residents did not have medical insurance, thus providing care for the elderly might take up to 13.1 percent of gross domestic product (GDP) by 2050. In 2004, about 14 million of elderly citizens preferred to live in state-run nursing homes, but there were only 1.04 million beds available (Chen 2004). In response to the emerging challenge of cost-effectively providing care for China’s aging population, district-level governments in Shanghai and Nanjing experimented to contract in-home elder-care services to for- and not-for-profit organizations as early as 2000. This solution is a socially optimal one in that it meets the needs of the elderly in a cost-effective manner, offers better care for those not disabled, and develops stronger non-state capacity in service delivery (Teets 2012).

At the central level, political will to address this problem grew in the latter half of Hu Jintao’s tenure. By examining China’s Five-Year Plans, Donahue *et al.* (2013) find that between the 11th Five-Year Plan (2006–2010) and 12th Five-Year Plan (2011–2015), the central government changed the language around health goals from “stick to the principle that government leads and society participates” to “enhance and guide social capital and foreign capital to invest in health institutes; open up permission for investment to diversify hospital forms; and actively promote private health care insurance.” This shift encourages local governments and agencies to develop community care services and encourages social organizations to participate in establishing long-term medical care, rehabilitation, hospice, and other services normally performed by the pension agency.

### ***Initial contracting experiments and diffusion***

In the late 1990s, the central government encouraged subnational governments to experiment with building a comprehensive elderly service system in urban areas (Jing 2009). Shanghai and Nanjing piloted the first experiments in elder care, specifically contracting out in-home care. These experimental systems included many other components as well, such as government-run nursing homes, meal service at community centers, and elderly daycare centers. As Donahue *et al.*

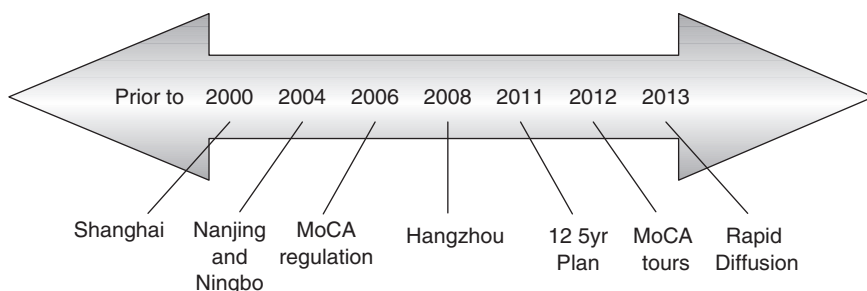


(2013) find, China's local governments have experimented with a range of options for "coaxing private investments in long-term care for many tens of millions of elderly people," and long-term care, especially care for the disabled, offers cases of collaborative governance between local government and non-profits.

In Shanghai, local government experimented beginning in the late 1990s with pilot programs to assist elderly people living apart from their families to live at home, with the long-term goal to serve all elderly living outside social welfare institutions (nursing homes as they are referred to in the US context). The pilot program resulted in the Home Care Program (HCP 居家养老) which is a government-sponsored, community-based, and partially subsidized system serving the elderly at neighborhood service stations or at home. According to the 11th Five-Year Plan of Shanghai, until 2010, 90 percent of the elderly will be taken care of mainly by themselves and their families, 7 percent by the HCP, and 3 percent by social welfare institutions (Jing 2009). By November 2012, the Shanghai Civil Affairs Bureau was funding 231 community service agencies with 32,000 home care workers serving a total of 271,000 elderly households (Shanghai Civil Affairs Bureau 2012). This was an increase of 8,000 elderly households served since March 2012. Shanghai's policy experiments with HCP have been recognized by the central government since 2001, and in 2003, the Gulou District government in Nanjing piloted a contracting system for in-home elder care specifically from social organizations.

As illustrated in Figure I.6, only Shanghai, Nanjing, and a few other places experimented with contracting in-home elder-care services before 2004.

In 2004, the Ningbo Haishu District government issued Zhengban No. 29 "On Haishu District home care social work guidance," which proposed that non-profit organizations help establish and operate a new home care service system, providing a full range of services for the elderly (Lunwen 2013). Following these initial experiments, in 2006, the Ministry of Civil Affairs (MoCA) promulgated a regulation inviting "national pension service social experiments" nationally, and by 2008, Hangzhou initiated contracting through the District Civil Affairs Bureaus for elderly home care services, with monthly, semi-annual, and annual evaluations by the Municipal Civil Affairs Bureau and Social Welfare Department.



*Figure I.6* Timeline of in-home elder-care contracting policy adoption

Note: MoCA: Ministry of Civil Affairs.

Despite the rapidly graying population across China and the MoCA regulation, this policy of in-home elder care did not diffuse widely. After the adoption of the 12th Five-Year Plan in 2011, several other provinces began to experiment with pilots, and approaches toward care for the elderly varied considerably with both for- and not-for-profit involvement. For example, as Donahue *et al.* (2013) find in a survey of 18 cities, in Tai'an, Shandong, the government contracts with several private companies to outsource care; in Yichun, Heilongjiang, interviews revealed close collaboration between an NGO "Volunteer Association" and the relevant government agencies; in Ninghai, Zhejiang, services were provided by two private companies; and in several other cities, the local government ran the pilots with few private participants.

After this slow process of limited diffusion, power began transitioning from Hu Jintao to Xi Jinping who reaffirmed the political will behind these contracting pilots. In late 2012 and early 2013, MoCA initiated a study tour to share contracting experiences widely across the country, especially the Shanghai model. By May 2013, most remaining provinces and districts piloted in-home care contracting. For example, both Jining District in Shandong and Haidian District in Beijing initiated a pilot program focusing on providing in-home care for the elderly (Lan 2013): "社区养老助残服务体制创新试点." As Maps I.1 and I.2 illustrate, the diffusion of in-home elder-care contracting was very slow and limited until 2011 (illustrating the horizontal or regional pattern), and really accelerated and broadened in 2013 (illustrating the top-down and bottom-up patterns).

In the following section, we explore the politics behind this diffusion pattern to analyze why diffusion was slow, but ultimately successful by 2013.



Map I.1 In-home elder care by 2006

Source: Map courtesy of the Central Intelligence Agency (CIA) (2011), <http://www.cia.gov/library/publications/cia-maps-publications/China.html>, open source



Map I.2 In-home elder care by 2013

Source: Map courtesy of the Central Intelligence Agency (CIA) (2011), <http://www.cia.gov/library/publications/cia-maps-publications/China.html>, open source

Note: The large dots on the right of the maps depict the diffusion of the in-home elder care policy.

***The politics of diffusion: In-home elder care***

Based on the existing literature on policy diffusion in China, we developed hypotheses about which factors determined policy diffusion and used the case of contracting for in-home elder care to examine evidence supporting these hypotheses. Our initial hypotheses were that policies developed at the local level in response to widely shared governance challenges, those supported by the ruling faction at the central level, and those advocated by one agency due to intergovernmental competition were more likely to diffuse. We find support for both the local response and elite factional hypotheses, but not for bureaucratic competition. However, although the local response and elite factionalism variables appear to motivate the policy diffusion, they work in different ways with differing outcomes as far as pace and scope of diffusion.

*Response to local governance problem*

The Shanghai local government initially piloted in-home elder-care contracting in response to the quickly growing elderly population – one of the highest in the country – and the unsustainability of building enough nursing homes to provide comprehensive care. As of the end of 2012, the city's total elderly population aged 60 years and over reached 367.3 million, or 25.7 percent of the total population, and according to government projections, Shanghai will have a household population aged 60 years and older of more than 4.3 million (30 percent of the population) and aged 80 years and older of 700,000 by the end of 2015. Further projections predict that by 2025, the proportion of the aging population in Shanghai will reach 35 percent of the total population. However, as of the end of 2012, the total number of beds in the city-run nursing homes reached 105,000, only serving about 3 percent of the elderly population. With the large size of the aging population, the existing institutional solutions lacked the ability to resolve this challenge.

In response, in the 11th Five-Year Plan of Shanghai, the municipal government anticipated that 90 percent of the elderly will be taken care of by themselves and their families, 7 percent by the HCP, and only 3 percent by city-run nursing homes (Jing 2009). After 2010, in the 12th Five-Year Plan, the Shanghai municipal government, specifically the Shanghai Municipal Civil Affairs Bureau's Social Welfare Department, added 30,000 beds to nursing home capacity. However, the aging population in Shanghai cannot be served only by building larger nursing homes with such a large and growing number of elderly, so the city introduced the HCP where professional service organizations provide community station or home care services for seniors, including rehabilitation care, health care, and other services such as daycare centers. The HCP pilots began in 2000, and by 2004 the municipal government ranked HCPs as the first "practical projects" to be included in the government budget (Shanghai Civil Affairs Bureau 2008, 2009). The Jing'an District in Shanghai operates one of the most developed HCPs in China. Yijia Jing (2009) asserts that the early success of the HCP in Shanghai was due to fiscal affluence, entrepreneurship

of its public managers, active service market, and well-developed community organizations. Preliminary interviews suggest the same conclusion that the pressure of the growing aging population and high costs of building nursing homes in the metropolitan area encouraged government officials to develop this innovative policy (author interview, Shanghai elder-care contractor, June 2011). Shanghai's policy experiments in this area have been recognized as a benchmark and promoted by MoCA since 2001.

Similarly in Haishu District in Ningbo City, Zhejiang Province, local officials faced a larger-than-average elderly population – in 2000, the total population aged 60 years and above as a percentage of the total population was 1.3 percent; by 2003, this had risen to 13.7 percent, and by 2006, it rose again to 18 percent. Of the total number of the elderly, 42 percent are “empty-nest” elderly living alone, which was an increase of 7 percent from 2000 to 2005. The “empty-nest” elderly present a particular challenge to the government since they cannot depend on families to provide care. Haishu District originally responded by investing large amounts of resources into constructing nursing homes; however, the population was too large to serve entirely in this one way. Officials “found that a single pension method can hardly meet the needs of the elderly, and the government’s enormous financial pressure” (Lunwen 2013). In fact, daily operations, including the cost of land, other fixed assets, operating costs and fees, and monthly subsidy per bed, cost the government 25 to 35 Yuan per bed. Currently, the waiting list for Ningbo city nursing homes from application to approval takes 4 years. In Ningbo, local officials needed to respond to this increasingly urgent situation of rapidly aging “empty-nest” population and the unsustainability of trying to serve everyone through nursing home care. This governance challenge encouraged local officials to borrow from places like Shanghai to develop a contracting model for in-home elder care.

Although elder-care contracting is to both for- and not-for-profit organizations, Donahue *et al.* (2013) concur that

the motivation for this collaborative approach stems from wanting to attract resources, combined with trust that the social groups and non-profit organizations involved are unlikely to engage in preference distortion of the service since they have interests aligned more or less with the public goal of appropriate long-term care for the elderly and disabled.

The linkage between solving governance challenges and cadre promotion through the evaluation system motivates local officials to develop or adopt social innovations that resolve these problems. However, although local governance pressures encouraged policy diffusion around in-home elder care, this diffusion was very slow and occurred in a horizontal municipal pattern, and most local governments adopted distinct approaches. Surprisingly, diffusion occurred at the district and municipal levels of wealthier provinces, like Shanghai and Zhejiang, not rural ones with more “empty-nest” elderly and less revenue for building nursing homes.

*Elite factional politics*

At the central level, the government under Hu Jintao shifted to encouraging local governments to experiment with elder-care models in the 12th Five-Year Plan. This political will from the central level continued during the leadership transition to Xi Jinping. In fact, in 2012, the Ministry of Civil Affairs launched a national campaign to “educate” local governments about the regulation originally issued in 2006 to begin contracting elder care: 民政部关于开展“全国养老服务社会化示范单位”创建活动的通知 民函〔2006〕292号. This reaffirmation of political will appears to have initiated widespread diffusion of elder contracting. During this campaign, MoCA used previously developed models of innovation like the Shanghai model, and contracting out in-home elder care diffused to most localities by the summer of 2013. This illustrates the top-down and bottom-up patterns in Figures I.2–I.5, with significant interaction and mutual learning between government levels.

This case illustrates the importance of elite consensus to encourage policy diffusion, rather than a “pet project” explanation. In fact, it was the new Xi Jinping administration’s reaffirmation of previous central support for this policy that seems to have signaled the lack of political risk associated with diffusion. Although it is difficult to determine causality in this complex chain of events over the last 13 years, it appears that initial diffusion was in response to shared local governance challenges but that this process was slow and limited, while the second wave of diffusion beginning in early 2013 was triggered by elite consensus and spread rapidly and broadly. Thus, political factors drive different patterns of diffusion, with central support or consensus motivating a fast, broad, and vertical process similar to the top-down and bottom-up types, while local governance challenges motivate a slower, limited, and horizontal process similar to horizontal/regional and intra-provincial types.

*Bureaucratic competition*

The elderly as a constituency began to attract political attention when the first cadres began retiring in the 1980s, and the party-state formed the China National Commission on Aging (CNCA) in 1982 in response to the first World Assembly on Aging held by the United Nations (UN). However, this commission did not wield political power and was demoted to a public-service unit in 1995, and in 1999, the All China National Working Commission on Aging (ACNWCA) was established as a “direct political response to the Falungong incident” (Jing 2009). Many retired cadres belonged to the organization, and forming ACNWCA attempted to address elderly issues and dissatisfaction.

While ACNWCA created a new platform for policy discussion and coordination, its weak administrative status prevents it from supervising all the agencies responsible for issues related to aging, such as the Bureau of Civil Affairs, Social Welfare Office, Pension Office, and local Finance Office. However, as the governance challenges faced by the party-state have increased with the growing elderly population, the political space for advocacy and policy experimentation has

Table I.2 The HCP in Jing'an District in Shanghai

<i>Category</i>	<i>Service</i>	<i>Deliverer</i>	<i>Supervising agency</i>
Daily care	Dining service	Community service station, market and social organizations	District Office of Aging Work
	Personal cleaning		
	House sanitation		
	Safety service		
	Outdoor assistance		
	Issue-based assistance		
Medical assistance	Basic medical service	Community medical clinic Hospital	District Health Agency
	Professional medical service		
Social and spiritual care	Culture and entertainment activities	Street Elderly Association	Street Government
	Elderly education	Elderly University	District Education Agency, etc.
	Right protection and legal consultation	District Elderly Right Protection Station, Street Legal Consultation Station	District and Street Governments

Source: Jing (2009, p. 95).

HCP: Home Care Program.

improved with over 200 laws, statutes, regulations, and policies on aging promulgated since the 1980s (State Council Information Office (SCIO) 2006). In 1996, the Law on the Protection of the Rights and Interests of the Elderly was enacted, and beginning in 2000, aging issues have been incorporated into all national Five-Year Plans. In 2008, Shanghai's 11th People's Congress had two retired delegates to represent the elderly for the first time (Jing 2009).

Although channels for interest articulation and political interest in the issue have increased, aging is an intergovernmental issue involving many agencies, including those with social insurance, health, and fiscal responsibilities. As Yijia Jing (2009) illustrates with Table I.2, five different agencies at different levels of government supervise the HCP in Jing'an District.

The intergovernmental coordination necessary to run this program created many challenges, and the strong support of the municipal government was vital in building the HCP network. In 2007, the Jing'an District Government ranked it as the first priority among its Ten Livelihood Projects and maintained pressure on other agencies until the project was funded and implemented.

In addition to interagency coordination, these programs often encounter turf wars where the district government and Aging Offices support the program but cannot convince other agencies to implement the program correctly. For example, many fiscal bureaus refuse to set appropriate fiscal incentives to encourage for- and not-for-profit organizations to bid for elder-care contracts. As Donahue *et al.*



(2013) find, officials often suggested that the limited private sector involvement reflected the low government funding: “The government subsidy (for government procurement of care for the disabled) is quite low – merely 3600 yuan per patient. Private providers cannot sustain operations in such a situation.” This competition, or veto power, between agencies over policies prevents the development and diffusion of elder-care contracting. However, this competition did not halt or start diffusion, merely served as an inhibitor or accelerator of existing causes of diffusion.

Based on the case of the diffusion of in-home elder-care policy, bureaucratic factionalism serves to accelerate or inhibit speed of diffusion, but does not cause diffusion itself. Instead, response to local problems appears to drive diffusion but results in a slow and limited process. Central consensus seems to drive diffusion more quickly and broadly, but sustainability of this type of diffusion is not known yet. Also, this does not reveal if one strong leader’s political will (pet project) is key or if elite consensus represented in documents like Five-Year Plans is more important in triggering diffusion. Analysis of the politics of diffusion in the specific case of in-home elder-care supports the two original hypotheses that responses to local governance challenges and the political will of central party elites encourage policy diffusion, but does not support the idea that political competition between government agencies drives policy diffusion. This is an interesting finding because existing literature does offer examples where bureaucratic competition influences policy advocacy and change (Lin and Purra 2012).

## **Implications**

Our analyses in this volume find that norms of decentralized policymaking and conflicting incentives for local officials have encouraged local-level policy experimentation across China’s cities and villages to solve governance challenges, such as rural development, enterprise reform, and social services. More importantly, these innovations from local governments sometimes drive larger processes of change, as local experiments often diffuse to other places and eventually to the level of central policy. The interaction between formal rules established by the central government and ad hoc local solutions create a process of policy adaptation at multiple levels of the state apparatus. In this introductory chapter, we outlined a theory of the politics supporting or inhibiting diffusion, as well as a typology of the patterns of this policy diffusion.

The chapters presented in this volume examine the politics and patterns of policy diffusion in China across different policy areas. In Chapter 1, Margaret Pearson and Ciqi Mei explore the incentives and constraints that shape local officials’ decisions to obey or resist top-down directives. They find that the cadre management and the “hold to account” systems of personnel management create the incentive structure for local officials; however, the use of the “hold to account” system is selective and does not terminate most careers, so the cost of defying the center is not high. Thus, they observe the diffusion of local defiance across provinces in China despite the existing incentive system. Chapters 2 and 3, by Anna Lora-Wainwright and

Meina Cai, explore key areas of local adaptation in response to land use and requisition. Lora-Wainwright finds highly variable implementation of central initiatives and widespread abuses by rent-seeking local officials in southwestern China, while Cai finds that land is such a vital resource to local governments that they continue to innovate around land issues even in the face of direct sanctions from the center. Many of these innovations are promoted by the center as well, but diffuse through varying patterns. In Chapter 4, Kun-chin Lin and Shaofeng Chen detail the struggles of provincially owned state firms to negotiate their relations with the central state, and find once again that central policies are selectively and partially accepted by firms acting in their own self-interest and – often – in collusion with local governments. William Hurst contends in Chapter 5 that central drives to shed smaller state-owned enterprises often devolved into myriad partial reform equilibria at the local level as managers and officials bent policies to their individual advantage. May Farid and Marie-Eve Reny examine the relations between local states and various segments of society, such as NGOs and unofficial churches, in Chapters 6 and 7. These authors analyze the politics undergirding local innovation, and find local state cooperation with these societal actors to jointly innovate to solve local problems. Chapter 8 offers an assessment of electoral reform by Dan Chen and John Kennedy. Similarly to the other authors, they contend that the cadre management and “one level down” systems of personnel management provide incentives for local officials and that these incentives structure the incremental innovation approved of by the center in electoral reform. However, they also find local defiance when local officials innovate in response to local needs despite central guidelines. As illustrated in Figure I.6, the analyses in this volume highlight that innovation under conditions of uncertainty leads as often to suboptimal policy diffusion or halting of necessary reforms as it does to the successful examples found in the economic reform literature (Florini *et al.* 2012). This is because the process of policy innovation and diffusion is a political rather than technocratic one, with the personnel management systems generating a strong linkage between local problems and cadre promotion driving local innovation even in the face of central sanctions. However, the “hold to account” and “one level down” aspects of the personnel management systems also link promotion to meeting the central government’s directives, which also drives diffusion of policy experiments selected by the center.

Both of these vertical and horizontal patterns of diffusion exist and are caused by the same personnel management system, with the most sustainable pattern of diffusion being the one that is prompted by local need and promoted by the central government such as the diffusion of in-home elder-care policy. One thing that our analysis does not cover, but that should be explored in future research, is how “non-rational” factors (i.e. not linked directly to the promotion system) such as reputation, embeddedness in the community, and social learning might influence policy innovation and diffusion. Finally, we return to broader theoretical and conceptual issues in the conclusion including the implications of these patterns for good governance in China.

Overall, the microlevel analyses in this volume highlight three important general implications of our research. First, the significant fragmentation in the policy



sphere creates space for non-state actors like civil society to participate in policy in ways not allowed by the formal institutions in a single-party state. Second, local officials possess more power over policy decisions than previously thought, even maintaining beneficial policies in the face of central sanctions. And third, policy outcomes in China might be driven more by politics than technocratic ideas of social Darwinism, meaning that policies like those underpinning economic reform are a result of political compromise rather than recognition of a socially optimal path of reform. This is inherently a political process with different nodes of power and interests that might ultimately allow a “bad” idea to diffuse and “good” ideas to stagnate in one region, thus exploring this process in different policy areas sheds light on how politics work in China. These findings fundamentally change the way scholars should study the policy process in China, by putting more emphasis on disaggregating the state, the role of non-state actors, and the interaction between levels and types of government.

More research is needed on how local and central political factors interact not only to cause diffusion but also to sustain it. As Fewsmith (2013) finds, political will cannot sustain policy innovations because once the official leaves office, the policy is no longer continued. This means that diffusion should have relatively short birth and death cycles corresponding to political business cycles. Thus, in addition to the different speeds and patterns of diffusion in response to local and central political factors, there might be differences with sustainability and institutionalization. Also, complex policy areas might require national solutions, like land reform, so local government might be loath to take the political risk of innovation without central signals of support. Additional cases are necessary to tease out the necessary and sufficient conditions of initial diffusion and the durability of this diffusion, as well as more analysis of the literature on policy diffusion outside of China.

Additionally, further research must also focus more on the role of learning in policy diffusion rather than relying simply on interest-based approaches. In the case of elder care, we focused on how the governance challenges created by a rapidly growing elderly population generated political will to adopt policy experiments with in-home care. However, why was this model attractive as a solution? How does having an existing model like Shanghai help diffusion? Analyzing this complex process of policy diffusion sheds light on how local officials decide to change or adopt policies and might help institutionalize a process to capture optimal innovations.

The significance of this research is that policy diffusion is inherently a political process with different nodes of power and interests that might ultimately allow a “bad” idea to diffuse and “good” ideas to stagnate or disappear. The political nature of policy diffusion should indicate to Chinese policymakers that the existing adaptive policy process does not naturally allow optimal policies to diffuse and suboptimal to disappear, but that they need to build stronger institutions for supporting policy innovation and capturing knowledge. Much innovation exists at the local level in China, but without a formal process for technocratic evaluation, opportunities are lost for improving governance. This process at the central level

needs to consist of reviewing local innovation to discover the policies that match both local needs and central preferences, and then launching education tours using the model, similar to the one MoCA undertook in 2012 using the Shanghai model of in-home elder care. Central support will greatly facilitate the process of diffusion as long as the policies are relevant to local needs.

## Notes

- 1 We use the terms “innovation” and “experimentation” interchangeably throughout this volume and simply mean to identify new policy solutions developed in the specific context.
- 2 In-home elder care refers to services offered in the home, such as meal delivery, bathing, disability care, assistance with medicines, or shopping. These services are offered as a substitute to institutionalized care like nursing homes.
- 3 “Elderly” refers to those aged 60 years and above.

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# 1 Diffusion of policy defiance among Chinese local officials

*Ciqi Mei and Margaret Pearson*

## Introduction

An underlying, if often unspoken, assumption about policy diffusion is that the process involves the spread of positive, even innovative, behavior. In this chapter, we explore a different type of diffusion: policy *defiance* – in which local officials explicitly fail to follow central directives – as a basis for theorizing about how policy “experiments” may spread throughout the Chinese political system. Our analysis centers on the incentive structure in which local officials operate, and that, over time, creates in them a shared belief that the costs of defiance against the central government are low. Defiant behavior is a shared rational response that diffuses horizontally as a result of local officials’ self-assessment of the risks and benefits of defiance to their political careers. In other words, we offer an explanation for why local officials think they can get away with defiance, despite seemingly strict central authority, and how these beliefs diffuse through the system.

In terms of the hypotheses about the patterns of diffusion offered in this volume’s introductory chapter, our case finds support for the idea that local officials face similar governance challenges across China, and that they respond similarly because of incentives with which they are presented by the structure of the political-bureaucratic system. At the same time, in contrast to the hypotheses suggested in the introductory chapter, our study does not find a link between factional politics and the diffusion of defiance behaviors.

Our theory of “defiance diffusion” developed from a case of policy defiance that garnered attention in China throughout 2003 and 2004. In this case, local steel manufacturers defied orders from the central government in Beijing to halt plans to expand steel production capacity, even after the local leaders (and firm heads) were threatened with severe sanctions and observed these sanctions carried out on a select few. But as we note below, ours is not the only such case of defiance, and therefore, we believe our conclusions are not simply limited to one case, but rather can be generalized across the system.

Explicit noncompliance – what we call “defiance” – carried out by local Chinese officials against the central party-state has long been noted as a hallmark of China’s Cultural Revolution (Heilmann and Perry, 2011). Yet defiance has occurred even in more politically stable times. Scholars have tended to view defiance by local officials as an extension of other bureaucratic behaviors in which

local officials take initiative, including longstanding encouragement of local policy experimentation, the knowledge of local officials that complexities and information asymmetries inherent to administering a continental nation render supervision difficult, and reflection of local fiscal empowerment that was a hallmark of the early reform era.

However, we see blatant defiance as a distinct phenomenon from local initiative and other forms of local autonomy in China. The Chinese central government, while often encouraging local discretion and experimentation, at other times has considered it to be a thorn in its side. The People's Republic of China (PRC) is a unitary state (versus federal), and the central government has, if anything, over the past decade and a half taken back power at the center and set up outright sanctions for defiance. As we shall discuss, the effort to control "excessive" growth through the imposition of economic retrenchment policies – with strong sanctions attached – is a policy arena in which local autonomy has repeatedly faced central attempts to rein in local officials. More generally, starting from the 1990s, after years of economic reform that featured comprehensive decentralization to subnational governments, the PRC government has overseen a steady trend to recentralize and rationalize its political management system (Yang, 2004; Mertha, 2005; Pearson, 2005).<sup>1</sup>

Most important, the Chinese government has kept intact its most potent tool for control over local officials: the top-down cadre management system rooted in its Soviet heritage. Although the central party personnel organs only appoint and manage officials at the provincial level ("one-level-down"), under the assumption of a unitary system that authority is transitive at each administrative level, this same system replicates itself down to the grassroots level (Manion, 1985; Huang, 1995). Local officials, whom scholars commonly view to be driven by the desire for career advancement (Blanchard and Shleifer, 2001; Zhou, 2004) or career security (Edin, 1998; Tsui, 2007), are theorized to be incentivized or coerced by this promotion system to implement policy mandates that might otherwise be incompatible with local officials' interests.

The Hu-Wen administration (2002–2012) rejuvenated the cadre appointment system in order to induce or coerce local officials to follow mandates from above. Local officials, especially those at designated leading positions (such as party secretary of the relevant unit), are required to take responsibility for the implementation of the center's most urgent policy goals. Local leading officials who fail to perform a duty, or to perform it correctly, are to be "held-to-account" (*wenze*), that is, to be disciplined or even removed from their positions.<sup>2</sup> The new system raises the stakes of local officials' defiance in two ways. First, the "hold-to-account" practice clearly specifies the punishment for noncompliance. Whereas most top-down policy programs in China have reward and punishment terms attached – especially in those with target responsibility systems designating specific policy goals for each implementer – previously these punishment terms were often vague. In contrast, in the new "hold-to-account" system, it is made clear that punishment of transgressors might range from extraction of a forced apology to forced resignation.<sup>3</sup> As career advancement is a major incentive for China's local officials,<sup>4</sup> the use of harsh political sanctions against those who defy

can be expected to constrain cadre behavior. Thus, compared with previous uses of the cadre management system to gain compliance, the “hold-to-account” practice explicitly raises the stakes of noncompliance by local officials, and might be expected to halt local policy deviation and its diffusion to other localities.

Second, the “hold-to-account” practice specifically targets a jurisdiction’s leading officials such as party secretary or government chief.<sup>5</sup> In contrast, previous punishment terms often did not have a clear target or targeted only those in nonleading or unimportant positions.<sup>6</sup> Given the unchecked administrative power that leading local officials have in China, the center’s threat to hold them accountable shows a determination to enforce policy implementation.

The center thus has given itself a “political trump” (Tsui, 2007), that is, an enhanced ability to reward or punish local officials, to solve the problem of policy implementation in China. Indeed, the central government has shown its resolve to use this “hold-to-account” practice at several high-profile moments. The example cited most often is the forced resignation of the Beijing mayor and the national health minister in the 2003 severe acute respiratory syndrome (SARS) crisis. After the center set this example (to great publicity), local officials – who had been criticized for their sluggish response to the pandemic – moved quickly to respond to Beijing’s call for effective handling of the pandemic. The success story of accountability to the center during the SARS crisis initiated the subsequent “hold-to-account” system.<sup>7</sup> But could use of this political trump engender similar deterrence effects, inducing compliance from the many by sanctioning a few, in other policy areas?

The “hold-to-account” practice has since been adopted in the implementation of several high-profile top-down policy initiatives, for example, protection of arable land, regulation of workplace safety, and regulation of excessive capital investment. Beijing has disciplined a number of leading local officials as examples to deter further transgression in other localities.<sup>8</sup> However, the success of selective sanctions is at best undetermined in these cases. In the 2004 case we examine in detail in this chapter, in an effort to limit investment in China’s iron and steel industry, eight officials including the party secretary of a major city were disciplined by the center for illegally approving an expansion and land acquisition plan of Tieben Steel, a private iron and steel manufacturer. With the clear expectation that the punishment of the local officials would deter other local leaders from encouraging investment in the overheating iron and steel sector, central officials were frustrated by the fact that the overall production capacity of iron and steel kept increasing at an annual growth rate of over 20 percent, similar to the growth rate before the Tieben Incident. As our case illustrates, local officials were definitely not deterred by explicit central efforts to check their behavior.

Why does such defiance continue despite the use of political trump tactics? We argue that local defiance in China is not so much due to the decline of the center’s political authority but, rather, the result of a dilemma intrinsic to the control mechanism used by the center. While some analysts correctly point to similar managerial dilemmas as reflecting a principal–agent problem, we argue more specifically that the dilemma lies in the bureaucratic control system itself. Using the “hold-to-account” mechanism, the sanctioning of transgressors is necessarily



selective and not sustainable. In our case, a “shared belief” that the actual risks of defying the center are low seems quickly to have emerged among local officials; defiance was therefore a rational response, not generally to the center’s weakness but to the center’s use of the particular trump mechanism of “hold-to-account” itself. In other words, although local officials undoubtedly are aware of the center’s political clout, and in particular of their superiors’ power over their aspirations for promotion, nevertheless, the behavior pattern between the center and local officials that is repeatedly observed by other local officials – the pattern of *selective* sanction in the short run – generates among local officials a shared view that being sanctioned is an event of small probability and, even if an official is sanctioned, the cost in the long term is in fact not that high. The calculation based upon such a shared view is rather simple: it is worthwhile to local officials to defy the center if it brings them high long-term benefits in the context of the seemingly strict top-down sanction in the short run; defiance hence persists and is diffused.<sup>10</sup>

The chapter proceeds as follows. In the next section, we review two groups of theories from the study of Chinese bureaucratic politics that might be used to explain the prevalence – or diffusion – of local noncompliance China. Finding these insufficient, we then offer an alternative explanation that focuses on how selective sanctioning by the center (through the *wenze* system) has the potential to reset the shared beliefs of local officials about the risk of noncompliance and make defiance rational. We follow with our case study of the 2003–2004 Tieben Incident, which shows precisely how the center’s efforts to deter noncompliance in fact resulted in a version of local innovation of a sort not often considered in the literature on policy diffusion.

### **Existing explanations of noncompliance and defiance in China**

As discussed above, a key characteristic of China’s top-down policy implementation process is that the superiors at the top try to produce desirable policy outcomes indirectly through bureaucratic control – especially control via performance evaluations and promotions (Huang, 2002). To induce compliance using indirect control mechanisms, the key question is “how to incentivize implementers?” Or, as Mao (1965) put it, “once the political line is determined, cadres are a decisive factor.”<sup>11</sup>

Given the system was designed to allow the center to exercise power over subordinates through the personnel control system, why is local noncompliance endemic? The current literature on Chinese central–local relations would seem to offer answers from two angles. A “power shift” school argues essentially that central government authority has been counterbalanced by the decentralization of power to local governments during the post-1978 reform era. Although dominating the literature as an explanation for local policy experimentation, the “power shift” school ignores how the center continues to retain substantial power and as a result fails to explain defiance diffusion in the face of possible harsh sanctions by the center.<sup>12</sup> A second and more helpful literature, on which our analysis builds, focuses on the managerial dilemma posed by the indirect bureaucratic

control system itself, a dilemma which renders control through this system difficult. Specifically, this literature discusses the difficulty principals face when overseeing multitask agents. However, as we will suggest, this explanation is essentially static and is insufficient to explain defiance diffusion over time when the principals reprioritize certain tasks through the instrument of “hold-to-account” sanctions.

### ***Power shift explanation***

Many scholars attribute the failure of local officials to comply with top-down mandates as reflecting a shift in the power balance between the center and local governments. Indeed, compared to the Mao era, in the 1980s, a large-scale decentralization process devolved decision power over economic policies, fiscal revenues, and even some aspects of cadre appointment, to localities. Some scholars see decentralization as an explicit policy of the center. Shirk (1993) argues the center needed to gain political support of provincial officials for radical reform (what she calls “playing to the provinces”), while Montinola *et al.* (1995) point to what they see as the center’s effort to establish “fiscal federalism” and therefore provide a credible commitment to localities that reforms would not be reversed. Still others such as Oi (1995) point to fiscal system reforms that gave localities a claim over “fiscal residuum,” and thus provided local officials the incentive to act as corporate managers with local funds. Implicit in all these arguments is the view that, as economic decision-making power shifted from the center to localities, local authority became increasingly unchecked by the center. As discussed in the introduction to this volume, many scholars note that policy experimentation has long been approved by the party (Heilmann, 2008). Relatedly, because the central government’s own promotion criteria for local officials became most clearly tied to success at achieving economic growth in a local official’s jurisdiction, the center’s sanctioning capacity was undermined (Walder, 1994: 301). In other words, the center’s personnel system gradually lost its deterrence power to rein in local noncompliance as local officials needed to show they were responsible for growth.<sup>13</sup>

Although the various forms of reform-era decentralization, and the reasons for them, are accurately described in many works, the overall implication of the power shift literature that the center has lost power to sanction local officials as a result of decentralization processes is disputable. Indeed, other scholars have built counter-arguments upon the observation that the centralized cadre management system has been largely kept intact during the reform era (Huang, 1994, 1995, 2002; Blanchard and Shleifer, 2001). Despite corruption opportunities, local officials remain sensitive to the center’s political authority due to their concern for career security (Edin, 1998, 2003) or career advancement (Landry, 2003; Li and Zhou, 2005). In reality, the center has repeatedly shown its authority by reneging on commitments (e.g., fiscal contracts) to local governments (Tsui and Wang, 2004) or by imposing excessive and unwanted performance targets on local cadres (Rong and Cui, 1998; Edin, 2003; Tsui and Wang, 2004; Tsui, 2007). In other words, the power of the center has not eroded to nearly the degree assumed by the power shift school. As



the center may still sanction local leaders, including by using its political trump to reinforce and override other formal procedures,<sup>14</sup> the ensuing defiance of local cadres should not be attributed to local leaders being more powerful. Rather, it should be attributed to flaws in the bureaucratic management system.

### ***Managerial dilemma school***

An alternative explanation for local defiance arises from intrinsic managerial dilemmas of China's political system. The essence of this explanation is that, even if bureaucratic control is effective in the sense that subordinates are responsive to career incentives, full compliance with top-down mandates is neither possible nor beneficial for one's career prospects. Defiance by local cadres is therefore an inevitable result of these bureaucratic limitations.

The first main limitation, rife in China, is an information asymmetry innate to any multiple-task principal-agent setting. Bureaucratic controls are a mechanism used by the center (the principal) to induce desirable implementation from local officials (the agent). While information asymmetry problems may be solved by an incentive-compatible mechanism in a single-task principal-agent setting, when we increase the number and complexity of tasks, such a mechanism becomes basically impossible. In the context of China's policy implementation, given the expansive scope of government tasks, bureaucratic controls are used as a lever to implement myriad policy tasks. Facing multiple, often conflicting, tasks mandated from above, it is therefore rational for local agents to engage in "selective implementation" (O'Brien and Li, 1999). While the center uses cadre evaluation procedures as a yardstick to measure the performance of local officials, local officials respond by implementing those tasks with greater weight, with measurable goals, or with better image-building effects (O'Brien and Li, 1999; Cai and Treisman, 2004). Alternatively, local officials may intentionally misinterpret formal institutions and rules in order to better comply with local conditions (Tsai, 2007). Noncompliance is the flip side of this selective implementation; while local officials are induced by career incentives to implement some tasks, the same incentives drive them to defy other tasks.<sup>15</sup> In other words, local officials tend to implement those tasks with high priority, high visibility, and easy measurability.

Information asymmetry arguments help frame why noncompliance makes sense to local officials. They can help explain why, even when implementation programs specify exact targets and indicate that there will be monitoring by the center, local officials may choose to defy. Nevertheless, our basic problem remains: when it is clear the center is aware of local defiance, sets up the "hold-to-account" system with explicitly targeted and substantial sanctions, and actually implements the selective sanctions, why does local defiance *remain* pervasive?

### **Diffusion as a result of shared endogenous learning**

We adopt a process-oriented framework to study why local defiance appears to be so viable in a unitary political system, and why defiance diffuses horizontally

through the system. While the managerial dilemma argument begins to provide a foundation for understanding local cadre incentives, it provides a static analysis in which local officials' behaviors are only parametric to the external incentive structure. Defiance behaviors are distortions resulting from static and skewed incentives prioritizing the implementation of some tasks over others. An implication of this static account is that if the incentive structure can be adjusted exogenously to reprioritizing policies neglected before, local officials then would conform instead of defying.

The top-down sanction has introduced an exogenous shock to the local environment. That is, behaviors that were allowed previously are now deemed defiant and therefore prohibited. However, because the behaviors we observe – defiance that persists and diffuses – are opposite to what is intended by the center, there must be some endogenous mechanism which has the effect of offsetting the exogenous change to the incentive structure and has brought about the diffusion of defiance behaviors.

We argue that the sequential central–local interaction following the exogenous shock of the center's punishments is a factor, or a quasi-parameter as termed by Grief and Laitin (2004), that local cadres have taken into consideration when choosing to defy or not. According to Greif and Laitin, exogenous change in environmental parameters cannot directly lead to behavior changes. Instead, the changes in some variables initiated by the change of exogenous parameters may become parametric to actors' behaviors. As we shall show in our case, the central–local interaction under the exogenous shock of top-down sanction is both a behavior variable that changes endogenously and is parametric to others' behaviors, and is hence a quasi-parameter connecting the environmental change and behavior change. Such central–local interaction could be a “self-reinforcing event sequence” (Pierson, 2000) that leads to outcomes intended by the center when introducing top-down sanctions. Or, it could also be a “non-reinforcing event sequence” (*ibid.*) in the sense that it offsets the intended threatening effect of sanction and results in unintended outcome. We observe the latter in the Tieben Incident.

Aoki's account of “shared beliefs” further substantiates the conception of quasi-parameters. According to Aoki (2001: 12), institutions frame individuals' behavior, as they are viewed subjectively by the actors inside them. Only after rules and constraints of the institutions have been internalized and accepted as “beliefs” by actors will such institutions frame their behaviors. Indeed, Aoki redefines “institution” as “a self-sustaining system of *shared beliefs* about a salient way in which the game is repeatedly played” (p. 21). The central–local interaction and its outcomes in the context of exogenous shock are observed by others and help to form a new set of shared beliefs which then become parametric to the local officials' behaviors.

In the Tieben case, we contend that the center was unable to successfully check the diffusion of local defiance behaviors through its sanctions because of local cadres' shared beliefs about the risk and benefits of defiance. While the weakening of the center's political trump induces more local defiance behavior as described in this specific policy issue, it does not mean or require a power shift between the center and the local or preexisting structural flaws. In the following

discussion of the Tieben Incident, we suggest how the center's sanctioning of local defiance resulted in a change in shared beliefs.

### **Case study: 2004–2007 retrenchment and the sanctioning of Tieben Steel**

As the old saying “killing a chicken to scare the monkey” tells us, when the chicken sheds blood, the monkey will feel afraid.

(Li Baojia (*Qing*), *The Record of Revelation of Officialdom*)

In 2003, China's economy was experiencing its latest round of overheated growth in investment. The growth rate of fixed asset investment was 27.7 percent, much higher than the 13.05 percent and 16.89 percent rates of 2001 and 2002, respectively. A large proportion of investment was directed by local governments into heavy industries such as iron and steel, aluminum, and cement. Observing this trend, the State Council by the end of 2003 began to take action to contain investment flows in these three sectors. For the iron and steel industry, in December 2003, the State Council formally forwarded to local governments a joint directive from five ministries and mandated the directive's implementation. The directive clearly stated that local governments should suspend approval of new investment projects and stipulated a bundle of policy measures, including regulations on market entry, environmental protection, land management, and credit management, all designed to eliminate “blind investment” in this industry.<sup>16</sup> Specifically, the directive stated that the center

[s]trictly prohibits local government at all levels from breaking up whole projects into smaller ones (in order to avoid the licensing process), approving projects beyond its licensing authority or bypassing laws. Those who violate the directive will be held to account.<sup>17</sup>

Having incorporated the “hold-to-account” clause into a formal document, the center's campaign found its first target in early 2004. Soon after, what became known as the “Tieben Incident” garnered national attention. Tieben Steel was a private steel manufacturer in Changzhou, Jiangsu Province. Encouraged by local government officials, the middle-sized firm had in recent months developed an ambitious project to expand its annual steel production capacity to 8.5 million tons in 2003. Subsequent to issuing the directive, the State Council charged that Tieben was a case of “severely violating the center's macroeconomic regulation policy, blind decision-making in an investment project, generating serious loss and baneful influence.” The Tieben Incident eventually led to the imprisonment of the firm's owner and, more notably for our study, led to the disciplining of eight local officials in Changzhou city and Jiangsu Province, including a severe internal warning issued to the party secretary of Changzhou (the city's highest official). All major national media, apparently coordinated by the central government, quickly publicized this seemingly harsh sanction in order to deter other local governments in their “frenetic pursuit” of big iron and steel projects.

However, the severe sanctioning of Tieben did not result in compliance by other local officials who at the time were overseeing investment in iron and steel projects; the State Council's sanctions did not change the behavior of Tieben Steel's competitors. At the national level, steel output and production capacity continued to grow during the retrenchment. In 2004, the capacity of steel production also grew rapidly, notwithstanding the austerity signals sent by sanctioning Tieben. The year 2004 registered a 28.93 percent growth in steel production capacity expansion and this growth rate increased to 29.17 percent in 2007 before the global economic crisis (*China Steel-Iron Industry Yearbook* (annually, 2001–2009)). Steel output also grew. After Tieben was sanctioned in 2004, and from 2004 to 2007, the overall output increased by another 78.26 percent with annual growth rate of 21.25 percent. In 2005 alone, immediately after the sanction, national output of raw steel actually increased 29.52 percent! Clearly the center's strategy of "killing a chicken to scare monkeys" did not accomplish its goal.

We find that the center's efforts did not fail because local officials failed to understand the serious purpose of the central authority. Changzhou and Jiangsu officials are still very reticent to talk about the Tieben case. Such sensitivity suggests to us an understanding of the need for deference toward the center. Moreover, it is clear from the previous figures that the unconstrained local defiance continued nationwide even after the Tieben sanctions had been broadly publicized. Our contention is that the manner and the outcome of the sanctioning – specifically the sequencing of events and the risk–reward evaluations of local officials – weakened the ability of the center to deter overexpansion. The selective sanctions themselves, once heaped upon Tieben but not others committing similar defiance behaviors, decreased the *de facto* risk that other local officials would be sanctioned for their defiance; as we shall show, the actual reward to those local officials who escaped sanctions, that is, faster economic growth boosted by capital-intensive projects like steel production, increased their payoff as a result of defiance. In other words, the credibility of political sanctions weakened as the actual central–local interactions unfolded in the process. In the meantime, new shared beliefs emerged about the benefits and cost of defiance in the face of the center's political sanction, which led the latter to fail.

***Selective sanctions: Local officials learn about the risks of being punished***

The Tieben Incident is often cited as the opening salvo of Beijing's 2004–2007 retrenchment campaign. It is quite clear that the center tried to kill this Tieben "chicken" to scare other "monkeys." When it adopted this strategy, the center in all likelihood was aware of many other ongoing defiance cases. Several other cases that came to light later also showed that a number of iron and steel projects similar to Tieben were constructed despite the retrenchment. Thus, we must consider why only Tieben was sanctioned, but not others?<sup>18</sup>

Interviewees repeatedly raised the same question, pointing to two other iron and steel manufacturers similar to Tieben: Shagang Steel and Rizhao Steel (later

Rigang). In 2003, each of these three firms, all privately owned, launched ambitious capacity expansion projects responding to the booming steel markets after China's World Trade Organization (WTO) 2001 entry. Yet both Shagang and Rigang escaped the 2004 sanctions. All three expansion plans revealed similar "crimes." While Tieben aimed to construct a project of 8.5 million tons steel production capacity (8.5 times over its 2002 output), Shagang, which already in 2002 ranked fifth nationwide in steel production, aimed to more than double its capacity. Tieben's investment plan was obviously well beyond its capacity to self-finance (about five times its existing assets) and therefore relied heavily on bank loans. Irregularities in the approval of these local-government-supported bank loans became one charge against Tieben. Yet Rigang also received similar help from banks, and received loans of about 2 billion *yuan* from state-owned commercial banks.<sup>19</sup> Illegal land requisition was another charge leveled against Tieben. However, the 5,950 *mu* (3.97 sq. km) of land requisitioned by Rigang was only slightly less than the 6,541 *mu* (4.36 sq. km) requisitioned by Tieben. Given the sheer amount of land used by these gigantic projects and limited land use approval rights of local governments, "separating a whole project into smaller ones to bypass laws," an indictment against Tieben, almost surely occurred in all three cases.

Given these similarities, why was Tieben sanctioned and not the other two firms?<sup>20</sup> Observers offered several explanations: Tieben's ambitions seemed the most egregious;<sup>21</sup> Tieben lacked protection from the Jiangsu provincial government compared to Shandong provincial government's protection of Rigang;<sup>22</sup> Shagang's owner was politically better connected compared to Tieben's owner;<sup>23</sup> or Tieben just had "bad luck."<sup>24</sup> It may be impossible to precisely identify why Tieben alone was sanctioned. What is more telling is that *none* of the reasons offered by observers cite the defiance behavior itself. Put differently, observers argue that Tieben was not sanctioned for its defiance per se but for using wrong tactics or because it was not "qualified" to defy. From the viewpoint of local observers of both Tieben's sanction and other firms' escape, it is quite rational to make such conjectures. Admittedly, sanctions *must* be selective by nature because not all defiance can be spotted. But, in a period of retrenchment, in which information about other defiant actions was clearly available for regulators, no sanction was imposed on the other firms or officials. Therefore, instead of generating a shared belief that defiance will engender sanctions, this type of selective sanction creates a shared belief that defiance behavior might not be risky if unaccompanied by "other" factors such as strong political connections. We show in the next section that this belief of local officials that risk would pay off was indeed correct.

### ***The common lesson learned: It is not dangerous to defy***

We have argued that selective sanctions decrease local officials' subjective assessment of the risks associated with defiance. At the same time, the positive returns from defiance – if firms successfully avoid sanctions – provide another incentive for taking risk. In fact, Shagang's and Rigang's defiance paid off handsomely.

During the 2004–2007 retrenchment, while a rapid price drop occurred immediately after March 2004 (the month when Tieben was closed and explained by the short-term effect of a comprehensive and strict retrenchment policy package), the iron and steel industry regained an upward momentum in less than 3 months. The price index rose until early 2005, and began a long boom period for steel prices; those who avoided the 2004 sanctions and continued to expand production capacity, including both Shagang and Rigang, soon benefitted greatly from their earlier defiance. Taking Shagang as an example, the firm experienced high growth during the retrenchment. From 2000 to 2006, the output of raw steel by Shagang increased from 1.47 million tons to 14.62 million tons, almost tenfold over 6 years.<sup>25</sup>

Statements from both firm leaders and local officials indicate the reasoning behind defiance. In a 2009 public interview, the president of a competing steel company expressed with pride the importance of “gritting your teeth” during retrenchment. He used the concept of a “Nerve Quotient” to show the importance of taking risks in decision making when facing headwinds (from the central government), which he believes has helped his firm “win at turning points.”<sup>26</sup> It seems that this belief that retrenchment might be a “turning point,” and risk-taking behavior would pay off is well accepted by many local officials. In the same retrenchment era, then party secretary of Muyang County in Jiangsu Province shared quite a similar view:

All past experiences tell that each macro retrenchment was a “watershed” widening the development gaps among different localities. When others slow down their development, it is the best opportunity for us to catch up. Especially for an under-developed county like ours, [the overall] macro retrenchment means new and greater opportunity for economic development. If we can grasp this opportunity . . . we can then stride forward in our development.<sup>27</sup>

This quotation suggests that, if defiance in the past has repeatedly produced winners in development that are favored both by the center and the local government, then it will be the role model from which others will learn. In a repeated game, to comply with the center would then be a self-destructive behavior. A Chinese scholar once commented on this logic with a comparison between Jiangsu and Zhejiang:

Our Jiangsu Province is too docile and was always ready to align with the center. While we pleased the Center wholeheartedly (by conformity), Zhejiang Province was working hard in defiance at night while putting an obedient guise in daylight. Then what? Look at Zhejiang now. We had to send delegates like pupils to Zhejiang to learn from them!<sup>28</sup>

One further, albeit *post hoc*, contention can be made that the shared belief – a shared risk–reward calculus – of defiant local officials shows confidence they will not suffer from sanctions. Obviously local officials in the 2004 retrenchment could



not be absolutely sure of what would happen to their careers over the medium term if they were in fact sanctioned. Yet in retrospect, if we look at what did happen to the officials sanctioned in the Tieben Incident, their risk-taking behavior looks wise. The State Council punishments of the eight relevant officials, including the party secretary of Changzhou, ranged from severe internal warnings (for the party secretary) to orders to resign or removal from their positions. However, despite these punishments, over the longer term, most of them have not in fact been severely affected in their career paths. Rather, several received lateral transfers, and others actually received promotions after a short period. Most of the sanctioned officials returned first to positions similar to what they lost in the sanctioning; that is, they returned without immediate promotions from their previous positions.

We theorize that the quick reinstatement of sacked officials served to update local officials' subjective assessment of the cost of being disciplined in a Bayesian process. That is, local officials may have had a prior assessment of the seriousness of the center's sanctions; however, the actual cost to those who were actually sanctioned revealed to other officials more relevant information they could use to adjust their prior assessments of the risks of defiance. Specifically in the Tieben case, local officials would have obtained their prior assessment even before the Tieben Incident, based upon their previous experiences with top-down sanctions. They also had a subjective assessment of the probability of a cadre's reinstatement after having been removed from office. If those sacked in the Tieben Incident actually faced a relatively low probability of being reinstated, then other local officials would see the sanctions as severe. If, however, those fired were easily reinstated, or reinstated even faster than those punished in previous retrenchments, local officials could see that this latest sanction was in fact no different, or even less serious, compared to prior ones. When officials observed a quick return to office in this case, the credibility of the center's political trump was therefore weakened.

Institutionally, the fact that their careers were not significantly affected by the center's direct sanctions meant subnational superiors were able to offset the impact of sanctions at their own will. The "one-level-down" appointment system, a reform measure taken in 1984 to decentralize the cadre management system, has indeed given provincial governments the ability to reappoint subordinates who have been sanctioned directly by the center. According to this one-level-down system, local officials are appointed by their immediate superiors. In fact, officials disciplined in the Tieben Incident are all in the cadre management jurisdiction of the Jiangsu provincial government or municipal governments. While at one point the center could directly issue the discipline order on them bypassing local governments, provinces can later legally bring them back without offending the center. As we see in the Tieben case, the opaqueness of the cadre management system and the one-level-down jurisdiction demarcation together create a secret revolving door for officials who have been "held-to-account." Such an institutional environment therefore provides a safe haven for local officials defying the center's seemingly harsh restriction. In our case, it emboldens defiance behavior and its diffusion.<sup>29</sup>

This expectation that they will be protected by local patrons also transforms local officials' assessment of the actual risk of sanctions. Just as selective sanctions bring about the shared belief that any given official might not be sanctioned, the easy return to office of those who were in fact sanctioned helps form another shared belief that punished officials can be easily reinstated. These shared beliefs create a moral hazard dilemma for the center's sanctions: if the risk has been insured, why should those insured restrain themselves from taking risk?

### **The diffusion of defiance: Concluding remarks**

Our case study of local officials' defiance in the context of Beijing's 2004–2007 retrenchment effort in the iron and steel industry shows a different type of policy diffusion than typically discussed: diffusion of defiance. Such defiance diffusion as a strategic practice is not the result of “power shift” due to decentralization or to the static principal–agent issues of selective compliance but, rather, a more complicated dynamic process created by the selective nature of sanctions and the decentralized promotion system for local officials. When sanctions using a political trump toward a few selected defiers do not meet the goal of broad deterrence – of inhibiting the diffusion of defiant behavior – we must ask why. As in the metaphor of “killing a chicken to scare the monkey,” the monkeys have not been scared away despite being fully aware of the risk from defiance behaviors; instead, more monkeys defy. Borrowing the ideas of Aoki that shared beliefs frame individuals' behaviors, we developed a process-oriented account to explain why the “hold-to-account” system fails and diffusion of suboptimal implementation behaviors (from the viewpoint of the center) spreads horizontally through the system. Local officials' observation of the center's selective sanction itself and the ability of transgressors to return to office both help form new shared beliefs about the risk and benefits of local defiance. As these new shared beliefs decrease the risk and increase the expected returns of local defiance, they then render defiance behaviors a rational choice for local officials. Not only will the monkey not be scared away if it learns that only the unlucky chicken will be killed but also the bad monkey will live better through defiance. Ultimately, the “dead” chicken has not really been killed. The lesson of this game is that defiance is a viable strategy for cases in which long-term benefits of defiance exceed its actual costs as observed.

In terms of this volume as a whole, it is quite clear from our case study that local officials acted on their distinct policy preferences – quite at odds with what the center not only preferred but also mandated with attached sanctions. They learned from past experiences and from each other that “it is right to defy.” They were able to sustain a political position at the local level, which is perhaps the most important sign of political authority, by not only getting away with their plan but having it not cost them their career paths. While the center must certainly hope this diffusion of defiance can be nipped in the bud, it has yet to figure out a way to adequately do so.



**Notes**

- 1 Financially, the 1994 fiscal reform radically increased the central government's share of financial revenues. Administratively, the restructuring of the regulatory system beginning in 1998 also centralized management in key sectors, at least to an extent.
- 2 The Hu-Wen measures are separate from, and outside of, the normal and relatively elaborate promotion procedures well described in the literature on China's personnel system (Landry, 2008).
- 3 Article 7, "Interim Provisions on the accountability of party and government leading cadres" (*guanyu shixing dangzheng lingdao ganbu wenze de zanxing guiding*), General Office of Party Center and General Office of State Council, 2009.
- 4 Landry (2003, 2008). Even observers of economic decentralization acknowledge that career advancement is an effective tool to induce desired behaviors from local officials, (Oi, 1999; Blanchard and Shleifer, 2001).
- 5 China's cadre management system distinguishes between "leading positions" and "non-leading positions." The former means positions designated with formal responsibility; the latter means positions with equivalent ranks but not with formally designated responsibility, although certain responsibilities could be designated to them ad hoc. In the "hold-to-account" policy, however, the term "leading officials" has a narrower definition than officials holding leading positions. It means "the leading members of party committees and governments and their working departments at and above county level, including the leading members of the functionary offices of aforementioned working organs." "Interim Provisions on the accountability of party and government leading cadres," 2009.
- 6 As our case study will show, these sanctions can also target business owners.
- 7 The year 2003 marked the so-called "first year of China's Accountability Era" (*zhong-guo wenze yuannian*).
- 8 For example, L.I. Xinmin, then standing member of Henan Province Party Committee and Wang Wenchao, then party secretary of Zhengzhou Henan, were called to account for illegal land use in 2006 and were issued internal serious warnings; Yang Jing, then Governor (Chairman) of Inner Mongolia, was held to account for an unlicensed power-generating project amid retrenchment in 2006.
- 9 We borrow this term from Aoki's (2001) conceptualization of how institutions frame individual activities. To Aoki, institutions should be viewed subjectively by those who populate them. Only after rules and constraints of the institutions have been internalized and accepted as "beliefs" by actors could such institutions frame actors' behaviors.
- 10 We do not mean to suggest that *wenze* sanctions are destined to be useless. In cases in which defiance behaviors are less profitable and sanctions less selective, we expect the sanctions to be more effective. Examples of effective use of the *wenze* sanction include the severe acute respiratory syndrome (SARS) crisis in 2003 and the recent anticorruption campaign since 2013.
- 11 Quote is from 1938. Deng Xiaoping frequently quoted this line.
- 12 We see "non-compliance" as a broader category than "defiance." To use an example, we categorize instances in which local officials fail to pay attention to (ignore) central goals, or foot-drag implementation, or twist regulations to meet local needs as noncompliance. (Lampton (1987) discusses many of these behaviors.) Defiance, in contrast, occurs when local officials are told "if you do specific activity x or do not do specific activity y, you can be punished by z sanctions," and yet local officials proceed with activity x or y. Note that much of the literature on central-local relations in China (and cited in this section) is directed primarily at noncompliance behaviors.
- 13 Noticing the economic growth associated with decentralization, the power shift school became linked in the 1990s to a larger "disintegration" literature (described by Naughton and Yang, 2004), which argues that the central state was rapidly losing its capacity to rule effectively and might eventually collapse (Goldstone, 1995).

- 14 On cadre manage procedures throughout the reform era, see Manion (1985), Burns (1994), Huang (1995), Chan (2004), Landry (2008), and Mei (2009).
- 15 This is by no means a new problem for China. For example, both Shue (1988) and Smil (1999) provide vivid accounts from the Maoist era of grassroots officials under-reporting the amount of agriculture lands under their control in order to induce higher officials to lower their production quotas.
- 16 State Council General Office, No. 103. Notice of the State Council General Office on Forwarding the National Development and Reform Commission (NDRC) Directive on Curbing Blind Investment in the Steel-Iron Industry, December 23, 2003.
- 17 Ibid.
- 18 Another study of selective intervention by the central government is Zhan (2011).
- 19 News report, Li, "How Rizhao Steel is made," *Top Business Daily (Di Yi Caijing Ribao)*, October 17, 2008.
- 20 Two news reports disclosed that NDRC was fully aware of the Rigang project and Shagang project. News report, Chen, *New Fortune (Xin Caifu)*, April 28, 2009. News report, Deng and Gao, *21st Century Business Herald (21shiji Jingji Baodao)*, December 27, 2008.
- 21 Xinhua New Agency, May 9, 2004. <http://news.sohu.com/2004/05/10/66/news220076600.shtml>
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- 26 Newspaper article, Cui, "Dong Caiping: Zhongtian, Winning at the Turning Point," *Changzhou Daily (Changzhou Ribao)*, October 27, 2009.
- 27 Newspaper article, "How had the opportunity been grasped," *Suqian Daily (Suqian Ribao)*, August 5, 2004.
- 28 Shen, Kunrong, July, 2007, Hong Kong.
- 29 Other cases also show how this institutional environment has emboldened policy innovations in a good way. See Xu (2011).

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## 2 Grassroots reactions to relocation

### The diffusion of compensation strategies

*Anna Lora-Wainwright*

Urbanisation has become key to China's development strategy. Promoting infrastructural development and urbanisation in the poorer, central and Western regions should make them more self-sufficient and attractive to investors, as well as to local skilled workers. This in turn should ease the pressure on mega-cities like Beijing and Shanghai as long-distance migration decreases and skilled (and unskilled) workers can secure waged labour closer to home. This centrally driven initiative manifests itself as a type of top-down diffusion at the local level around the country. Yet, such rapid urbanisation at the expense of farmland is ironically enabled by the weak legal framework for land property rights and well-documented ambiguities of land tenure, leading to both frequently abusive land grabs and to a variety of locally negotiated processes that have diffused through more horizontal and informal channels (Hillman and Unger 2013; Ho and Lin 2003; Hsing 2010; Sargeson 2013).

The difficult politics of such processes have been highlighted in recent cases such as Wukan. This fishing village situated in the prosperous southern province of Guangdong began to protest in September 2011 against alleged land grabs by local officials. Four hundred hectares of collective land were sold to a property developer and their fishing grounds were sold to a large seafood company. It was also alleged that local government and party officials had spent millions of *yuan* to buy lucrative government posts. Sales had been taking place since the early 1990s without any of the proceeds trickling down to the villagers. Protests began when the last large plot was sold in autumn 2011, while villagers increasingly felt the effects of inflation and needed land to guarantee their own subsistence. Initial negotiations between village officials and protest leaders turned to violence as the police kidnapped five of these negotiators and allegedly beat one of them, 42-year-old Xue Jinbo, to death. As land sales require approval from the township and the county, officials in those levels were also involved in setting up sales and were keen to suppress protests. Police encircled the town hoping to starve them into submission. Eventually, on 21 December, as villagers pleaded to the central government for intervention, representatives of the provincial government held discussions with one of the protest leaders (who was later made village party secretary). They promised to launch an investigation into the land sales, into Xue's death, to return his body to the family and to release other protest leaders, and

they promised they would buy back a portion of the farmland and return it to the village (Simpson 2011).

Some elements in the Wukan case are distinctive. Many more, however, are common to widespread rural protests about land grabs. This chapter examines what villagers think and do when they are threatened with loss of land and relocation in a much less prosperous area of China. It provides some ethnographic context for the widely discussed interrelated topics of land disputes and compensation. It does so through the case of Baoma, a village in Northeast Sichuan, where I carried out roughly 20 months of fieldwork since 2004. Drawing particularly on research conducted in 2011 when relocation came to the fore more prominently, it examines how the selection of previously agricultural areas for industrialisation and road building, therefore entailing relocation of villagers, has been received by local residents. In particular, it focuses on villagers' views of infrastructural development and relocation, and the relative value they place on industry, tourism, development and land as a guarantee of livelihood. It describes grassroots strategies for increasing compensation amounts as innovations on the part of local residents in response to perceived inadequacies in policies for land loss compensation and its implementation. In turn, these serve as a lens through which to study relationships among villagers, and between them and the local state and the patterns of state–society relations diffusing across at least a substantial part of China. The local government's response to this grassroots innovation was to attempt to implement building bans, with mixed results as also discussed in the preceding chapter.

### **Urbanisation, development and land disputes**

To be leased to investors, rural land must first be transformed into urban land, and ownership accordingly is transferred from the collective to the state. While the collective has no right to transfer land for non-agricultural use, 'The State may, in the public interest, lawfully requisition land owned by collectives' (Land Administration Law of the People's Republic of China 2007: Article 2). Ambiguous definitions of public interest facilitate land expropriation and limit villagers' ability to oppose these transfers. This dual-track system whereby only state land can be leased to investors effectively turns villagers into second-class property-rights holders and limits their opportunities to sell land or to benefit fully and directly from land sales. The State Council and provincial level governments are in charge of expropriation, while municipal or county governments are responsible for compensation (the immediate funds paid) and placement (the long-term process of giving farmers a new residence registration or *hukou*).<sup>1</sup>

Responsibility for negotiating compensation for land sales lies with the collective, though it typically does not consult villagers. Given that land is one of the most vital sources of revenue for local governments, the collective tends to act in its own interests and those of the township and county, rather than those of the villagers it supposedly represents. A further layer of ambiguity surrounds which collective level (subvillage units, *zu*, or villages, *cun*) actually holds the land titles. The expropriation of rural land results, of course, in the displacement of those who

previously lived and farmed there. Between 1990 and 2007, farmland conversion and inner-city redevelopment displaced an estimated 60–75 million people (Hsing 2010: 2). Those relocated are usually offered one-off compensation, but the lion's share of land-use fees accrue to the state and are invested in urban construction rather than welfare or pension schemes (Long *et al.* 2012). Dispossession has frequently triggered social unrest.

Literature on land disputes typically portrays villagers as victims unable to protect their interests (Cai 2003). While they sometimes protest against land expropriation, their efforts meet with little success (Guo 2001). In reality, the situation is more complex. Without a welfare state to protect them, rural residents regard land as the most fundamental guarantee of livelihood and are unwilling to surrender it (Cai 2003). They resent the minimal compensation they are offered and suspect that local officials take bribes from investors and pocket a large share of the benefits. At the same time, they welcome the development of infrastructure and of transport and regard them as a step towards improving living conditions and increasing employment opportunities. When confronted by land grabs, villagers stretch the limited parameters available to them in attempts to extract as much compensation as possible from the local state by engaging in semi-legal building practices. Those who do not participate in or endorse rushed building to maximise compensation see themselves as inhabiting a higher moral ground and regard those who do as con artists on a par with the officials they despise so much. These divergent practices channel existing tensions within the village and position villagers differently *vis-à-vis* various levels of the local state. In these negotiated processes, we can observe a variant of horizontal diffusion, as a practice not officially sanctioned from above has become more or less commonplace and regularised across at least a substantial part of China.

### **The onset of urbanisation in Baoma**

When I settled in Baoma village for research in 2004, urbanisation could not seem further from everyday reality. Even the nearby county town of Langzhong showed few conventional signs of development. To the contrary, the town prided itself on its (genuinely) old city. Most high-rise blocks in the county town seemed to date to the 1990s if not 1980s, and certainly did not exude the image of development that the Chinese government was so keen to produce. Indeed, my Chinese supervisor recommended Langzhong to me as a research site in 2004 precisely because it had 'not developed yet'.

By 2005 things had already begun to change. A new People's Square was created, surrounded by shop units which, at that time, remained empty. By 2006, many of these shop units had filled, and unattractive buildings out of keep with the low-rise traditional housing scattered across the old city were razed to the ground. Investors (mostly from richer, coastal areas) developed the riverfront with mock old buildings fashioned to look like traditional houses, but actually made of poured concrete. These hosted restaurants, teahouses, souvenir shops and karaoke bars. Some in the city lamented what they jokingly called the 'Lijiang-fication' of



the riverfront, while others noted that at least some of the old city had been spared from rampant commercialisation.

It was not until 2007, however, that changes began to hit Baoma village. Under the auspices of the 'building the new socialist countryside' campaign, villagers who lived in poorly connected parts of Baoma were strongly encouraged to relocate to designated areas closer to the village road. Many took the offer and built new homes in former paddyfields. Envisioning that these would be their homes for the rest of their lives, they invested substantial amounts of resources and energy in building concrete, externally tiled, houses that they did not have enough funds to decorate or furnish. Compensation was offered for relocation on the basis of the size of one's original residence. Some did not fully understand the process, however, and assumed that the compensation would rise proportionally with the size of their new residences. These families thus became heavily indebted to build three-storey homes they could ill afford.

In 2008, rumours began to circulate in Baoma that a trainline would pass through the village and then that a wide road would be built across the lower reaches of the village. In 2009, the latter rumours proved true and work began on a six-lane wide road that required levelling part of a village hill and relocating a few households. This triggered a second wave of demolition and building in Baoma, though relatively few households were affected. Relocated households received a few thousand *yuan* compensation for their homes. All of them built large new homes along the exiting village road, which now connected to the newly built six-lane road. Some of these families also bought themselves apartments in the nearby 'development zone', where their young sons and wives would live.

In early 2010, a new rumour circulated in Baoma: that the whole village would be relocated and the land would be sold to an investor to build an industrial park. While the investor had not yet materialised (and still had not, as of January 2014), many villagers began to extend their old homes or to build new ones on their agricultural land. The rumour suggested that once investors were secured, villagers would be relocated to a residential area (yet to be built) and homes would be compensated on the basis of their size. The government would either provide a new residence of equal size to one's original home or compensate financially for the square metres lost. In the wake of these rumours, the village was overcome by a third wave of building, this time in frenzy. Village homes built since the 1980s were typically made up of two rooms on the first floor, adjacent to a kitchen and the pigsty, where the toilet was also located. Some of them had two or three additional rooms on the second floor, not decorated and typically only used for storage. These rooms would look out on a courtyard. The new extensions built following these rumours consisted of additional rooms occupying the courtyard. The effect was to deprive the original residence of any natural light. It would be obvious even to the non-architecturally trained mind not only that these additions were not functional but that they rendered much of the original house rather impracticable. Typically, these extensions did not have properly fitted windows, which to villagers critical of these new buildings was further proof that they were not intended to be lived in but only as a way of securing additional compensation



once a relocation deal was secured. This strategy was common not only in Baoma but in many of the other villages in the county which had also been affected by the threat and opportunities offered by land loss. In this sense, it was a grassroots innovation that became diffused as quickly as government efforts to expropriate land. In other parts of China, where this strategy is also widespread, villagers refer to it as ‘planting a house’: a final attempt to earn money from one’s land when farmland itself has been lost (Guo 2012).

A few families built new extravagantly large homes by rural standards, occupying some of their own paddyfields. These were composed of six rooms on the first floor (three at the front and three at the back, including a kitchen and bathroom), and the same structure on the second floor, for a total of twelve rooms. These houses, however, were never completed. The plan, residents told me, was to build a third floor, but poor weather in 2010 slowed down construction work. Construction stopped altogether following a local government directive issued later that year, an innovation spurred by villagers’ strategies. In some cases, the second floor had only been half built, the walls coming up to about a metre in height. Building work was abruptly stopped and the building material was requisitioned.

When I visited in September 2011, almost a year since the building ban, the bricks were still exposed and homes had no fitted windows or doors, leaving the rooms open to the elements. A few, however, managed to reach a further state of completion. Perhaps predictably, the village secretary built the most impressive abode. It was a four-storey home, with eight rooms on each floor and a staircase at the centre. One villager joked begrudgingly: ‘what on earth does he want to build, a hotel? That dog!’ Villagers whose building material had been requisitioned in 2010 after a blanket ban on any further building also alleged that the village secretary used it to build his own house. They commented that just as soon as their material was gone, his house started to grow one and then another additional floor.

Not all in Baoma embarked upon this building frenzy. Erjie’s family, my hosts during all my fieldtrips, were one of the few households to have passed on the potential opportunity for further compensation. Their family was composed of Erjie and her husband Taoge, both in their early forties, and their 19-year-old daughter Lida. They still lived in their original one-storey brick-built house, adjacent to Taoge’s parents’ home, which was made partly of bricks and stones and partly of bamboo and mud. In summer 2011, Erjie’s mother, Ganma, had also moved in with Erjie since her own house, in a neighbouring village, had already been selected for demolition.<sup>2</sup> While Erjie and her family despised those who opportunistically built extensions in the hope for higher compensation, those who did complained that they were unable to complete the buildings or to have the new area recognised as living quarters. What all agreed on, however, was the unfairness of the expropriation of farmland without compensation. It is to this that I turn first.

### **The value of farmland**

Whenever I have spoken to Baoma villagers over the past decade, they have always been keen to point out how meagre incomes from farming are. Erjie’s

comments may serve as an example. She remarked that the value of the main crops from her family's land (which she considered to be rice, rapeseed, maize and wheat) would be only a few hundred *yuan*. On this basis, one may be tempted to deduce that villagers do not value farmland. On the contrary, despite the low incomes derived from it, they still regard land as a vital guarantee of livelihood. Erjie remarked that it is still better to have land, because at least when you are old and sick you still have food:

If you can't earn any money, at least you'll still have food. A bowl of noodles in the city costs one to two *yuan*, and then you pay extra for vegetables, but here I can just grab a few vegetables from my plot. Nowadays it is ok to be a farmer. We don't have to pay all those taxes anymore. To live in the city, you need at least three hundred *yuan* per person each month. I didn't believe it at first, but my brother-in-law [who lives in Langzhong city with his wife] told me that's the minimum, and to try my luck if I don't believe him.

Aunt Lin, a woman in her early fifties who lives alone and supplements her income by working as a builder, commented,

they want us to move to high rise blocks. That is not good, you have to buy everything there because you don't have your own produce. If they don't occupy your land at least you can still grow some food.

Comments on the value of land as a guarantee of livelihood were often premises for complaints about the inadequate (or inexistent) compensation received to date. One man in his fifties lost most of his family's land through the building of the road in 2009. He explained that he could only grow a few hundred *jin* (500 grams) of rice on his remaining land, not enough to feed his family. Yet since losing their land, his family only received one season's worth of lost crops. All other families I spoke to who had lost farmland to the road were in the same position.<sup>3</sup> He complained,

this development is good but the state (*guojia*) has not solved the problem of land expropriation. They have only given us compensation for one season of lost crops. The county government (*shi zhengfu*) built the road, so they need to solve this.

Even those, like Erjie, who were damning towards the new extensions were adamant that if land is expropriated compensation should be given promptly. Erjie explained, 'if they have taken your land they need to sort out the compensation issue, otherwise you won't know who to demand it from'.

Uncertainty and mistrust pervaded their accounts: when would they get the compensation? Who could they trust to make it happen? Would it be enough to live on? For how long? Concerns were phrased not just for the present but for the long-term future. As the village doctor put it,

the county government needs to solve the problem of how ordinary people (*laobaixing*) will find their food. Otherwise how is the next generation going to find food when they are old [i.e. unable to work]?

Local discourses on farmland highlighted its value and opposed it to the uncertainty and higher costs of a life without it. Implicit in these discourses is also a sense of unfairness of being deprived of land, particularly in the absence of adequate compensation. A shared moral universe premised on the value of farmland postulated that it would be the county government's responsibility to offer such compensation given that they had appropriated the land.

### **The moral universe of compensation for demolished houses**

While all agreed that lost land should be compensated, views were far more mixed on the compensation for lost houses, particularly when those houses had been newly expanded in view of potential compensation. Land-loss grievances sprang up ex-post, while issues surrounding compensation for homes were ex-ante speculation. That is, while villagers could complain about not being paid properly for land already lost, in terms of their houses, they were forced to guess whether they might be moved and then to speculate over whether or not to invest in enlarging their homes in advance of any potential relocation. Nothing conclusive had been officially communicated to villagers. According to some rumours, the entire village would be relocated. In other scenarios, only those whose houses were close to the paddyfields by the village road and those with new, but unfinished, houses would be resettled. In yet another version, houses on the hill by the former village school would also be removed.<sup>4</sup>

As many rushed to take control of uncertainty and raise their potential compensation by building extensions, the prevalence of this same strategy in particular areas of the village actually made it less likely that residents there would be relocated (and compensated) at all. Accordingly, rumours changed in light of the volume of new buildings in areas most clearly faced with the threat (and opportunity) of relocation. Some argued that the village party secretary warned that certain parts of the village would no longer be attractive to investors because the extensive building made it too expensive to compensate them. Villagers' own building activities thus ultimately increased uncertainty, rather than mitigating it. What had started as an attempt at top-down diffusion of urbanisation policy had induced a horizontal diffusion of counter-measures that both frustrated the original intent and distorted the social impacts of the urban transformation of Baoma.

This was particularly evident in the subvillage surrounding the former village school, where many 'new countryside' homes were built and many older homes extended. Aunt Lin fell in the latter category. She explained,

they said they were going to demolish our houses on the hill, and to flatten the hill, but we built too much, so apparently they cannot afford to compensate us, so the new road will take up only the fields at the bottom, not our homes on the hill.

No doubt, the likely rumour that any further building would jeopardise their chances of receiving compensation was circulated by the village secretary, in an effort to curb any additional construction. These rumours channelled the mixed feelings towards relocation as both a threat and an opportunity, and towards those whose extension projects were seen to have jeopardised the chances of investors targeting the area to establish industries.

Predictably, views on house demolition and compensation depended on villagers' relative positions. In areas where rumours of relocation were more acute (the subvillage by the former school and by the road), large houses and extensions were ubiquitous. A small number of villagers who lost their original home to the building of the road in 2009 had built large new homes but were ordered to stop in summer 2010. Since then, they had lived in makeshift homes with no windows or doors. Ge Song, a young man whose family was relocated to make way for the new road, consulted a lawyer and was told that villagers had no legal right to demand compensation for these buildings because they were not certified as houses by the local government. 'They can give us what they want in compensation', he claimed.

His mother resented the prospect of having to move to the city because of the increased costs: 'we don't want to move, it's more expensive in the city, there is a waste collection fee, you have to pay for the water, you have to use gas instead of wood. Here you can still save some money'. Her concerns about livelihood and additional costs in the city seamlessly led to her explanation of why they had not been moved yet:

Villagers don't agree. If it weren't for this, they would have demolished our homes a while back. We still have to live on something! They haven't even compensated us properly for this house. They haven't even built the new houses. We don't want to move.

Through this statement, she implicitly denied building a large house with compensation in mind. Rather, she turned accusations of building to extract more compensation on their heads, and claimed that they had not been offered adequate compensation for neither their old house nor the current one. In this case, the local state is seen as failing to fulfil its responsibilities, and villagers as rightfully resisting unjust practices.

Neighbours who had not been relocated by the new road but who suspected they might be relocated in the near future extended their original houses. Most of them were quite open with me about the motive behind these extensions. They explained that they heard they may be moved to make space for an industrial park, and saw neighbours building additional rooms and therefore did the same. Their views on relocation, however, were mixed. Aunt Lin, who lived alone, and whose 30-year-old son works in Chengdu, explained that she was hoping for additional compensation, but she also said she would rather not move. Like her neighbour, she worried about the higher costs of living in the city and without the option of relying on farming.

Her views suggest that the building of extensions may, in fact, be a result of preoccupations about securing a living without farmland. Faced with an uncertainty that they had never confronted before – landlessness – villagers tried to maximise their compensation so that they would have more capital to rely on in the absence of land. In doing so, they also reclaimed some moral connotations for their seemingly immoral and selfish practices. Extensions and large new homes are reconfigured not as self-interested and self-maximising activities that exploit and extort state resources, but as morally legitimate attempts to decrease the insecurity presented by losing the main long-term guarantee of subsistence villagers had known until then: land.

Morality was also reclaimed by eschewing economistic reasoning behind building projects and justifying them on aesthetic grounds. The village doctor's family expanded their already large house in width and in height, adding a third floor. They were relatively well-off by village standards, of high social status and close to the village secretary; and so they were able to complete a three-storey home, including concrete rendering on the outside walls. Each floor had roughly eight rooms. The doctor explained that he paid for the first floor, while his two daughters had built the other two floors. He defended himself against villagers' accusations that he had built such a large house for compensation purposes by claiming, 'I hope they don't relocate me. I quite like this spot'. In the course of conversations with me and another villager, the doctor had emphasised the danger of losing land as it subtracted a very important means of livelihood. Yet, as the village doctor, he also had a reliable income from his practice and he based his argument on the land's aesthetic, rather than economic, value.

Villagers who had not extended their current homes in hopes of compensation regarded those who had done so as opportunists at best. Upon returning to Erjie's house after a day in the lower reaches of the village – where most of the extensions were built and where relocation rumours loomed large – I commented that some of the people I spoke to seemed distressed about the prospect of losing their newly built homes. In some cases, they had only been built in 2009 after having to relocate for the building of the six-lane road. Erjie harboured little sympathy for them. She sniggered, 'the more they demolish, the richer they get (*yue che yue facai*)!' Erjie's mother, Ganma, whose village unit had been relocated a few months earlier, put it very plainly:

They know they will be relocated, so they just build, build, build. What they do is build a big extension but of low standard. To get the job done fast and keep it quiet, they'll build through the night. When officials [who measure the area to be compensated] don't count the extension, the owners refuse to move. These buildings are not the same as the 'new countryside' houses, those were well-built and more convenient for the city. These are different. If you want to develop you shouldn't do this.

Intrigued by their comments and their obvious annoyance, I described some of the houses where the original building has no natural light because of the extension in front of it.

*Anna:* Is it for compensation?

*Erjie:* Of course! Do they even live in the new part? Have they built it properly? Do they have proper windows? No, you see, they just want compensation.

*A:* I suppose they shouldn't have been allowed to do it.

*E:* They do it secretly, when officials come to check they tell them to take the new windows out and to knock down the new walls. But officials can't sit here watching every day, so once officials leave they just build them back up again. Some do it at night.

*A:* What do you think of people who build these extensions?

*E:* I don't really have a view. Do they have nothing to do? They already have a house, why do they want to build more? It's just a con (*jiushi pian ren de*)! If we built a second floor on our house, we would still get the same area in the new house [because of a limit on the size of the new homes], and I would have to spend over a hundred thousand *yuan*. It's not worth it. We already have over 100 square metres, we don't need any more. Now we are allowed only one child, if you spend your money on the house and they don't settle in it, it's a waste. I'm happy to live in this house. What would you build such a big house for? This one is fine to live in. If they relocate us, we'll take the compensation. Otherwise we'll stay here. We don't extort money from the state (*bu pian guojia de qian*).

*A:* That sounds patriotic.

*E:* (laughing). No, it's a lack of skills (*mei benshi*). If investors come and see the houses are so big they won't invest in that area. I guess you can say that. I think officials are a bit worried about it. Otherwise they can't act as officials do (*ganbu jiu mei gaotou*)!

Another couple in their early sixties who had not extended their house (or moved as part of the new countryside initiative) voiced a similar resentment about the new houses and extensions. Aunt Du said,

those people built houses in a messy way, then they were stopped. They'll be the first in line for relocation. It's corrupt. Some people built several hundred square metres, only to get compensation. You can't even live there, there are no windows or doors.

To reinforce their comments, they added that the county party secretary, widely regarded as a fearless and authoritarian man, came to inspect the new road that passes through the village in late summer 2010. Upon seeing some large new homes adjacent to the new road, he stepped out of his car and commented, 'what the hell have they built? That's really ugly! (*Tamen xiude ta ma ge shazi pi? Guai bu hao kan!*)' Soon after, they were all ordered to stop any further construction work.

Those who built extensions construed their efforts as legitimate attempts to secure more compensation. Their experience of not having been offered adequate compensation for their former homes or for lost land served as moral leverage to justify their seemingly selfish practices. Some, like the local doctor, claimed a

moral high ground by avoiding nakedly economic arguments. Those who did not build extensions felt morally superior because they did not act as supplicants to the state or attempt to extract more resources than they were entitled to. Conversely, they argued that others' efforts to extract additional funds jeopardised any compensation scheme for the village as a whole. These contending claims to moral behaviour outline diverse attitudes to the local state as a provider and are based on different understandings of state authority and responsibility. These different understandings can frustrate both top-down and horizontal diffusion.

### **Levels of responsibility: Planning and compensation between county, township, village and families**

Starting at the top, so to speak, views were mixed as to the benefits and drawbacks of state ownership of land. When I discussed land ownership and compensation with Erjie, she reflected on my account of land ownership in the United Kingdom: 'The state doesn't own all the land? Your country's bad (*yaobude*)! Here if our land is leased to an industry, the industry is responsible for providing compensation'. Then she quickly revised her claim:

The industry gives money to the state, and it is the state's responsibility to give us compensation. The industry needs to write an agreement. Locals have to agree with the compensation package. People here know this, you have to be careful that the industry doesn't just take the land and give no compensation.

Responsibility is thus shared: the state acts as a mediator with investors and a guarantor of compensation, and is seen as a protective presence.

The village doctor was less optimistic about state ownership of land and did not see it as beneficial to villagers, or as a guarantee of fair compensation: 'in our country, land belongs to the state (*guojia*), if they want to build a road or a bridge, they can just take it!' This sentiment was echoed by Ge Song, a young man whose family were moved to make way for the road, and who were now facing relocation once more, possibly without compensation for their current home: 'We don't have any rights'. Responsibility for compensation lies squarely in the hands of the state, but rather than protecting villagers' interest, it is seen as a repressive force, which freely takes resources from villagers who cannot hold it to account. It is of course no coincidence that those critical of state ownership of land were also those engaged in struggles for compensation. Erjie, for whom this was a more remote possibility, could be more optimistic about the guarantee state ownership of land offers. This view of the state as a safeguard of land rights also predisposed her to being critical of those who tried to take advantage of the system for individual gain.

Villagers regarded the province as the level that set policy – for example, on industrial parks – and viewed county governments as responsible for specific planning decisions. County governments were also seen as responsible for arranging and funding the building of new accommodation in high-rise residential quarters (*xiaoku*).<sup>5</sup> Villagers thus most commonly blamed the county government for not



providing compensation or, as villagers put it, ‘solving our food problem (*jiejue women chifan de wenti*)’. Many who had already lost land to the building of the road argued that ‘the road was built by the county government, so *they* need to figure out how we will make a living’.

The authority of the county government over relocation had been most acutely felt when it issued a ban on further residential building in October 2010, on the grounds that villagers would be resettled in high-rise blocks to make space for industry. After the moratorium on further construction, their building material was confiscated and they were relegated to living in semi-built accommodation without doors, windows or floors, fearing that they would receive no compensation when their new houses would be demolished, as they had not been registered as residences. The township cadres sent a car fitted with a loudspeaker to propagate the message across the village. Those directly affected by the county’s ban regarded it as an oppressive measure that limited villagers’ capacity to benefit from development and confined them to an uncertain future as they waited to be relocated and received little compensation for their losses. Overall, the county government was seen as at best uncaring and negligent, and at worst rapacious and oppressive.

Villagers regarded the township government with the same degree of disdain and distrust. Both county and township were said to be the levels at which most mismanagement happened. Even villagers who were pervasively critical of the village party secretary argued that the lack of compensation for lost land beyond the first crop season was not his fault, but a consequence of the higher levels (particularly the township or the county) not sending the money ‘down’. As one woman faced with relocation put it,

village cadres can’t ask their superiors about this. The township cadres can say that they haven’t received the money. Some people suspect they received it but they don’t want to pass it down. But nobody dares go upwards [to the county] in case it is the county who are holding up the money.

Villagers also commonly complained that ‘the higher levels [county or township] don’t inform the lower ones [the village] (*shangmian bu gaosu xiamian*)’. The most obvious example was the moratorium on additional building by the county government when villagers had already started building new homes or extensions. Those affected claimed that their building of unapproved homes was due to this lack of communication. Conversely, many who disapproved of the additional buildings also complained about unclear communication and saw it facilitating others’ attempts to take advantage. Erjie stressed that, as a result of failures of both planning and communication, uncertainty would continue for some time still:

They just haven’t planned it well. We have to wait for the railway to be built, it will take 2 to 3 years, only then we will know whether there is investment. If nobody invests nobody will be relocated! Only village party members know about some of the plans, but nobody really knows if we will be relocated.



While the village party secretary's authority and responsibility for compensation was seen as limited, he was regarded as the main source for official communication. But how much villagers trusted him was extremely variable. Some said, he 'helped the villagers to speak up', saving them from problems that had plagued other villages. Aunt Lin argued that the village secretary did not cheat villagers or conceal plans – he simply was not informed clearly by higher levels: 'policies have not been sent down yet, how can he inform us?' At the same time, she reflected that cadres cannot inform villagers on exactly which households will be relocated because those households will build extensions and they will become too expensive to compensate.

Others were less sympathetic towards him. One 60-year-old woman living in a half-built home by the new road argued,

He's a corrupt official. Have you seen his house?! It's 4 floors high, he hasn't farmed the land, raised pigs or chickens; he put two children through education and still built such a house. What is he, if not a corrupt official? He took our building material, the sand, concrete, brick and stones. He stopped us from building and then built his house higher and higher. He started last year with the first floor, then this year he built 2 more.

Erjie did not trust him to look out for the welfare of the village and was convinced he would take bribes from investors. 'That is how cadres get rich', she argued. Hearing her comments, her husband launched a tirade against the village secretary which drew on examples from the past several years:

He won't let us build and he builds himself such a big house. He uses our money to build his house. He held all of our accounts for reforestation (*tuigen huanlin de benben*), filled them in and took the money which was owed to us. He told us he would use it to pay for something else, he kept all the money and we never even saw the documents. He kept over 3 thousand *yuan* from our family alone. He eats [money] until he can't eat any more, and only then will he give you something! You just can't understand what money he is keeping from you. He did the same with money for the village road. He took two hundred thousand *yuan* from villagers to build it, and it's still unfinished.

These accounts paint a picture of intersecting responsibilities, uncertainty and mixed levels of trust. Such differing and complex views make it difficult for top-down diffusion of urbanisation policies to proceed smoothly. But they also make it hard for a workable model to diffuse horizontally. As Ganma put it, 'if you want to develop, you shouldn't do this'. Officials cannot keep a constant check on illegal buildings, and therefore villagers need to discipline themselves. They need to limit their construction efforts so that compensation still remains feasible. All levels of the local state, including villagers, are implicated in the co-production of uncertainty. They each attempt to draw benefits from the prospect and materialisation of development. These self-interested attempts to dominate the political

and policy ‘grey zone’, and the conflicts they create, complicate any neat pattern of policy implementation.

### **Rethinking the value of hills and water: Tourism-cum-industrialisation**

Like many relatively under-developed and under-industrialised rural areas, Langzhong has been an area of high out-migration for around two decades. When I first settled in the area in 2004, almost all young adults had left their natal villages in search for waged occupations in Guangdong, Beijing and Shanghai. Those who stayed behind reasoned that their region could never develop because it was hilly (*you shan*), and this is detrimental to mechanised agriculture and to the development of industry. In 2004, Langzhong had made considerable progress in building its ‘development zone (*kaifa qu*)’, in a township bordering Mulan town. The area selected was predominantly flat paddy land, where a new coach station, businesses, industries and residential blocks were built. This seemed to confirm the widespread view that development would only prosper in relatively flat areas. But in 2011, it seemed that hillside land was also beginning to attract interest and its value was re-examined. Uncle Wang, a very talkative and confident villager in his early sixties, explained the rationale as follows:

Mulan town is the new development area (*fazhan qu*) for Langzhong county. They’ll build a train line [connecting Nanchong with Guangyuan] with a station here. In ten years’ time, it will have changed massively. It will have become like a city. They [the county government] want to build an industrial park here. So they will demolish all the houses. That’s why they don’t let us build now. This road [the newly built six-carriage way] will be the entrance to the industrial park. They will urbanise the countryside, especially Mulan township. Why do they want to develop this township? Hilly land is hardly worth much, but if you flatten it out you’ll have a very large area of more usable land. The rationale is: develop the hills (*kaifa shan*) and you’ll provide for local people (*yang zhe ge difang de ren*). The land here is not as expensive as in *kaifa qu*. It is cheaper to invest in hilly areas, because it is cheaper to compensate for *di* (dry mountain land) than for *tian* (paddy land). You just have to level it out. We have hills, we have water, so we can develop tourism. The plan is to develop industry and tourism.

Will there be tourism if there are lots of industries, I ask. ‘Of course, they’ll build an old town to attract tourism in the township centre, and put the industry here’.

The idea that hills present a development asset because they can be obliterated resonates more with the Maoist attitude of conquering nature than with current discourses of sustainable development. Uncle Wang conceptualised the relationship between industry and tourism in a cause-effect fashion: industry would bring investment in tourism. The conception of industry as a productive force for developing tourism – rather than as a source of pollution that would undermine

it – construes industry as a development and modernisation force. But both tourism and industry depend on the input of outside investors. Local resources acquire value, in other words, according to their capacity to attract outside interest.

The development of infrastructure in the hope of attracting tourism to the township was already well under way in 2011, in the hope of increasing the current 3A rating to a 5A, and that this will attract further investors. Extensive amounts of funding were put towards expanding the Red Army Memorial Hall and turning it into a large park and destination for ‘red tourism’, said to have cost 900 million *yuan*. Two further parks are currently under construction in the township: the Panda Paradise and the Spring Festival Theme park. The former covers 270,000 square metres and required 340 million *yuan*. The latter covers 125,000 square metres and required 170 million *yuan*. A riverside development in the centre of the township is also spearheaded by outside investors. Following the destructive earthquake in Wenchuan in 2008, many of the old buildings in that area of the township had become unsafe. By 2011, developers levelled previous buildings and began work on a series of hotels.

Baoma villagers spoke proudly of the increase of tourism in Langzhong and of its embryonic development in their township. They regarded the growth in industry in a positive light as an opportunity to find employment. Almost without exception, even when they started their conversation with me by complaining about the lack of compensation, villagers spontaneously remarked on how well the new road had been built, and how much more convenient it was to go to the market to buy and sell produce. The road was regarded as a development opportunity. Paradoxically, even those who faced relocation noted that they would have been able to complete their houses much faster in 2010 had the road been completed at the time. Their experiences of infrastructural developments in the county and in the village elicited feelings of pride, convenience and a revaluing of their own locality. At the same time, they triggered resentment that profits were not fairly distributed, and attempts by families as well as by various levels of the local government to draw more benefits from development.

These views resonated well with the intended aims of the county government. According to 30-year-old Ge Song,

They are building the road to have the infrastructure in place. There were plans for this road for many years. So why did they build it so late? Because there was no real motivation. It’s not as if the state lacks money (*guojia ye bushi meiyou qian*). They invested in US bonds and lost so much money. Now the motivation is to maintain stability (*wending*). The reason for it is not just economic, it is more political (*zhengzhi yiyi geng zhongyao*). Of course it benefits the economy. But only when the economy is developed can this place become stable. They want to create jobs here so people do not migrate. Migration creates instability.

Ge Song’s observations are helpful in highlighting the overlaps between the political and economic undertones of infrastructural development which has already

caused some to relocate and is set to cause many more to be on the move. It also echoes some of the sentiments of villagers towards development as a positive move that brings better living conditions and capitalises on local resources, be it for tourism, for industry or for both. It would seem that villagers are largely in agreement with future premier Li that urbanisation will 'pull up' the countryside. But rather than being passive spectators, they seek to make best use of the opportunities available, exploiting moments of uncertainty to secure a better future.

## **Conclusion**

You-tien Hsing has argued that 'massive displacement and dispossession go hand in hand with the abrupt retreat of the state from social welfare provision. The destruction both of homes and social protection leads to intensified social contestation, thus challenging the legitimacy of the state' (Hsing 2010: 3). This chapter shows that those faced with displacement in rural Langzhong have reacted in a rather different way. Some voiced discontent over the state ownership of land and the limited rights that this endowed them with, but their views did not suggest that the state was deprived of its legitimacy. Their battles were fought over implementation rather than the content or intent of state policies.

Most villagers engaged with uncertainty head on and tried to secure advantages for their family. A limited number, like Erjie, felt that relocation was a legitimate practice, provided that compensation for land lost was given in a timely and fair fashion. What they regarded as illegitimate was the behaviour by their fellow villagers who endeavoured to extract additional resources from the local state. Overall, they were pleased that bigger roads, a railway and more tourist attractions were being built locally because they hoped this would result in better employment opportunities. Many of the teenagers in Baoma who in 2004 would most likely have left the village for a factory in Shenzhen were finding work in new shops opened in the city.

Much of the research on urbanisation in contemporary China has stressed its managed character. Hsing showed that the model of state-led urbanisation overlooks the agency of city and county levels in these processes. Like Hsing's work, this chapter has shown that most negotiations take place at the level of the county and below. While studies of urbanisation and land disputes either treat local populations as passive or as contentious citizens who stage protests, in Baoma, villagers are active in a very different way. Rather than opting for petitioning or violent protests, they have attempted to maximise their interests by other semi-legal means. Xiaolin Guo's excellent study of land expropriation in rural Yunnan illustrated that villagers' participation in protests and petitioning depended on their relative dependence on village cadres and on their financial security. Petitions did not appeal explicitly about compensation but about the immoral behaviour of cadres and coercion used by the township without approval of higher authorities (Guo 2001: 431). She situated this within the context of a bifurcation between central and local levels. It was with this bifurcation in mind that villagers took a petition to Beijing, because they felt the higher levels would protect them.

In Baoma, villagers seemed more invested in development. While they despised the corruption of the local state, they also attempted to take advantage of the very same opportunities for financial reward – despite being in a structurally much weaker position to get benefits. Conversely, most of them did not regard the central state as a protector of their interests. To the contrary, they argued that it was state ownership of land itself which enabled the state to expropriate their farmland and homes. Relocation (or its future potential) has been experienced as both a threat and an opportunity.

Whether that balance shift towards one or the other largely depends on the future actions of the local state. Should compensation be felt to be insufficient, or disregard the many extensions locals built with it in mind, villagers will once again feel that they have been denied an opportunity to catch up with their urban counterparts and that development does not benefit them after all. That, in the long run and multiplied across the many localities undergoing the very same transition, can pose a serious challenge to social stability. Wukan was only one example of how challenging these problems can prove to be.

What is certain, however, is that attempts at simple top-down diffusion of urbanisation policies have not worked. Locally negotiated frameworks have diffused horizontally across at least a substantial part of China. Still, these have not coalesced into a workable development model that can travel. With such divided interests, differential understandings of the state's authority and responsibility and uneven distribution of social, political and economic capital *within* villages, it seems unlikely that any such framework is likely to emerge.

## Notes

- 1 According to Article 47 'Land Administration Law of the People's Republic of China', the compensation for land loss is set at six to ten times the average annual output in the previous three years (three to six times before 1999) and resettlement is set at four to six times the average annual output in the previous three years. Relocation compensation is based on the size of the affected household, and the property compensation standard is set by local governments and covers collective-owned and private-owned structures and farming facilities, such as fishponds, and irrigation projects. However, the highest resettlement subsidies for each hectare of the requisitioned cultivated land shall not exceed 15 times its average annual output value for the three years preceding requisition.
- 2 Since being removed from her home, Ganma received a monthly compensation fee towards the cost of rent while she waited for the residential area designated to relocate her and her neighbours to be completed. Her three sons are jointly responsible to care for her in her old age, as they did for their father, who died of cancer in 2005 (see Lora-Wainwright 2013). Between them, they gave her 600 *yuan* per year. Erjie pointed out that this is hardly enough for her mother to live on (a meagre 50 *yuan* per day), but that with the compensation from the state she could live comfortably.
- 3 This is out of step with Article 47 of the Land Administration law, whereby farmers are entitled to compensation equivalent to six to ten times the annual output for the last three years.
- 4 This latter rumour proved true in January 2012, as most residents of the subvillage unit surrounding the former school were ordered to leave. I have no reliable information regarding the compensation rates secured and whether they include the new extensions.

- 5 This should indeed be the case given that farmland can only be expropriated for non-agricultural development once it has been turned into state-owned land and acquired by the county government.

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### 3 “Flying land”

#### Institutional innovation in land management in contemporary China

*Meina Cai*<sup>1</sup>

Land is a focal point that relates to economic development, food security, and social stability. While China impresses the world with its remarkable economic growth, the cost associated with this growth is alarming: loss of arable land and increasing social unrest triggered by land grabbing, to name a few. To address these concerns, the central government has aggressively increased its involvement in managing and monitoring subnational land use, using a land quota system. Meanwhile, the center understands that the administratively distributed land quotas are insufficient for local governments from economically developed areas to support the local economic development and, therefore, encourages local innovation to address the quota scarcity problem. In response, local governments experiment with transferring land quotas across jurisdictions. This phenomenon is not rare, and the amount of land involved is not trivial. For instance, in the coastal province of Zhejiang in 2003 alone, 543,450 *mu*<sup>2</sup> of farmland quotas were transferred from coastal to inland municipalities within the province (Tan *et al.* 2004, p. 105), an area a little more than twice the size of Washington D.C. Chinese sometimes refer to this phenomenon as “flying land (*feidi* 飞地),” literally meaning that a piece of land flies from one jurisdiction to another. As land is immobile, what flies is not land per se, but land quotas. In this chapter, I use the term “flying land” to refer to land quota reallocation across administrative jurisdictions at the county and municipality levels. This chapter addresses the puzzles of how the local innovation of flying land came to exist, and what, if any, role the central government plays in response to the local innovation of flying land.

This chapter draws on political elite interviews (see Appendix for the list of interviewees), firsthand observation, Communist Party and government documents, and Chinese-language publications to address these puzzles. I argue that the transfer of land quota across jurisdictions is an institutional innovation arising from the conflicting goals for local governments of maximizing revenue and fulfilling land quota requirements. By design, the existing land tenure system allows local governments to generate windfall revenue through rural land expropriation. Variation in local economic development leads to significant variation in the cost of fulfilling quota requirements: it is more costly for administrative units from economically more developed areas with a high land price than for those from less developed areas with a low land price to meet the land quota targets. These



variations, in turn, provide leeway for local governments to transfer land quotas from economically more developed jurisdictions to less developed ones. The cross-jurisdictional transfer helps local governments with a more developed local economy overcome the bottleneck in gaining construction land necessary to generate revenue and promote further economic growth. This practice also helps local governments with a less developed local economy gain revenue and investments. Furthermore, the provincial government uses a combination of administrative and market forces to reduce the transaction cost associated with land quota transfer, thereby facilitating innovation diffusion within provincial boundary.

Despite the support from local governments of various levels, the cross-jurisdictional transfer of land quotas represents a major departure from the existing rules governing land use imposed by the central government. This finding of local defiance matches both the Mei and Pearson chapter as well as the Kennedy and Chen chapter. While the center encourages local innovation, it holds the final authority to determine the fate of local innovation. In stark contrast to local governments' interests in generating revenue through land expropriation, the central government prefers arable land preservation. In the process of local innovation diffusion, the center acts as a veto player, terminating or restricting some innovation in a specific area. As a result, the innovation of cross-jurisdictional transfer of land quotas that makes subnational players better off exhibits significant variation in the diffusion process: the transfer of farmland quotas was diffused in a horizontal pattern both within and across provinces but was banned later by the center, while the transfer of construction land quotas was permitted in Chongqing but terminated elsewhere.

### **Political economy of land**

The land market was entirely absent under the centrally planned economy: land was allocated administratively by the state free of charge and without time limit. As economic reforms have progressed, a land market emerged and has gradually developed. Inherited from the communist past, land is segmented into urban land and rural land, with each governed by dramatically different systems of property rights.<sup>3</sup> Urban land is owned by the state, while rural land is owned by rural collectives. Since the introduction of the land leasehold market in 1988, land use rights are separated from land ownership rights and can be leased out in the market, but the lease of long-term construction land use rights is limited to the urban land market.<sup>4</sup> That is, rural land must be first converted to urban land in order to fully realize its market value.<sup>5</sup> Such rural-to-urban land conversion is monopolized by the state.<sup>6</sup> As a consequence, the state – the exclusive body with the authority to expropriate rural land – can obtain land from rural households at a relatively low price.<sup>7</sup> The state also monopolizes the primary urban land market, within which the state, the exclusive land provider, auctions land use rights at a price that can be hundreds of times greater than the land compensation paid to rural households. In the past two decades, the difference between the land compensation paid to farmers and the market price of the seized land is about 2 trillion RMB for 14.7 million hectares of land (*China Daily* 2010). The price differential between rural



and urban land arising from the distorted land markets generates rents, which are easily captured by local governments.

The critical role that land-generated revenue plays in the local economy becomes clear once the financial system is taken into account. The current fiscal framework was established through the tax-sharing system (TSS) in 1994. A key feature of the TSS is that it successfully transferred revenue from local governments to the center, but it failed to adjust expenditure responsibilities for local governments. As a result, local government officials experienced a sharp decline in local revenue while they are still expected to take on the same expenditure responsibilities for the provision of a wide range of public goods and services, thereby creating substantial budget deficits, as shown in Figure 3.1. This leads to local governments' greater reliance on intergovernmental fiscal transfers, the majority of which is pegged to the size of the local government payroll to guarantee the minimal maintenance of local governments, thus unable to offset the local budget deficit (World Bank 2002; Shih *et al.* 2010; Whiting 2011). Ineffective intergovernmental transfers as well as the mismatch between local revenue and expenditure mandates create revenue-starved local officials who must resort to an alternative revenue source to supplement inadequate government funding. A high-ranking provincial-level official described his tough fiscal situation very bluntly:

The center takes the larger piece of the local tax revenue pie, while the local government gets the smaller piece. However, we local governments have to do all the work. We need money. We can rely on nothing but land, so we grab land and we must maintain a monopoly over land.

(Interview CQ05060110)

Not only does this statement describe the budget deficit problem facing local officials, it also provides the single solution to the problem: land.

Confronted with substantial budget deficits, local governments first expropriate rural land and then retitle it to urban land, thereby gaining ownership rights. After that, they can use land as collateral to apply for bank loans with which to build infrastructure so as to make water, electricity, gas, and public transportation available to potential land users. Local officials call the process of building infrastructure on expropriated land “turning land from ‘raw’ (*sheng* 生地) to ‘ripe’ (*shu* 熟地)” (Interview ZJ03190110). Once land becomes ripe, its market value increases exponentially and it is now ready to be transferred through the land market. Upon completion of the land transfer, local governments receive land-generated revenue and retain the balance after repaying bank loans. Unlike some taxes that are shared between the central and local states (e.g. value-added tax), almost all land-generated revenue is retained by local governments.<sup>8</sup> The dominant land-generated revenue form is called the “land conveyance fee” (*tudi churangjin* 土地出让金) – a lump sum payment to the local government upon the long-term lease of urban construction land use rights – which is categorized into the extra-budgetary revenue, permitting local officials wide discretion in spending the revenue. From 2003 to 2008, an average of 23 percent of local government revenue

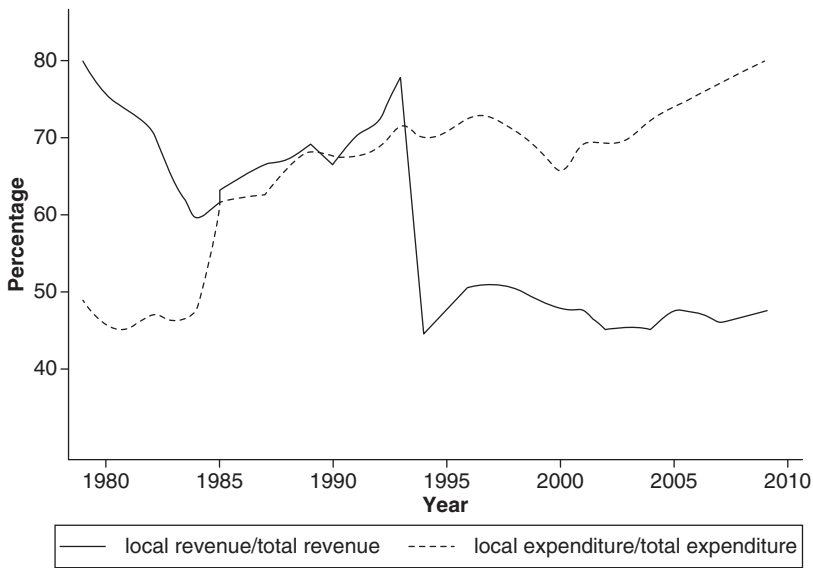


Figure 3.1 Subnational budgetary revenue and expenditure, 1978–2008

Source: *China Fiscal Yearbook* (2010, pp. 440–3).

was collected through various land-related taxes and fees.<sup>9</sup> In 2008, Hainan Province's land conveyance fee accounted for 85 percent of its local budget revenue.<sup>10</sup> Compared with the 2008 figure, the land conveyance fee in Hangzhou, the capital of Zhejiang, increased by 237 percent and totaled 105.4 billion RMB in 2009, ranking first among all municipalities in China (Real Estate China 2010).

The distorted land market not only helps local governments generate revenue and relieve fiscal stress but also provides them with an instrument to intervene in the local economy. Prior to 2006, the transfer of urban construction land use rights was determined either through market approaches (i.e. bid invitation, auction, and listing, 招拍挂) or through one-on-one meetings between local governments and potential land users. The latter approach, officially called negotiation (*xieyi* 协议), gives local officials leverage to determine land prices. It is not uncommon for local officials to offer their favored investors land at a price below its market value. In the most extreme cases, land is offered completely for free (Jiang *et al.* 2007, p. 1; Cheung 2009, p. 73). Such offers often go to large manufacturing firms, which generate a steadier revenue flow in the form of value-added tax. From 2003 to 2006, an average of 70 percent of construction land was transferred through negotiation.<sup>11</sup> This proportion dropped dramatically after 2006, when state-owned construction land must be transferred through market approaches only.<sup>12</sup> In practice, however, local officials deviate from this policy, by first auctioning land use rights and then returning land users the difference between the auctioned price and the negotiated price as a bonus of some sort (Interview JS04020110).

In short, the emergence of land markets has changed China's economic dynamics in a significant way. To local governments, land is more than a productive input accommodating economic growth. It also provides local officials with new untapped revenue sources as well as instruments with which to intervene in the economy. As a result, local government officials are incentivized to expropriate as much rural land as possible and, more importantly, the existing land tenure by design allows them to do so.

### Central response to diminishing arable land

Although China is the world's second largest country by land area, more than two-thirds of its land area consists of mountains, plateaus, and hills, hardly usable and, therefore, arable land is an extremely scarce resource. China's fast-growing economy is coupled with rapidly diminishing arable land: China lost 12.9 million hectares of arable land from 1978 to 2008. Top leaders in Beijing were shocked by the magnitude of land loss in 1997 when they were shown *Landsat* photographs for 1987, 1991, and 1995, in which the rate of conversion of agricultural land to nonagricultural use in 17 urban regions was two-and-a-half times faster than previously thought. The massive shrinkage of rural land has become a major source of social instability and food insecurity, both of which concern the central government. Forced eviction and inadequate compensation during land expropriation by local governments are the main cause of social unrest. Reportedly, about 65 percent of mass protests in rural areas are triggered by land disputes (*China Daily* 2010). The central government, concerned first and foremost about regime stability, has aggressively increased its control over land. It announced a 1-year moratorium on arable land conversion in May 1997 and extended it to 1999, and another 6-month freeze on agricultural land conversion in April 2004 (Lin 2009, pp. 6, 21).

In 1998, the central government substantially revised the Land Administration Law, a watershed reflecting an aggressive increase in central government's involvement in managing and monitoring subnational land use. The central government uses an overall plan of land utilization (*tudi liyong zongti guihua* 土地利用总体规划) and an annual plan of land utilization (*tudi liyong niandu jihua* 土地利用年度计划) to regulate land use. The former is a long-term plan (usually 10–15 years); the latter disaggregates the overall plan into yearly plans. From a land use perspective, land is categorized into agricultural land, construction land, and unused land. Agricultural land is further divided into arable land, forestland, grassland, and so on (Land Administration Law, Article 4). To preserve arable land, the Land Administration Law requires local governments to “create an equivalent amount of arable land to be occupied” (*zhanduoshao buduoshao* 占多少 补多少) so that the total amount of arable land within an administrative jurisdiction is not reduced (Articles 18, 31, 33). The central government also sets mandatory quotas of the minimum amount of arable land to be created through land development and reclamation and the minimum amount of arable land to be maintained. A threat to arable land is the conversion from arable land

to nonagricultural land, primarily used for urban construction. To combat this threat, the central government imposes a cap on the amount of urban construction land, or so-called construction land quotas (*jianshe yongdi zhibiao* 建设用地指标). These quotas specify not only the total amount of urban construction land that can be used but also the amount of agricultural and arable land that can be converted to urban construction land.

These quotas are distributed from the top-down along the administrative hierarchy: the central government sets national quotas and disaggregates them to provinces; each province then disaggregates its quotas to its municipalities, and each municipality to its counties.<sup>13</sup> The provincial government normally reserves some construction land quotas for projects that can be justified as significantly important to the local economy. These reserved quotas are distributed directly from the province, with a specification of who the quota receiver will be, and hence earn a name called "quotas wearing a hat" (*daimao zhibiao* 带帽指标). The amount of quotas of all kinds are specified in the overall plan and disaggregated into an annual plan for implementation. In principle, the sum of quotas assigned in annual plans for the years covered in the overall plan cannot exceed the quota specified in the overall plan.

In addition to quotas, the overall plan imposes spatial restrictions. They are reflected in maps indicating that land is zoned, with construction permitted only within the zone designated for construction specified in the plan. The zoning criteria vary across administrative units. In some overall plans, land is zoned based on land use purposes: land is designated for farming, industrial development and mining, transportation, and so on. In other overall plans, land is zoned according to the extent to which construction is tolerated within the zone. For instance, in Guangdong Province, land is divided into zones in which construction is permitted (允许建设区), restricted (限制建设区), and prohibited (禁止建设区).<sup>14</sup>

The Land Administration Law requires local government officials to conform to their overall and annual plans of land utilization once the plans are created and approved from above (Articles 21 and 24). Legal restrictions, however, are not an effective instrument to enforce compliance in China: local officials regularly violate laws and central directives as noted in many of the chapters in this volume. For instance, it is not uncommon for local officials to expropriate rural land without authorization (Guo 2001, p. 431, fn33). To facilitate local compliance, the central government has invested in satellite remote sensing technology to detect local land violations. Another instrument is the target responsibility system (TRS), a set of performance criteria that induce local officials to act in ways commensurate with the preferences of the center. Local government officials are evaluated regularly using the TRS criteria and their fulfillment of these criteria has a direct impact on their career prospects (Tsui and Wang 2004; Whiting 2000, 2004). The State Council has required the protection of farmland to be incorporated in the TRS since 1998 to monitor the performance of local officials at the county level and above.<sup>15</sup> In 2013, the Ministry of Land and Resources requires some criteria measuring land law enforcement to be included in the performance

evaluation. Counties and cities that perform well are rewarded with an additional construction land quota of 500 *mu* (Renminwang 2013).

### **Local innovations in land management**

To address the concerns of food security and regime stability, the central government prefers arable land preservation and devises several ways to restrict subnational land use (e.g. land quotas, satellite monitoring, and the TRS). However, the design of the land property rights regime motivates local governments to convert arable land to nonagricultural use so that they can collect revenue and promote the local economy, both of which are necessary to advance career prospects. The different preferences of the central and local governments induce incompatible behaviors and create conflicts between the demand for and supply of construction land.

Local governments from economically developed jurisdictions are desperate for land. When asked, local political elites from such places contend that their biggest constraint in the process of promoting the local economy is “construction land quotas” (Interviews ZJ04190110, ZJ04200110, CQ05060110). For example, by a conservative estimate, Zhejiang, the richest province in China, required a construction land quota of 1.4 million *mu* in 1997–2010 to support its economic growth, but it was assigned a quota of only 1 million *mu*. More seriously, this quota was almost exhausted by 2001, 9 years before the assignment of new quotas (Wang and Tao 2009, p. 42). In Yueqing, a highly developed county-level city in Wenzhou, Zhejiang, construction land use rights for the industrial use could be transferred at a price around 600,000 RMB per *mu* in the primary land market in 2010. The local government had land available and was willing to transfer. However, the lack of a construction land quota prevented the local government from doing so (Interview ZJ0420110). The scarcity of construction land quotas is by no means unique to coastal provinces like Zhejiang. The *Dadukou* district in Chongqing was assigned 3000 *mu* of construction land quotas in the overall plan in 1997–2010, but these quotas were exhausted by 2003. The district was also assigned the maintenance of 43,000 *mu* arable land by 2010, but it had 35,000 *mu* of arable land left by 2009, making fulfillment of this quota impossible (Interview CQ05121210).

From the spatial perspective, the overall plan of land utilization requires those who draft the plan to project what the spatial arrangements will be like within an administrative jurisdiction in 10 to 15 years, but the economy has grown much faster than expected. Perhaps more importantly, administrative boundaries in China are not fixed over time (Hsing 2010; Landry 2011). We regularly observe expansion and merging of administrative jurisdictions, both of which require administrative boundaries to be redrawn but can hardly be anticipated in drafting plans of land utilization.

The central government is not blind to the land-related challenges facing local governments. In the face of local challenges associated with the rapid economic transition, the center encourages policy innovation and new ways of problem solving at the local level (Heilmann 2008a, 2008b). The land issue is no exception.

More importantly, revenue incentives motivate local officials to be innovative in implementing land policies so as to overcome the restrictions imposed from above. Local economic development affects land price, thereby creating variation in the cost of fulfilling the quota restriction. The scatterplot in Figure 3.2 demonstrates a moderate positive relationship between economic development measured by the logarithm of average local gross domestic product (GDP) and the average price of transferring construction land use rights, using a self-compiled dataset of 340 municipalities from 2003 to 2007. The variation in the price of transferring land use rights exists within provincial boundary, as shown in Figure 3.3, and this leads to the variation in the benefit generated from land: construction land generates more revenue in economically more developed jurisdictions than in less developed jurisdictions. Consequently, the cost of fulfilling the quota requirements also varies considerably: it is more costly for administrative units with a high land price than for those with a low land price to meet the target of arable land protection and not convert arable land to nonagricultural use. These variations create room to transfer land quotas from economically more developed jurisdictions to less developed ones within the same province. To illustrate, I discuss my observations on flying land in two categories: transfer of prime farmland quotas and transfer of construction land quotas.

### *Local innovation of flying prime farmland*

Among all types of land, prime farmland<sup>16</sup> (*jiben nongtian*基本农田) – a type of arable land with large yield and high quality – is considered to be crucially important to support food security and has been protected by the central government with

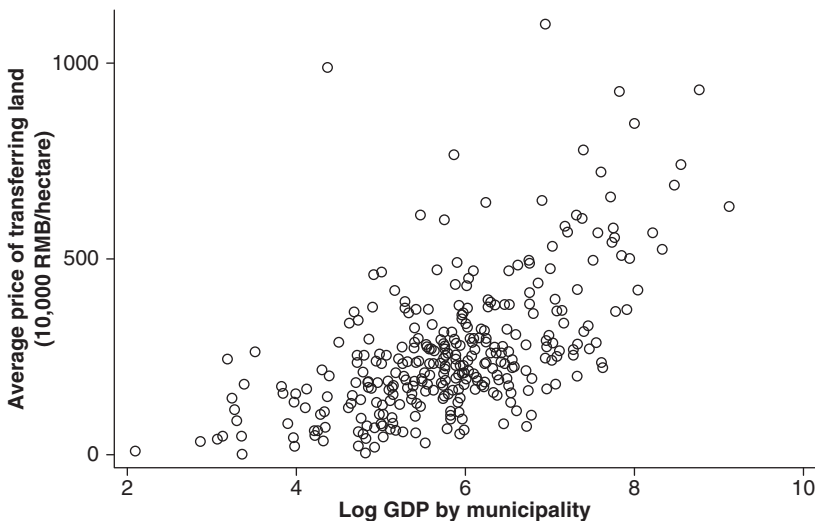


Figure 3.2 Local economy and price of transferring land use rights, 2003–2007

Note: GDP: gross domestic product.

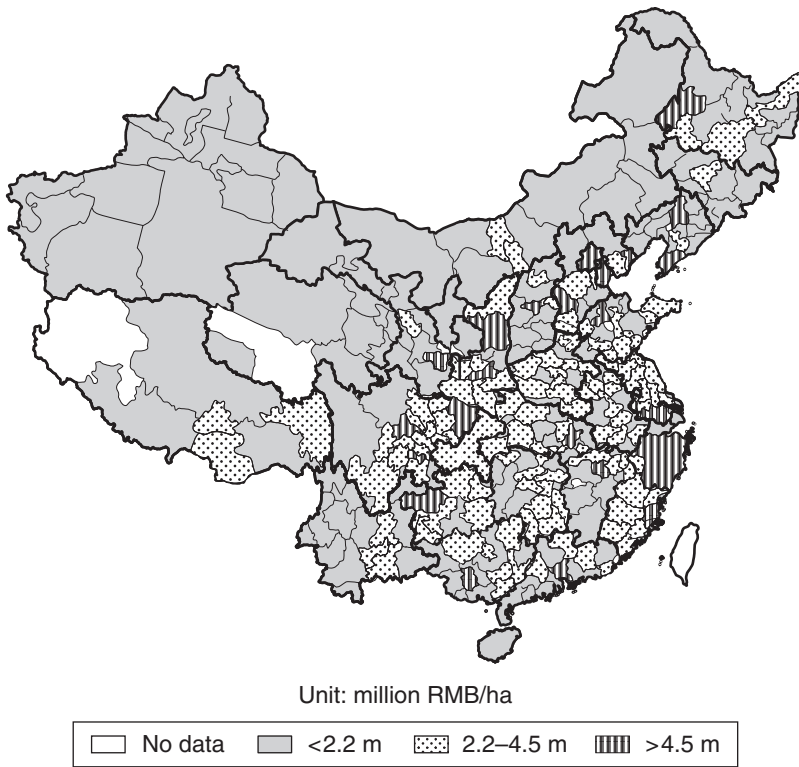


Figure 3.3 Price variation in transferring land use rights, by municipality, 2003–2007

the highest degree of restriction. The center requires that at least 80 percent of arable land should be designated as prime farmland within each administrative unit at the municipality level or above, regardless of the variation in land endowment across jurisdictions.<sup>17</sup> Spatially, prime farmland, once zoned, cannot be occupied except in such major construction projects as state energy, communications, water conservancy and military installations, and the occupation must be subject to the approval of the State Council.<sup>18</sup> Unsurprisingly, the pursuit of local industrialization and urbanization inevitably conflicts with quota and spatial restrictions. Such conflicts are particularly severe in economically developed localities. For instance, the project of expanding the administrative boundary of Hangzhou demanded 31,330 *mu* of land, but Hangzhou had a construction land quota of only 3,670 *mu*. Not only was the quota insufficient, but prime farmland would be occupied in the expansion project (Tan *et al.* 2004, p. 106). If the center's rules and regulations were to be completely followed, Hangzhou's government must get permission from the State Council and go through the cumbersome and time-consuming process of readjusting



its overall plan of land utilization in order to carry out the expansion project. The innovation of transferring prime farmland quotas across jurisdictions helps local governments get around the center's regulations.

As early as 2000, Yiwu, one of China's richest counties well known for its largest worldwide small-commodity trading center, located in Jinhua, Zhejiang, was challenged to fulfill the target of protecting prime farmland within its jurisdiction and proposed to transfer its prime farmland protection quota to Longyou and Wuyi, both of which are economically less developed counties in Zhejiang. The quota transfer proposed by Yiwu entailed its responsibility to maintain the required amount of prime farmland to be fulfilled by local officials in Longyou and Wuyi in their jurisdictions. To proceed, Yiwu government paid Longyou and Wuyi 1000 RMB for every *mu* of prime farmland quota that would be reallocated. Upon completion of the quota transfer, prime farmland in Yiwu could be converted for other use so long as its overall plan of land utilization is readjusted and approved.

Two sets of players are involved in the process of prime farmland quota reallocation: Yiwu government, the quota buyer that transfers the responsibility of farmland protection (i.e. quota) away from itself by paying a fee, and the quota seller, Longyou and Wuyi's governments, which takes on the buyer's responsibility upon receipt of payments. What motivates the buyer and seller to pursue this transfer? Property rights are commonly defined as a bundle of rights that include the rights to control, obtain income from, and alienate assets. When land is designated as farmland, rural households have rights to control and claim residual income, although ownership is maintained by rural collectives. In a developed locality, farmland generates much less revenue than construction land of equal size. This motivates the local government to buy herself out of the targeted mandates of farmland protection that she is supposed to fulfill so as to convert farmland to urban construction land. In this process of conversion, the local government from developed localities, or the quota buyer, compensates rural households for farmland loss and gains land ownership and control rights. As a result, the local government has the authority to transfer land use rights, thereby generating windfall revenue. By contrast, farmland quota transfer requires the government from less developed localities, or the quota seller, to turn a parcel of arable land into farmland in her jurisdiction. This process generates a cost of land conversion as well as a payment from the quota buyer. The quota seller is better off so long as the payment is greater than the cost of converting arable land to farmland. When this payment is less than the benefit of converting farmland to urban construction land, the quota buyer is better off.

The practice of transferring prime farmland quotas across jurisdictions creates a win-win situation for both the buyer and seller and quickly spreads to other counties and municipalities in Zhejiang. In 2001, the Zhejiang Provincial Department of Land and Resources approved 47 applications for prime farmland reallocation across counties and municipalities within Zhejiang. The amount of reallocated prime farmland totaled 371,250 *mu*. The fee paid for farmland reallocation ranged from 1,000 to 1,850 RMB per *mu*, totaling 445 million RMB. Table 3.1 details farmland transfer across municipalities in Zhejiang in 2001. It shows that prime farmland is reallocated from more developed economies to less



Table 3.1 Prime farmland reallocation in Zhejiang, 2001

Administrative units	Economic development		Farmland removal amount (mu)	Reallocation within city amount (mu)	Total change	
	GDP (100 million RMB)	GDP per capita (RMB)			Amount (mu)	Percentage
Hangzhou	1,568.01	25,074	133,500	30,000	-103,500	-27.9
Ningbo	1,312.69	24,213	85,200	5,250	-79,950	-21.5
Jinhua	597.34	13,358	55,050	16,950	-38,100	-10.3
Wenzhou	932.08	12,637	48,900	21,900	-27,000	-7.3
Taizhou	747.51	13,651	16,050	1,950	-14,100	-3.8
Shaoxing	822.54	18,997	28,050	40,050	12,000	3.2
Huzhou	385	15,031		60,000	60,000	16.2
Lishui	158.97	6,393		70,650	70,650	19
Quzhou	176.28	7,254	4,500	124,500	120,000	32.3
Total			37,1250	371,250	0	-0.1

Source: Data on economic development compiled from *Zhejiang Statistical Yearbook*, 2002. Data on land quota transfer compiled from Tan *et al.* (2004, p. 105).

developed economies, but the net transfer within the province is zero. Figure 3.4 presents the geographic location of municipalities indicating the general transfer pattern. Quota buyers that reduce farmland within their own jurisdictions by transferring the responsibility of farmland protection to the seller are shaded in grey. The general pattern is that coastal municipalities reallocated their farmland protection quotas to the inland area. The two quota buyers that are not located along the coastline are Hangzhou, the capital of Zhejiang, and Jinhua, to which Yiwu is administratively subordinate. In 2003, the amount of farmland reallocation reached 543,450 *mu* – a little more than twice the size of Washington D.C. Reallocation fees totaled 0.73 billion RMB (Tan *et al.* 2004, p. 105).



Figure 3.4 Map of prime farmland quota transfer in Zhejiang, 2001

As industrialization and urbanization proceed, land becomes increasingly scarce and thus is expected to be more expensive tomorrow than it is today. Increases in land value give the quota seller more bargaining power in their negotiations with local governments that desperately need farmland quotas so as to convert their farmland to urban construction. As a result, the form of payment from the quota buyer to seller is not limited to the monetary transfer (i.e. reallocation fee). In 2006, when Hangzhou reallocated its farmland protection quota to Quzhou, the farmland reallocation fee was 16,000 RMB per *mu*, 16 times more expensive than it was 6 years ago, when Yiwu paid Longyou and Wuyi for quota reallocation. In addition to the one-time payment of farmland reallocation fee, Hangzhou was required to generate an investment of 10 billion RMB in Quzhou in 2006–2010.<sup>19</sup> To fulfill the requirement, Hangzhou government encouraged certain firms located within her jurisdiction to move to Quzhou. Firm reallocation could be win-win for all: it helps the firms reduce the production cost because land is cheaper in Quzhou; it helps Quzhou government generate a steady revenue income in the long run; and it makes previously occupied land available for Hangzhou government to attract new and more competitive investors.

### ***Local innovation of flying construction land***

The innovation of cross-jurisdictional transfer of land quotas makes quotas a preferred commodity for local governments, regardless of the level of local economic development. Local governments from developed localities need quotas so that they have more land to transfer the use rights and generate more revenue and investment, and local governments from less developed localities where land is cheaper can sell quotas. This logic applies to land of various types (e.g. prime farmland and construction land). To gain more urban construction land, one strategy local governments adopt is to convert rural construction land to urban construction land. The central government controls the total amount of construction land by restricting the conversion to construction land. The conversion from rural construction land to urban construction land, however, does not take up construction land quotas of any type, because it is essentially a conversion from rural collective ownership to urban state ownership, maintaining the total amount of construction land unchanged.

Rural construction land is occupied by rural infrastructure, enterprises, and rural residents.<sup>20</sup> To make occupied rural construction land available for ownership conversion, local governments are incentivized to push rural households to give up their individual housing plots (*zhaijidi* 宅基地) and move to apartment buildings, a process that improves rural land use efficiency. To illustrate, consider hypothetically a village with 90 households, each household occupying one housing site. If a local government were to build three-story apartment buildings on 30 housing sites, it would provide apartments for all households in the village and meanwhile vacate the remaining 60 housing sites. All housing sites are categorized into rural construction land. The government tears down the houses on the 60 remaining housing sites and reclaims the sites to arable land. In doing so,

it gains a rural construction land quota, with an unoccupied area equivalent to 60 housing sites. This quota is now ready to be transferred.

The process of converting rural-to-urban construction land illustrated above is officially called "linking the contraction of rural construction land with the expansion of urban construction land" (*chengxiang jianshe yongdi zengjian guagou* 城乡建设用地增减挂钩). This innovation follows a typical pattern of policy diffusion in China: it had been conducted in 8 provinces by 2005 and had gradually expanded to 11 provinces by 2007 and 24 provinces by 2009.<sup>21</sup> Such a policy innovation, however, requires the construction land conversion to take place within the jurisdiction of a municipality or a county, preferably along the border connecting rural and urban areas.<sup>22</sup> Strictly speaking, it does not qualify as flying land, because quota traveling across municipalities or counties is prohibited.

However, the restriction of geographical proximity has been relaxed in Chongqing, where the conversion from rural to urban construction land can take place across administrative jurisdictions within Chongqing. Here, construction land quotas acquire a new name: "land ticket" (*dipiao* 地票). As explained by an official at the Chongqing Department of Land and Resources,

When we experienced shortage under the planned economy, we had to ration the supply of goods of all kinds: buying cloth required a cloth ticket, buying food required a food ticket, and so on and so forth. Now, to get a parcel of [construction] land, you also need a ticket.

(Interview CQ0428110)

Since 2009, all construction land for commercial purposes located in urban districts in Chongqing requires a land ticket.

Two sets of players are involved in the transfer of construction land quotas: sellers and buyers of land tickets. The sellers are rural collectives who legally own rural land in a remote and underdeveloped village where land is cheaper. The buyers include the local government as well as other potential construction land users (such as state-owned and private real estate land developers) in urban Chongqing where land quotas are scarce. To vacate rural construction land and generate construction land quotas in villages, rural households are deprived of their housing sites, part of which would be reclaimed to arable land. The revenue income generated from land ticket transactions is divided into three portions: one portion to compensate the cost of land reclamation, one to compensate rural households for their loss of housing sites, and one to the county-level government, to which the rural collective is administratively subordinate (Twenty-First Century Economic Report 2009). Roughly 30 percent of the income goes to rural households (Interview CQ05060210). The Chongqing government is a winner, regardless of who the quota buyers are between local government agencies and private land developers: when the buyer is a local government agency, the Chongqing government gains additional construction land quotas, which generate revenue upon completion of transferring land use rights; when the buyer is in the private sector, it gains quotas but is required to pay various land-related fees and

taxes to the Chongqing government.<sup>23</sup> In either case, the Chongqing government gains land-generated revenue without consuming its urban construction land quotas. In short, the transfer of construction land quotas from rural area to urban area makes both the buyer and seller better off, but the government of Chongqing has been the largest beneficiary.

### **Politics of local institutional innovations**

The practice of creating flying land makes both the quota buyer and seller better off. A simple prisoner's dilemma game suggests that higher payoffs for both players are a necessary but not sufficient condition to generate institutional change. Many problems can arise that prevent players from transferring land quotas across jurisdictions: for example, what if the quota seller receives the payment from the buyer but does not fulfill the contract? What if, due to the lack of trust among players, the negotiation on quota transfer takes a long time such that the cost outweighs the benefit? How would a player be penalized if she violates the contract? Simply put, the high transaction cost may deter local governments from transferring land quotas. In response, local governments have developed various mechanisms to reduce transaction cost and facilitate local institution innovation and diffusion.

#### ***Reduction of transaction cost***

To facilitate prime farmland reallocation, local governments of various levels interact with one another, with each taking on different roles. In Zhejiang, the provincial government keeps track of all reallocation cases and monitors the entire process to ensure that the quality and quantity of prime farmland are maintained when quotas are reallocated. To begin with, the municipal governments that are interested in transferring prime farmland quotas need to submit an application to the provincial government. Upon approval, quota transfer can take place. In 2006, Ningbo, a highly developed coastal municipality, negotiated a contract with Quzhou, a less developed inland municipality. In their contract, Quzhou government was to create 50,000 *mu* of prime farmland and 75,000 *mu* of standard farmland in its jurisdiction to help the Ningbo government fulfill its farmland protection requirement in exchange for a farmland reallocation fee of 1.25 billion RMB and an investment of 10 billion RMB in 2006–2010.<sup>24</sup> To proceed, the Ningbo municipal government first paid half of the farmland reallocation fee to its contract partner, the Quzhou municipal government; after the farmland was created in Quzhou, the provincial government checked the farmland to ensure that its quantity and quality are not reduced in the process of reallocation; upon approval from the provincial government, the Ningbo government paid the other half of the farmland reallocation fee.<sup>25</sup>

To fulfill its contractual agreement, the Ningbo municipal government disaggregated the farmland reallocation fee and the contracted amount of investment to its counties that were involved. The fee and investment allocation was proportional to farmland quotas to be purchased from Quzhou. Specifically, a transfer

of 1 *mu* of prime farmland required a county to pay 15,000 RMB reallocation fee and to generate an investment of 120,000 RMB in Quzhou. For a transfer of 1 *mu* of standard farmland, figures were lower: 5,000 RMB for farmland reallocation and 40,000 RMB in investment.

To ensure compliance, the Ningbo municipal government has provided an incentive mechanism by linking the fulfillment of generating investment with construction land quota assignment. According to the contract, the fulfillment of investment generation is evaluated on a yearly basis until the contracted amount of investment (i.e. 10 billion RMB) is completed. County-level governments that overfulfill the investment requirement are rewarded with an additional construction land quota of 1 *mu* in the following year for every additional investment of 1 million RMB they generate in Quzhou. Similarly, those that fail to fulfill the investment requirement will be penalized by deducting construction land quotas in the following year. In addition, the Ningbo municipality government provides county-level governments with a monetary bonus equivalent to 1.4 percent of the investment they generate in Quzhou; county governments have the authority to determine how to subsidize the firms that would migrate to and generate investment in Quzhou, using the monetary bonus they received from Ningbo.

While the transaction cost associated with the transfer of farmland quotas is reduced primarily by administrative forces, the transfer of construction land quotas is facilitated primarily by market forces, with assistance of administrative forces. In Chongqing, quota buyers and sellers meet at a focal point, the Rural Land Quota Exchange (*nongcun tudi jiaoyisuo* 农村土地交易所), a market established in December 2008 where construction land quotas (i.e. land tickets) are transferred through a competitive auction. On the first day of the auction, the first land ticket of 300 *mu* was taken by a firm at the price of 25,600,000 RMB and the second land ticket of 800 *mu* at the price of 64,200,000 RMB.<sup>26</sup> As of May 2010, 85 land tickets had been transferred, entailing a total 18,000 *mu* of construction land, with the transaction price totaling 1,865 million RMB (*Chongqing Daily* 2010). The Chongqing government monitors the market transaction of land tickets. In principle, the total amount of transfer is no greater than 10 percent of the newly added construction land quotas assigned to Chongqing by the central government for the year.

Moreover, the Chongqing government uses administrative forces to help quota buyers identify where land quotas are available. To begin with, rural landowners submit a proposal of land reclamation to the Bureau of Land and Resources of the county to which it is administratively subordinate. Upon approval, rural landowners can convert rural construction land to arable land, the quality of which must be checked by the Bureau of Land and Resources at the county level. If the converted arable land meets the quality requirement, the bureau applies for a construction land quota from Chongqing Department of Land and Resources and then releases the transferrable quota (i.e. land ticket) to rural landowners.<sup>27</sup>

To promote the transfer of land tickets, the Chongqing government also helps quota buyers win the auction of transferring urban construction land use rights. To start a project, an urban land developer must have a parcel of urban construction

land and land quota simultaneously. Individual possession of a land quota alone is not valuable. As a result, quota buyers who won the auction of land tickets have to win the auction of a parcel of urban construction land so that their quotas can be used. The process of making auctioned land tickets usable is called “land quotas falling on the ground” (*zhibiao luodi* 指标落地). In principle, who wins the auction of urban construction land use rights is uncertain. That is, an individual who holds a land ticket does not necessarily win when bidding for the use rights of a parcel of urban construction land; in practice, however, those who hold land tickets have priority to get urban construction land use rights. As of May 2010, when I conducted my interviews with political elites in Chongqing, the government helped all of those who held land tickets get urban construction land use rights (Interview CQ05060210).

In short, lack of information and distrust between the quota seller and buyer increase the transaction cost associated with local policy innovation, thereby preventing players from pursuing change. To facilitate local policy innovation and diffusion, transaction costs must be reduced. Unlike with many local initiatives, the provincial government is involved and acts with great caution. It accepts applications for land quota reallocation, monitors the transfer process, checks the quantity and quality of transferred land, and creates a focal point where quota seller and buyers meet, to name a few. The provincial government also institutionalizes local innovations. The transfer of prime farmland quotas across jurisdictions gains its legality from the Zhejiang Provincial Regulations on Prime Farmland Protection (浙江省基本农田保护条例) in 2002. With permission from the central government, Chongqing has issued the Temporary Measures on Management of the Rural Land Quota Exchange (农村土地交易所管理暂行办法), detailing the procedure of land ticket transactions. These formal regulations help stabilize local innovations and facilitate local innovation diffusion within provincial boundary.

### ***The central government: A veto player***

Both transfers of prime farmland quotas and construction land quotas across jurisdictions constitute a major departure from the existing rules governing land use created by the central government. A transfer of a farmland protection quota violates central directives that require at least 80 percent of arable land to be designated as prime farmland within each administrative unit at the municipality level or above. The emergence of a land ticket market deviates from the rules requiring that rural construction land not be directly transferred in land markets. Knowing that administratively distributed quotas are insufficient to support the local economy in some localities, the central government encourages local governments to explore the way in which land can be used more efficiently, but to hold the authority to determine if a local innovation should be terminated, restricted within a certain area, or expanded to a large scale.

The transfer of prime farmland quota across jurisdictions makes both the buyer and seller better off and, moreover, it has been institutionalized by the provincial government in 2002. However, it was vetoed by the General Office of the State



Council in 2004 in order to strictly protect arable land.<sup>28</sup> The Zhejiang provincial government did not revise its regulation approved by the provincial congress that permits the transfer of prime farmland quotas within provincial boundary. The inter-governmental contracts on quota transfers that were previously agreed and signed but had not been fulfilled yet were still effective until the contracts were complete, but new applications for quota transfers are harder to be approved. The province gives permission to significant projects only, typically infrastructure construction.

The establishment of Chongqing Rural Land Quota Exchange, where construction land quotas are auctioned, was initiated by Chongqing government, with permission from the central government.<sup>29</sup> This innovation, however, has been unique to Chongqing. Chengdu, the capital of Sichuan Province, adjacent to Chongqing, auctioned its first land tickets of 2000 *mu* on December 17, 2010. Only 11 days later, the Ministry of Land and Resources called for a stop (*jiaoting* 叫停) without providing a reason. According to anecdotal evidence, the final auction price was as high as 764,700 RMB per *mu*, while the initial bidding price was only 150,000 RMB per *mu*. The high auction price of land quotas will eventually be transferred to unaffordable housing price, a source of social instability that concerns the central government (China Real Estate Report 2011).

In short, the central government acts as a veto player in local innovation expansion. While a local innovation makes subnational players better off and the provincial government clears the barriers of high transaction cost to promote the innovation, it is not always supported by the central government. The state is not a unitary player. The conflicting preferences among the players within the state produce different actions toward land use. The center takes action to preserve arable land, while local governments are incentivized to convert arable land to nonagricultural use. As a result, a local innovation that is preferred by local governments may be terminated or restricted within a specific area by the center.

## Conclusion

The cross-jurisdictional transfer of land quotas is a local institutional innovation arising from the conflicting goals for local governments of maximizing revenue and fulfilling land quota requirements imposed by the central government. This chapter discusses three conditions for this local innovation to emerge and expand. First, an institutional innovation must be incentive compatible: innovators have no incentive to deviate from the existing institutions if the innovation cannot make them better off. The cross-jurisdictional transfer helps quota buyers overcome the bottleneck in gaining the construction land necessary to generate revenue and promote further economic growth and helps quota sellers gain revenue and investments. Second, transaction cost associated with the innovation must be reduced such that the benefit outweighs the cost for all players involved. The provincial government monitors the transfer process, formalizes the transfer procedures, and establishes a platform where quota buyers and sellers meet, all of which reduces transaction cost and facilitates emergence and diffusion of flying land within provincial boundary. Third, the ultimate success of diffusion of local innovation, at least in land



management area, rests on the central government. While local governments have incentive to maximize revenue through converting arable land to nonagricultural use, the central government prefers arable land preservation. With conflicting preferences within the state, the central government may veto a local innovation that makes local governments better off. With the central government holding the final authority, a local innovation may be terminated, restricted within a small scale, or expanded nationwide. While the local innovation expansion has been widely discussed in the literature (e.g. Tsai 2007 on the rise of capitalists in China), this chapter focuses on the first two categories, termination and restriction of local innovations.

The existing land management system takes a centrally planned approach, within which land quotas are assigned from top to bottom within the administrative hierarchy. The practice of land quota transfers introduces market forces within the framework of planned land management, thereby improving land use efficiency at the margin. Construction land quotas are transferred to jurisdictions where land can produce higher marginal benefits, whereas farmland quotas are transferred to localities where the marginal cost of farmland maintenance is lower. Yet, the level of marketization is very limited, as the scale of land quota reallocation is restricted within provincial boundaries. Variation in the cost of fulfilling quota requirements is greater across provinces than within provinces. Consequently, land use efficiency would be greatly improved if land quotas were allowed to transfer across provinces. While cross-provincial quota transfer is compatible with local governments' incentive, it constitutes a blunt violation of the Land Administration Law and requires interactions across provinces. This more efficient arrangement has not been experimented with by local governments. Chongqing government has long planned on making its land tickets nationally transferrable, but still has not experimented with this idea due to lack of permission from the central government (Interview CQ05060210).

Although the transfer of prime farmland quotas was initiated by Zhejiang, the practice has been diffused across provinces. Media coverage suggests a similar phenomenon appears elsewhere, Guangdong, Jiangsu, and Shandong, to name a few. The transfer of prime farmland across jurisdictions, however, provides only a temporary solution without fundamentally resolving the problem, because the shrinking of arable land is inevitable as industrialization and urbanization proceed. Land will eventually become scarce and expensive even in less developed jurisdictions where land is cheap. This is especially true in the coastal provinces. In Zhejiang, for example, the prime farmland allocation fee increases exponentially from 1,000 RMB per *mu* in 2000 to 16,000 RMB per *mu* in 2006. Similarly, the price of land tickets has been continuously growing. It rose from 85,333 RMB per *mu* in December 2008 to 144,000 RMB per *mu* in May 2010. As the cost increases, the room for land quota transfers within provincial boundary becomes smaller. That is, the innovation of flying land has its own life. As the cost-benefit gap shrinks, local governments will have to devise additional strategies to overcome the land quota restrictions imposed by the central government.

The benefits of land quota transfer across jurisdictions are narrowly distributed, with the gains heavily concentrated in local governments. Rural households,

supposedly the real landowners, are not the winners in the process of cross-jurisdictional transfer. Rather, the gains of local governments are at the expense of rural household interests. Hellman (1998) argues that economic transitions in postcommunist countries generate winners, who are incentivized to block further reforms that will potentially reduce their gains, thus creating a "partial reform equilibrium." The same logic may apply to China. Local governments' revenue incentive through converting rural land to nonagricultural use originates from the existing segmented land tenure system, where collectively owned rural land is discriminated against. Creating a common land market, where rural construction land use rights can be directly transferred without first being expropriated by the state, would help break the state monopoly and protect the interests of rural households. Yet, such a reform would likely face strong resistance from local governments, the biggest winners from the existing land tenure system. It is somewhat ironic that the biggest pressure for the central government to undertake land reform and protect peasant interests may come from its own agents, upon which it relied to gain momentum to push economic reforms forward in the early reform era. Indeed, despite the wide-ranging criticism of the segmented land tenure system for exploiting and angering rural households, reform of the rural land system has been largely stagnant.

## Appendix

### *Interviewee list*

<i>Code</i>	<i>Province</i>	<i>Level</i>	<i>Interviewee</i>	<i>Institutions</i>
CQ05060110	Chongqing	Province	Deputy Secretary-general	Party Committee
CQ04280110	Chongqing	Province	Department Chief	Department of Land and Resources
ZJ03190110	Zhejiang	Deputy provincial municipality	Section Chief	National-level Economic Development Zone
JS04020110	Jiangsu	County-level city	Director	National-level Economic Development Zone
ZJ04190110	Zhejiang	County-level city	Director	Provincial-level Economic Development Zone
ZJ04200110	Zhejiang	County-level city	Vice Mayor	Government
CQ05121210	Chongqing	Urban district	Group of officials	Bureau of Land and Resources
CQ05060210	Chongqing	Province	Section Chief	Department of Reform and Development

## Notes

- 1 Financial support from the National Science Foundation, Chiang Ching-kuo Foundation, the Institute for Humane Studies, and the University of Wisconsin-Madison is gratefully acknowledged. All errors in the chapter remain the author's alone.
- 2 A *mu* is a Chinese unit of area measurement: 1 hectare equals 15 *mu*.
- 3 For more discussion on the difference between urban and rural land markets, see Perkins (2009) and Chen (2010).
- 4 The time limit of transferring construction land use rights is determined by the purposes of land use. Land use rights can be claimed for 70 years, 50 years, and 40 years when land is used for residential, industrial, and commercial purposes, respectively. See State Council, Temporary Regulations on Transfers of Urban State-owned Land Use Rights, 19 May 1990, Article 12.
- 5 Construction land use rights can be legally transferred in the urban land market only. But there exists an active and pervasive black market where rural land is occupied and transferred illegally. See Lin and Ho (2005).
- 6 Rural land is composed of both agricultural and construction land. Rural-to-urban land conversion is an ownership transfer from rural collective ownership to urban state ownership. It includes conversion not only from rural agricultural land to urban construction land but also from rural construction land to urban construction land.
- 7 Compensation is composed of land compensation fees, resettlement fees, and compensation for what was attached on the expropriated land. The Land Administration Law specifies the compensation to rural households whose land is expropriated (Article 47).
- 8 Local governments retain all land-generated revenue with only one exception. This exception is the newly converted construction land use fee (新增建设用地的有偿使用费), which is shared between the center and local governments at the ratio of 3:7. See Land Administration Law, Article 55.
- 9 Author's calculation based on self-compiled dataset. Total revenue is composed of budgetary and extrabudgetary revenues. Land-related revenue is composed of land conveyance fee, urban land use tax, arable land occupation tax, and contract tax. Data on land conveyance fee in 2003–2008 are collected from *China Land and Resources Yearbook*, 2009, p. 171. Data on total revenue and other land-related taxes and fees are compiled from *China Fiscal Yearbook*, various years.
- 10 Author's calculation based on self-compiled dataset.
- 11 Author's calculation based on information from *China Land and Resources Statistical Yearbook*, 2009, p. 171.
- 12 Circular of the State Council on Intensifying Land Control, Article 5; Provisions on the Assignment of State-owned Construction Land Use Right through Bid Invitation, Auction, and Listing, Article 4.
- 13 In practice, there is some variation in quota assignments across provinces. For instance, in Zhejiang, the provincial government bypasses municipalities and directly assigns quotas to counties (Interview ZJ0420110).
- 14 Guangdong Provincial Overall Plan of Land Utilization, Chapter 7 on Spatial Restriction of Land Utilization, pp. 45–7.
- 15 Regulations on the Protection of Prime Farmland, Article 4.
- 16 I use the terms “farmland” and “prime farmland” interchangeably in this chapter.
- 17 Land Administration Law, Article 34; Regulations on the Protection of Basic Farmland, Article 9.
- 18 Land Administration Law, Article 45; Regulations on the Protection of Prime Farmland, 1998, Article 15.
- 19 The information comes from the intergovernmental contract that is an internal, not publicly accessible document, available in redacted form by contacting the author.
- 20 Each rural household is assigned one and only one housing site. See Land Administration Law, Article 62. In practice, however, it is widely violated by rural households who get more than one housing site.

- 21 In April 2006, Shandong, Tianjin, Jiangsu, Hubei, and Sichuan were approved by the Ministry of Land and Resources to experiment with this practice. Another 19 provinces were approved between 2008 and 2009. [http://www.mlr.gov.cn/xwdt/jrxw/201102/t20110214\\_816140.htm](http://www.mlr.gov.cn/xwdt/jrxw/201102/t20110214_816140.htm)
- 22 Measures on Management of Land Use in Contracts for Expansion and Contraction in Pilot Sites for Urban and Rural construction, Article 5.
- 23 The payment to obtain a land ticket can be used to defray the newly added construction land use fee (新增建设用地有偿使用费) and arable land reclamation fee (耕地开垦费). See *Temporary Measures on Management of the Chongqing Rural Land Exchange*, Article 27.
- 24 The Ningbo-Quzhou contract is not a publicly available document; it is available in redacted form by contacting the author.
- 25 The contract between Hangzhou and Xiaoshan details how the farmland reallocation fee is paid. The contract is not publicly available.
- 26 Chongqing Government, *The Establishment of Chongqing Rural Land Exchange and the Transaction of the First Land Ticket*, 2008.
- 27 On the process of generating a land ticket, see *Temporary Measures on Management of the Chongqing Rural Land Exchange*, Chapter 3.
- 28 Urgent Notice on Regulating Land Markets and Strengthening Land Management, Article 3.
- 29 Suggestions on Advancing Chongqing Reform on Unified Management of Urban and Rural Areas, Article 110.

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## 4 Policy diffusion in corporate restructuring

### Case studies of local government interventions

*Kun-Chin Lin and Shaofeng Chen<sup>1</sup>*

Literature on policy diffusion, emulation, and transfer often refers to the adoption of a policy in one organization (can be central governments, government agencies, local governments at different levels, etc.) learnt and copied from another organization (Dolowitz and Marsh 1996). Four principal types of mechanisms have often been highlighted for this process: competition, international pressure, normative emulation, and learning (Dobbin et al. 2007; Shipan and Volden 2008). From the definition and mechanisms, studies on policy diffusion tend to focus on the level of policymaking or formulation, while paying less attention to policy implementation. It is widely known that “good policies” are not that hard to come by in the case of China, and the linchpin for policy success is implementation. Hence, mapping out variations in policy implementation is foundational to understanding policy diffusion in China. In view of that, this chapter plans to explore patterns of local responses to central government-imposed governance demands, resulting in selective or innovative interpretations of both the letter and spirit of Beijing’s enterprise reforms. Diffusion in this context requires a high degree of standardization of corporate governance in formerly state-owned enterprises (SOEs) that have undergone shareholding conversion, as well as a clear delineation of local state and business authority and exchange relations that reduce the entangled interests of these two actors in the past.

Theoretically, three types of patterns of policy diffusion are possible: First, the top-down emulation of central initiatives by local governments; and second, a bottom-up approach, where the State Council propagates nation-wide a policy originating in local communities. The third option is horizontal policy diffusion, where policy transfer takes place within a specific province or region, or diffusion between governments at the same level but in different regions (Hurst 2004). In reality, every reform involves a combination of all three diffusion dynamics and counterdynamics. We provide two illustrative case studies from the Henan Province to set out the determinants of local states’ behaviors in policy diffusion. The first case involves a township government extracting excessive side-payments in return for not obstructing ownership transformation of the dominant, centrally owned enterprise in the locality. Having been greatly reduced in its influence in the Zhongyuan Oilfield (中原油田) by a corporatization process engineered from Beijing, the Puyang municipal government (濮阳市人民政府) increased tax



and nontax extraction as means of adjusting local government–business relations to its advantage. The second case examines provincial and municipal officials going beyond defensible positions to facilitate an insider privatization of a major transport equipment manufacturer which most likely lines the private pockets of rent-seeking managers. Specifically, Henan (河南) provincial and Zhengzhou city (郑州市) officials sponsored a creative legal process to circumvent a Ministry of Finance (MoF) prohibition on the management buyout (*guanliceng shougou*, 管理层收购, MBO) of Yutong Bus (*Yutong keche*, 宇通客车).

In Zhongyuan, Beijing's recentralization of property rights encountered strong resistance from local governments who extract concessions through leveraging their regulatory authorities. In Zhengzhou, a prominent case of horizontal policy diffusion initiated by local governments and local SOEs met with disapproval from the central stock market regulators, necessitating a new approach to circumvent the central directives. In both cases, Beijing and local governments resorted to increasingly coercive means to deny the other's claims over SOE resources, ending up pulling the target enterprise in different directions and thus diverting capital from productive uses or even redistribution to the broader local constituency. In both cases, diffusion failed significantly both from central and local governmental viewpoints, resulting in suboptimal outcomes for the major stakeholders.

### Local governments and corporate restructuring

Research on the role of the state in economic development typically revolves around the question of “what kind,” not “how much” (Evans 1995: 10). Public and policy debates often take on a dichotomous characterization. On the one side are those who argue for a developmental image, stressing that the local governments of China play a constructive role in promoting economic growth (Oi 1999; Segal and Thun 2001; Zweig 1994). On the other side is the image of the predatory local state that extracts economic rent from local capital and preys on its own constituents (Lü 2000; Pei 2006). Clearly, the dichotomous images of the developmental and predatory state are inadequate for capturing the crucial dynamics of give-and-take between central and local government as they struggle to divide up and assert proprietary rights over resources in the state sector (Shue 1988). Confronting an administrative space of fragmented lines of monitoring, supervision and accountability, vague policy guidelines, and an inherent balancing act in setting developmental and social stability priorities, local officials have parlayed their microeconomic directives in the past into leverages in the course of policy implementation and regulatory enforcement (Burns 2000; Cheung 2009; Chung 2000; Tian and Tian 2009). While achieving nominal compliance to central mandates, local governments may seek to obtain from the enterprises informal arrangements to protect their fiscal standing and local business interests, or they may collude with the enterprises in formulating a legitimate counteraction to the central regulators' pressures.

We are mindful that there exists a broad range of possible strategic interactions among the central government, local states, and SOEs (Hannan 1998; Jefferson



and Rawski 2002; Jefferson and Singh 1999; Jefferson and Su 2007; Steinfeld 1998). We argue that since the 1990s these interactions have taken on a zero-sum game dynamic as SOEs became defunct as a site of interest mediation and were streamlined into an organizational vehicle for channeling capital to proprietary stakeholders. Until the mid-1990s, it may be generalized that SOEs offered unique benefits to local officials in the forms of economic rent, bribery, and a safety net for local development, thanks to the managerial responsibility system (MRS) and the interfirm networks that established resource exchange to meet various official demands for extra-production, discretionary capital (Lin 2011; Solinger 1998), while the “soft-budge constraint” (Kornai 1992) of SOEs had underpinned local government autonomy in setting developmental priorities and counteracting Beijing’s demands for policy implementation. However, former premier Zhu Rongji’s campaign of privatization of SOEs and market consolidation of pillar industries in the late 1990s effectively ended the MRS as a universal incentive structure tied to limited enterprise autonomy from central planning and severely disrupted the local interfirm and government–business networks (Lin 2006, 2011). Consequently, intergovernmental bargaining dynamics have undergone a wholesale change.

Specifically, by the end of the decade, the power struggle over SOE reform had ended rather badly for local officials. In the early 1990s, they had controlled the reform policy agenda and implementation process as the chief beneficiaries, along with the SOE managers, of a decentralized approach to restructuring that allowed localities to take advantage of “recombinant property forms” (Stark 1996) and lax availability of bank loans (Lardy 1998), but they faced radically different constraints in the late 1990s. By the time of the Asian financial crisis of 1997–1998, both local governments’ deficits and the scale of SOEs’ indebtedness had reached crisis levels. Premier Zhu’s *sannian tuokun* (三年脱困) or “Three Years out of Trouble” campaign pushed most SOEs toward outright privatization and prepared select SOEs in strategic industries for restructuring and public listing. The improved state exercise of property rights has paid dividends in the past decade as monopolistic SOEs have reaped the benefits of a consolidated market and enhanced clout in political and regulatory realms (Guest and Sutherland 2010; Nolan 2001; Ning and Sutherland 2010).

Zhu’s enterprise reforms denigrated the local state’s role as the key broker of SOE capitalization. Centralized corporate governance entailed centralized lending, accounting, and subsidization practices. This shift in relative power was deliberate on the part of the central planners, who aimed to reverse two decades of the erosion of their control over state assets due to decentralization and marketization. The recentralization of property rights followed on from and was supported by concurrent fiscal and administrative reforms. Meanwhile, since the 1994 tax reform, local governments have shouldered the lion’s share of major public goods provision within their jurisdictions without gaining substantial revenue autonomy (Shen *et al.* 2012). To achieve the output growth targets, local officials face escalating pressures to extract and hoard financial resources to help build up their performance (政绩, *zhengji*) (Cheng *et al.* 2012: 136; Zhou 2005, 2007).

Nevertheless, local governments often situated themselves in a more advantageous position in maneuvering the bargaining game for reform *vis-à-vis* Beijing and the SOEs. As reform drove up the failure rate of SOEs and the number of unemployed and temporary workers, the welfare functions of the local government gained importance. The mandatory transfer of nonproduction units such as hospitals and schools to local government became bargaining chips for officials to extract compensation from the SOEs (Lin 2006). New regulatory issues such as environment, and health and safety also played into local officials' hands in terms of selective enforcement based on a mutual understanding.

A great deal of scholarship has documented local statist pressures on SOEs to sustain the existing workforce and workplace-centered welfare regimes (Gold *et al.* 2009; Kuruvilla *et al.* 2011). Much less has been written about the local political pressures on managers' choice of a particular pathway or vehicle for enterprise restructuring. While Beijing seeks to defend the value of state-owned assets by imposing a standard template for shareholding conversion and centrally monitored procedures for public listing, local states pursue their own conception of value-added reform by introducing a coalition of managers and outside board members amenable to insider privatization.

### **Holding central enterprises hostage: Puyang municipal government's demand on the Zhongyuan Oilfield**

In the fall of 1998, the then Chinese premier Zhu Rongji directed the Chinese oil and petrochemical sectors to reconsolidate all assets and operations under three integrated and territorially protected national oil corporations (NOCs) in which the state held the controlling shares (Lin 2006). The restructuring of the NOCs for public listing could have become a highly contentious process, given the organizational complexity and the large numbers of work units and employees concerned. Thus, Beijing insisted on corporate reform taking place at a lightening pace that would shock the local managers and officials into immediate compliance (*Jingji Ribao* 1998).

Nearly all state-owned oilfields, refineries, and petrochemical plants were incorporated into one of two onshore NOCs: Sinopec (中石化, *Zhongshihua*) and China National Petroleum Corporation (CNPC) (中石油, *Zhongshiyu*); henceforth, the NOCs' corporate headquarters in Beijing managed these subsidiaries under a highly centralized multidivisional form of corporate governance (Lin 2008b). At the microeconomic level, Beijing imposed strict financial controls that aimed to generate profitability for the core subsidiaries by concentrating the most valuable assets and creating a relatively lean workforce. The bulk of the unprofitable assets and workforce were lumped together under the noncore companies. As independent legal persons, the core subsidiaries obtain technical and production services from the noncore companies through contracts at variable rates of payment for a fixed amount of work, thus ensuring the financial success of the former.

The most significant nonparticipant in the new contractual relations redefining the corporatized SOEs was the local government. It no longer had a formal,

regular, or socio-politically legitimate role in the production and investment decisions of the firm. Under the tight financial rein of the corporate headquarters, Sinopec and CNPC oilfields and refineries reduced their bartering and supply relations with local firms and borrowing from local banks, hence drastically reducing the intermediating role of local officials (Lin 2011). In annexing Zhongyuan Oilfield into its new vertically integrated structure, Sinopec emphatically discarded previous downstream, distribution, and marketing relations that had been assiduously cultivated by Zhongyuan managers to expand the oilfield's extra-plan businesses. Instead, new regional networks established by the corporate headquarters in Beijing took over these functions, in the process eradicating earlier diffusion of innovative practices under the Dengist-era of managerial autonomy.

Since 2000, the local state was expected to shoulder the responsibility of providing employment opportunities for an increasing number of laid-off workers, to which the restructuring SOEs contributed a sizable pool (Chow 2000; Chow and Xu 2001; Wong and Flynn 2001). This deliberate abdication from welfare and public goods provision by large, centrally controlled firms has prompted local officials to leverage their fiscal and regulatory authority in exacting additional side-payments in return for cooperating with the restructuring of SOEs. In doing so, local governments wield authority over land use and real estate, key personnel appointments of managers and party secretaries, local taxation, personnel files and residential permits, and select targets on aggregate industrial profit, environmental protection, layoff quotas, and labor regulations.

In effect, the local officials offer cooperation at a high and undefined cost to the managers. The logic tacitly accepted by Beijing is that local transition mechanisms are needed to extricate the SOEs from their historical function of supporting various productive and bureaucratic resource needs; otherwise certain mass discontent and moral economic disruption would ensue. Facing the decline of the main industry in the locality and a lack of viable alternatives for tax-base diversification, local governments reacted out of an impending sense of fiscal crisis and a sense of their underdeveloped welfare functions. Two frequent outcomes were the continuation of enterprise provisions contrary to the restructuring guidelines and local government's *ad hoc* requests for tax and nontax payments (Lin 2008a). Zhongyuan Oilfield, the second largest oilfield by output in the restructured Sinopec Group, was unable to meet the reform directive to divest noncore businesses, due to compromises with the Puyang municipal government. For example, in transferring education and healthcare operations to the local government, the Zhongyuan Oilfield should have been able to reduce its workforce by 4,800 and 2,200 workers, respectively. As part of the restructuring agenda and general administrative reform in the late 1990s, Beijing had been calling for the transfer of these functions from the work unit to the local government. However, the local government insisted that it would have to charge 100 million CNY in subsidies from the oilfield for taking over these units, a substantially larger sum than the around 90 million CNY per year that Zhongyuan had been spending in the early 2000s to run these units. Meanwhile, Beijing corporate executives were reticent to directly negotiate the prices for these nonproduction functions. Facing

proximate sociopolitical pressures and weak support from Beijing in the bilateral negotiation with local officials, Zhongyuan hesitated to force Puyang municipal government to accept these assets (Lin interview).

This haggling over the financial implications of reform was also evident in the postrestructuring arrangements for local–enterprise tax relations. In the early 2000s, the Zhongyuan Oilfield contributed between 700 million and 800 million CNY in tax per year, or about 95 percent of the locality’s total income from taxation (Lin interview). Additionally, it provided subsidies to the Puyang municipal government for pension funds and financing for education and medical facilities. Somewhat surprisingly, taxation on the oilfield escalated after the 1998–2000 restructuring. Puyang continued to charge turnover tax based on the quantity of oil processed, while introducing new taxes on the service contracts between the core company and the noncore companies. Ironically, the conversion of previously internal transactions into legal contracts facilitated documentation, monitoring, and auditing, and therefore taxation by the local officials. In fact, this was not the first time that Puyang had creatively taxed intrafirm transactions. In the mid-1990s, when Zhongyuan experimented with “internal marketization” through a system of competitive contracts between pseudo-legal entities within the petroleum administrative bureau, the local government sought to impose a tax bill of some 50 million CNY on these new transactions. At the time, the enterprise managers negotiated a reduction in the official demand with blanket promises of added local political economic contributions once the gains from the reforms were forthcoming. The shared expectation of dividing the spoils of enterprise prosperity was not in evidence in the early 2000s, however, prompting local officials to take a predatory stance toward managers.

The Puyang municipal government also played hardball with Zhongyuan Oilfield in increased nontax and irregular extractions. Understandably fearing that the Beijing corporate headquarters would be inclined to end the common practice of allowing local firms to access SOEs’ energy supply, Puyang blackmailed Zhongyuan into selling natural gas to local enterprises at ridiculously below-cost prices. While the unit cost of natural gas was about 0.50 CNY and was sold internally within the Sinopec group for around 1.40 to 1.60 CNY per unit, Puyang obtained the supply of gas from Zhongyuan for over 100 local enterprises at just 0.40 CNY per unit. To obtain this deal, the municipal government threatened retaliation for price increases by sending teams to investigate the enterprise’s “violations” of workplace safety and environmental protection standards. Being rational economic actors, SOE managers eventually figured that it was more economical to provide gas at subcost than to endure constant harassment and uncertain cost proliferation from levies and penalties. Many of these local enterprises were town and village enterprises that sought to boost their profitability through input subsidies, which in turn lined the pockets of local officials (Lin interview).

Land use frequently becomes a prime area of regulatory intervention and bargaining between localities and restructured enterprises. In the case examined, Zhongyuan had intended to build a commerce and trade centre on a site formerly designated for the Geology Museum, which was never constructed due to its

obvious lack of commercial value. The local government seized this chance to threaten the oilfield with a penalty fine of 50 million CNY for violating the zoning code. A heated haggling process ensued, out of which the penalty was reduced to 15 million CNY and then waived by the local officials on the condition that Zhongyuan build a luxury hotel on behalf of the local government as the property owner. In addition, Zhongyuan would manage the hotel and bear the entire operational cost for the first 10 years, during which time local officials would enjoy the use of the hotel for free. At the end of the first 10 years, the hotel would revert to local government management. Predictably, the hotel was sited in a secluded part of the town and incurred an operational loss of 500,000 CNY per year in the early 2000s. To prevent the enterprise from defecting from the bargaining game, the local government stipulated that if Zhongyuan were to abandon management of the hotel, it would have to pay one million CNY per year as a penalty, until the 10-year period had ended. Rationally, Zhongyuan continued the operation of the hotel to the detriment of its commercial and reform objectives.

For an important oilfield asset such as Zhongyuan, the central government imposed a specific corporate form to gain control over and extract surplus from the productive assets. While the Puyang government was excluded from the policy-formulation process and subsequently shut out in corporate decisions, it took advantage of the continued “embeddedness” of the restructured firms in the local market and regulatory contexts to exact resources to stabilize the political economy of local state patronage.

### **Getting around Beijing’s prohibition: Zhengzhou government’s support of the management buyout of Yutong Bus**

The second case study, which pertains to the MBO, a form of acquisition where a company’s existing managers acquire a large part or all of the company, of an SOE, aims to show how local governments, under the strong lobbying activities of a coalition of state-appointed managers, connived to circumvent central government policies and regulations. The local governments in this case refer to Henan provincial government (河南省政府, *Henan sheng zhengfu*) and Zhengzhou municipal government (郑州市政府, *Zhengzhou shi zhengfu*), and the SOE concerned is Zhengzhou Yutong Group Co., Ltd. (郑州宇通集团公司, *Zhengzhou Yutong Jituan Gongsi*, hereinafter referred to as Yutong Group) and its listed part Zhengzhou Yutong Bus Co., Ltd. (Yutong Bus, 郑州宇通客车股份有限公司, *Zhengzhou Yutong Keche Gufen Youxian Gongsi*).

As a local SOE in Zhengzhou city, Henan Province, the Yutong Group is one of China’s top 500 enterprises. Yutong Bus, with a daily capacity of over 170 finished buses, has become China’s largest bus manufacturer with an annual sales volume ranked second worldwide to that of Mercedes-Benz. In 1993, Yutong Bus was corporatized, and in 1997 it launched its initial public offering on the Shanghai Stock Exchange, becoming the first listed company in China’s bus manufacturing sector. Its largest shareholder became the Yutong Group after the Henan provincial government approved a share transfer from the Zhengzhou

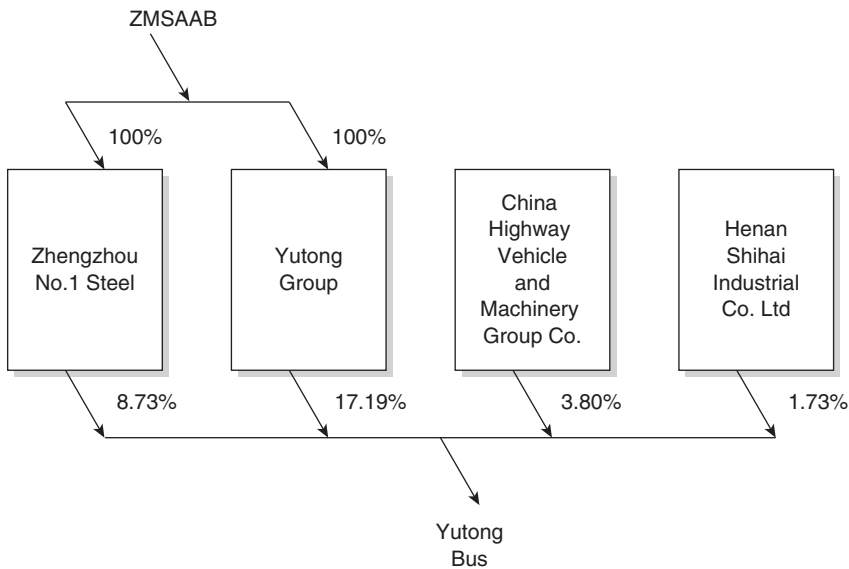


Figure 4.1 Equity structure prior to Yutong Bus's MBO (as of 31 December 2001)

Source: Cited from Zhu *et al.* (2006: 115–29).

Municipal State-Owned Asset Administration Bureau (郑州市国有资产管理局, *Zhengzhoushi Guoyou Zichan Guanliju*, ZMSAAB) in September 1999. Before the launch of Yutong Bus's MBO in 2001, the Yutong Group held 17.19 percent of company equities, as shown in Figure 4.1.

The Yutong Group expanded and diversified rapidly in various vehicle manufacturing and engineering services. Concurrently, its financial and managerial core gained cohesion and concentration. March 2001 saw the establishment of Shanghai Yutong Venture & Investment Co. (上海宇通风险投资公司, *Shanghai Yutong Fengxian Touzi Gongsi*, Shanghai Yutong), in which Tang Yuxiang, the CEO of Yutong Bus, joined the 20 other members of the Yutong Bus management to hold 73.26 percent of Shanghai Yutong's shares.

Starting from the late 1990s, policymakers in Beijing had intended to improve operation efficiency by virtue of MBO in the process of SOE reform. Until 2002 the MoF promulgated a relevant regulation, requiring the ministry's approval before a listed SOE changes the nature of state-owned ownership. For local governments, while an MBO could improve corporate governance of local firms, they could earn an enormous sum of financial revenues from the sales. Moreover, the management of local state-owned listed companies often has close ties with local government, and virtually in the early years it was local government officials who would fill the managerial posts. Hence, local governments had strong incentives to endorse the MBOs over local SOEs. Under the buttress of their local



governments, more than 20 local state-owned listed companies resorted to MBO in the early 2000s (Xie 2004).

It was against such a background that Yutong Bus intended to make policy diffusion. Between March and October 2001, Yutong Bus submitted its application for an MBO to the MoF (财政部, *Caizhengbu*, MoF). The ministry deferred approval of this application despite intense lobbying by the Henan provincial and Zhengzhou municipal governments. By the end of 2001, it had become clear that the ministry was anticipating a general shift of policy direction on MBOs, as central policymakers in Beijing expressed grave concerns for emerging evidence that MBO did not lead to significant improvement in operational efficiency and profitability in the majority of MBO cases. In the typical scenario, the management took advantage of such opportunities to rake in enormous profits for themselves as the new shareholders. In essence, the state was rapidly losing value on its assets as MBOs turned into a massive asset-stripping bonanza.

Progressively from 2002 to 2005, central regulators issued further prohibitions on managers taking on shareholder positions. In October 2002, the MoF publicized a notice stipulating that any change of state-owned equities of a listed company must be sanctioned first by the MoF before the company's board would be allowed to apply for a revision of registration at the securities registration and settlement companies. After the State-owned Assets Supervision and Administration Commission of the State Council (国有资产监督与管理委员会, *Guoyou Zichan Jiandu yu Guanli Wei yuanhui*, SASAC) was established in 2003, the above regulatory functions were transferred from the MoF to the SASAC. As the nominal owner of state assets, the SASAC has direct responsibility for preserving the value of these assets. In 2003, SASAC issued statements prohibiting the management of a company targeted for MBO from intervening in matters directly affecting the transfer of state-owned property rights, such as audits, asset evaluation, base price determination, and so on. In the process of fundraising, the management is prohibited from borrowing money from state-owned and state-holding enterprises including their own enterprises, or from using these enterprises' state-owned properties or physical assets for the purposes of guarantee, mortgage, collateral, discount, and so on (*Xinhua* 2003).

Sensing an unfavorable wind of change, the management of Yutong Bus decided to proceed with the MBO despite the withholding of approval by the MoF. On 15 June 2001, Shanghai Yutong signed an agreement on transferring the equities of Zhengzhou Yutong Group Co. Ltd. with ZMSAAB, in which the municipal bureau transferred 89.8 percent of the Yutong Group's equities to Shanghai Yutong at a price of 96.87 million CNY, with the remaining 10.2 percent equities being allocated to Henan Construction Investment Management Co. Ltd. All three parties agreed that as soon as they received permission for this equity transfer from the MoF, they would file the change of registration procedures at the Zhengzhou City Industrial and Commercial Bureau (郑州市工商行政管理局, *Zhengzhoushi Gongshang Xingzheng Guanliju*). On 6 August 2001, Shanghai Yutong made its payments to ZMSAAB for the acquired shares. This meant that ZMSAAB had entrusted Shanghai Yutong to manage the

equities of the Yutong Group and allowed it to make profits from the management. To all practical senses and purposes, the Yutong Group was treated as a private enterprise by local government. However, as the MoF continued to refuse to issue its approval of Yutong Bus's MBO application, by the end of 2003, the trilateral deal fell into stagnation.

With the aim of downsizing the asset value of the target of the MBO, the management of Yutong Bus cooked up false bookkeeping accounts and bank statements to show a significant reduction in the company's assets and liabilities (Liu 2003). This was discovered by the China Securities Regulatory Commission (证监会, *Zhengjianhui*, CSRC). In October 2002, the CSRC imposed a penalty on Yutong Bus for falsifying financial statements in 1999. On 3 December 2003, with the prospect for the approval of the MBO dimmed by the investigation, Shanghai Yutong decided to sue the Zhengzhou City Bureau of Finance (which merged the functions of ZMSAAB later) for the latter's failure to complete the equity transfer from ZWSAAB, and to seek a refund of payment for its share of 89.8 percent of the Yutong Group's equities.

A few days later, the Zhengzhou Municipal Court issued a judicial verdict that froze all the Yutong Group equities held by the Zhengzhou City Bureau of Finance and entrusted an auction agency to conduct a public auction of those equities. On 29 December 2003, Shanghai Yutong won 90 percent of the Yutong Group's equities for the price of 148.5 million CNY at the auction held by Zhengzhou Auction Co., with the remaining 10 percent of the equities going to Zhengzhou Yutong Development Co. Ltd. (郑州市宇通发展有限公司, *Zhengzhou Yutong Fazhan Youxian Gongsi*). The very next day saw the Zhengzhou City Industrial and Commercial Bureau complete the paperwork for the registration changes at the People's Court of the Erqi District of Zhengzhou (郑州市二七区人民法院, *Zhengzhoushi Erqiqu Renmin Fayuan*), making official Shanghai Yutong's new ownership of 90 percent of the equities of Yutong Group in Yutong Bus. As a result, the ownership of the Yutong Group was transformed from state to private through legal channels. On 5 January 2004, the Shanghai Branch of the China Stock Registration and Settlement Co. Ltd. changed the nature of 23.5 million shares in Yutong Bus originally held by the Yutong Group from state-owned corporate shares to privately owned ones. The board of Yutong Bus issued a report concerning this acquisition to its shareholders on 15 January 2004, bringing the MBO process to an end.

However, the auction process described above was highly suspicious for a number of reasons: first, the board of directors of the Yutong Group defied CSRC regulations by not conducting the timely disclosure of information about important matters such as the lawsuit launched by Shanghai Yutong against the Yutong Group, the fact that the Yutong Group's equities were frozen by the court, the court's intention to auction off the frozen equities of Yutong Group, and so on. Second, the Zhengzhou City Auction Company (郑州市拍卖总行, *Zhengzhoushi Paimai Zonghang*) announced the public auction in a small local newspaper, the *Henan Daily* (河南日报, *Henan Ribao*), rather than in a large national newspaper designated by the CSRC, such as *China Securities* (中国证券报, *Zhongguo*



*Zhengquan Bao*), the *Securities Times* (证券时报, *Zhengquan Shibao*), or *Shanghai Securities* (上海证券报, *Shanghai Zhengquan Bao*). Third, only two bidders participated in the public auction: Shanghai Yutong and Zhengzhou Yutong Development (see Qing 2004; Zhang 2004a).

It is clear that the primary beneficiary of the MBO was the coalition of managers at Yutong Bus, particularly the CEO Tang Yuxiang, whose rise to CEO position in July 2001 enabled him to concentrate various political and financial powers and to set the stage for the MBO. Under Tang, a group of managers established insider control of Yutong Bus. The board of directors of Yutong Bus was composed of nine people. Aside from three independent directors and Meng Xuanxin, representing the China Highway Vehicle & Machinery Group Co. (中国公路车辆机械总公司, *Zhongguo Gonglu Cheliang Jixie Zonggongsi*), the other five board members were concurrently high-ranking managerial staff in Yutong Bus and major investors in Shanghai Yutong. Furthermore, Tang acted as the CEO and corporate representative in person at Shanghai Yutong. Of the 23 nominal shareholders in Shanghai Yutong, 21 were from the management of Yutong Bus. Tang held a 24.29 percent stake in Shanghai Yutong, which translated into a 3.84 percent holding in Yutong Bus (Li 2006). In the 2 years leading up to the MBO, Tang lifted the salary cap on senior managers and allocated handsome profit-sharing and dividend payouts to them to build up a war-chest for the MBO (Li 2006). In order to raise money for the MBO, Yutong Bus decided to pay cash dividends of 6 CNY for every 10 shares to its shareholders in July 2001 and April 2002, respectively, even though the company's earnings per share in 2001 was only 0.72 CNY. After the two payouts, the management had received a minimum of 28.2 million CNY, accounting for 20 percent of the costs of the subsequent MBO (Jiang 2009). Through these preparatory steps, the Henan and Zhengzhou governments offered their blanket political support to Tang and the company.

Their support is best illustrated by the various honors and awards that Tang continued to receive even after the Shanghai stock regulators' investigation into the falsified accounts at his company in 1999. These included such accolades as being named as one of "Zhengzhou's Top Ten Young Entrepreneurs," as one of "Ten Outstanding Newsworthy Individuals in the Henan Province," as a "Model Worker in the Henan Province," and receiving a First-class Merit Citation from the Zhengzhou municipal government. Tang was also elected as a delegate for the seventh Party Congress in Henan Province, as well as a delegate to the National People's Congress in 2003.

It is evident that the legally contrived MBO could not have been completed without the tacit cooperation of the local governments. The Zhengzhou municipal and Henan provincial governments were counting on Yutong's management to promote local interests. Building on its success in the competitive vehicle manufacturing industry, Yutong Bus was able to spur the growth of local related enterprises, promote local employment, and expand local tax bases. In 2000, the second largest shareholder in Yutong Bus, the Zhengzhou No. 1 Steel Factory (郑州第一钢厂, *Zhengzhou Diyi Gangchang*), was in urgent need of capital to

resolve operational difficulties and subsequently signed an agreement for a share rights transfer with a Beijing-based investment corporation. The Zhengzhou municipal government blocked the deal, and instead initiated the privatization of the state shares in the company (Zhu 2004). The local government was motivated by the prospect of several short-term gains, primarily the conversion of stock to cash and the potential use of the money to compensate laid-off workers from a local textile industry. The sales attracted over 20 domestic securities trading companies, including the Sanjiu Group, all of which wanted to acquire a majority shareholder position. However, the Zhengzhou municipal government was suspicious of these traders' lack of experience in the bus manufacturing industry, as well as their capability and willingness to further invest in Yutong Bus. It figured that only with a bus manufacturer in control would the original firm be retained in Zhengzhou and further expanded so as to generate more job opportunities and broaden the local tax base.

The management and workers of Yutong Bus shared the concerns of their political patrons; hence together they turned to an MBO as a means of securing the company's future and their job security (Hou and Yu 2001: 7). The management team of Yutong Bus had already gained credibility with the local government for turning around the chronically indebted Zhengzhou Bus Factory and making it a successful conglomerate of Yutong Bus. Headed by Tang Yuxiang and Lu Farao (Hou and Yu 2001), Yutong Bus yielded the highest financial returns in China's automobile manufacturing industry in 2003. As shown in Figure 4.2, Yutong's core business income and net profit rose from 430 CNY and 42.6 million CNY in 1997 to 3.25 billion and 128.3 million in 2003, respectively.

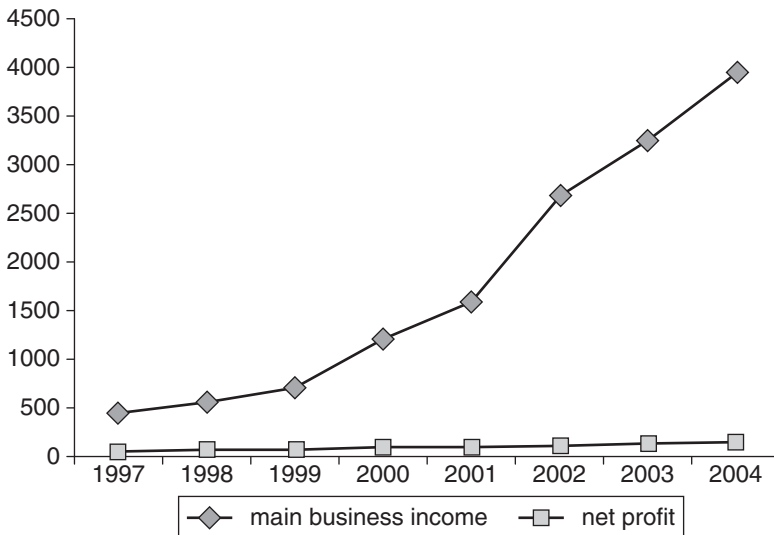


Figure 4.2 The main business income and net profit of Yutong Bus (in million CNY)

Source: Zhengzhou Yutong Bus Co., Ltd., "The Annual Report of Yutong Bus," various years.

In case the MBO had failed, local officials foresaw that the management of Yutong Bus would likely lose the motivation to engineer the firm's expansion and profitability. Moreover, Tang and his company might use their insider control position to capture the interests of the listed company, and possibly shift its core assets and business operations to its affiliated companies under more direct and complete managerial control. In the worst case, the management might relocate Yutong Bus away from Zhengzhou or even Henan Province. Given that vehicle and parts manufacturing is a relatively mobile business with low asset specificity, this would be a credible threat. In fact, the rapid expansion of Shanghai Yutong through its subsidiaries Lanzhou Yutong (兰州宇通) and Chongqing Yutong (重庆宇通) rendered this prospect quite probable.

As a matter of fact, the local governments' abovementioned worries turned out to be well-founded in light of the operational changes made by Yutong Bus after the MBO, with regard to implementing ways to control earnings and raise funds, setting up purchasing centers in various regions, increasing related cross-border transactions within the group, and so on (Zhu *et al.* 2006). Hence, local governments were likely to have been under duress from the management of Yutong Bus to accept their lobbying for an MBO. By engineering a legal pathway around the administrative procedures, they helped Shanghai Yutong to complete the MBO in a manner that pre-empted the adoption of prohibitive regulations from the MoF and the CSRC.

With a novel coping strategy developed by the management and the local government, Yutong Bus successfully transformed its identity into a private firm. The central government had to accept the change of ownership of Yutong Bus; however, it eventually realized that the MBO provided leeway for the embezzlement of state assets. Thus, the SASAC subsequently proclaimed a ban on MBOs in large-sized enterprises and required prudence to be taken in MBOs in small- and medium-sized enterprises (Tianwei Zhang 2004b).

Having perceived the huge gains from an MBO, local government, under the auspice of the management of a local SOE, initiated horizontal policy diffusion, but this attempt was cold-shouldered by the central government. In the face of such a setback, they did not give up; rather, local government and the management of the local SOE invented a novel strategy to circumvent the central ban, finally making the MBO an irreversible reality.

## **Conclusion**

Fundamentally speaking, the four principal types of mechanisms in policy diffusion (competition, international pressure, normative emulation, and learning) are based either on incentive of ideology or on incentive of interests. We are of the belief that China's transition to market economy has altered both types of incentives, particularly the incentive of interests for SOEs and local governments. While providing ample space for policy diffusion, the ongoing transition in China has a great impact on the mechanisms and success or failure of policy diffusion through the change of primary incentives of relevant actors. China's

transition to markets has been associated with two prominent aspects: one is reform of SOEs; the other is institutional changes. In general, the SOE reform, culminated by the strategy of “grasping the big and letting go the small” (*zhua da fang xiao*, 抓大放小), which has configured the fundamental market structure today, aims to enhance market efficiency in two means: one is to transform the large SOEs into more market-oriented entities, and the other is to privatize the small- and medium-sized SOEs. The institutional changes have involved both central power devolution to local governments and fiscal decentralization during 1979–1994 and recentralization after 1994. Through these reforms, local governments have been assigned to superintend economic matters within their jurisdictions, and they have to make more efforts to cover local expanding expenditures for local public goods provision (Jin *et al.* 2005). Combining the above two aspects, both SOEs and local governments have become more gross domestic product (GDP)-oriented, acting more like entrepreneurs to enhance the SOEs’ performance or local GDP growth. While SOEs compete directly with private enterprises in many sectors, local governments have engaged in inter-regional competition as well. The change of primary impetus has profound ramifications on the ways of policy implementation and policy diffusion by firms and local governments.

This study analyzes the politics and patterns of policy diffusion in terms of ways of policy implementation by local governments in China. In the first case, policy diffusion was in the manner of top-down adoption of central initiatives by local authorities, but local government conditionally accepted Beijing’s plan of corporate restructuring by asking for compensation for local officials as the primary losers of the rollback of the earlier decentralized approach to enterprise reform, and adequate fiscal provisions for the additional welfare and regulatory functions they have been asked to take on. The second case presents a regional pattern where policies diffused from other provinces to Henan without direct intercession from Beijing, but the policy diffusion failed because of obstructions from Beijing. Local government, along with the local SOE, then simply ignored Beijing’s directives and engineered a new way of bypassing central laws in order to complete their intended goal of MBO. Both cases show that local governments have strong incentives to pursue their interests, and they will not simply accept policy diffusion imposed from the top.

From the two case studies, it can be found that policy diffusion is very complex and interactive, involving the interplays of many different stakeholders. While inter-region policy diffusion can hardly be pushed forward without central government’s permission, the policies designed by Beijing will not automatically be translated into local actions as well. Decentralization and marketization in China have enabled policy diffusion, but distinct policy preferences and political authority at the local level shape specific patterns of this diffusion. In stark contrast to earlier studies, which tend to either regard the former as a monolithic entity, or assume a categorical characterization of the local state as developmental or predatory, or obedient or resistant to central directives, we

highlight the range of games shaped by each party possessing a unique set of resources that confer context-specific bargaining advantages. Common to both cases is the reality that corporate restructuring is a power game in which each party concerned will try to hold sway over the overhaul. As Robert Bates (1989: 16–17) contends,

When political actors intervene in the economy and seek to restructure economic relations, the policies they choose depend upon the incentives generated by the institutional context within which they are made. Economic forces thus generate institutions and the structure of these institutions in turn shapes the way in which governments transform their economies. Economy and polity thus interact, generating a process of change.

The outcomes of policy diffusion in China are frequently the result of political compromise rather than technocratic evaluation.

Our study also lends credence to Saikawa's findings in her dissertation – “When there is a restricted policymaking with high barrier to entry and a centralized power in policymaking, there is limited policy diffusion” (Saikawa 2010). In both our cases, local governments have been ostracized from policymaking, resulting in partial or failure of policy diffusion.

Our case study has further verified Zhou Xueguang's (2010) findings, which maintained that the prevalent phenomenon of collusion among local governments results from three paradoxes on the institutional logic of the Chinese bureaucracy – uniformity in policymaking and flexibility in implementation, the increasing intensity of incentives in personnel management and goal displacement, and increasing bureaucratic formalization and the personalization of administrative ties. Nonetheless, the diffusion of power among different ministries at the central level contrasts with a unified leadership power at local level, where party secretary is the core, enhancing local government's combat effectiveness and making it easier to forge alliance with central political patrons, government agencies, and SOE executives.

In conceptualizing “adaptive informal institutions,” Kellee S. Tsai (2006) argued that local actors would try to devise novel informal coping strategies to evade the various constraints arising from formal institutions, and diffusion of these informal strategies may force political leaders to reform the original formal institutions. Despite repetitions of these informal coping strategies, the central government did not turn a green light on local governments' unsolicited interventions or MBO practices of Chinese SOEs. Neither has the central state reconsidered incorporating local governmental inputs into enterprise management in an institutionalized, inclusive manner. The lack of resolution to these governance dilemmas has been sidestepped, while the SOEs continue to profit from their leading market and political positions, but our analysis suggests that local governments will need to develop independent resource options to enable their own functional adjustments before they could once more become the facilitator of change as they did in the mid-1980s to early 1990s.

## Note

- 1 Kun-Chin Lin wishes to thank the participants of the Second Annual Workshop of the Asian Network for the Study of Local China (ANSLoC), held at the Singapore Management University in May 2007, for providing feedback on an earlier paper reflecting on local state responses to property rights reform in oilfields and refineries.

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## 5 Grasping the large and releasing the small

### A bottom-up perspective on reform in a county-level enterprise

*William Hurst*

Many scholars have taken note of the waves of privatization that have swept Chinese state-owned enterprises (SOEs) since the 1990s. A general consensus has developed that smaller firms were transitioned away from state ownership and control much earlier on (and more thoroughly and completely) than their larger counterparts. Very few scholars, however, have examined the micro-level dynamics of how small firms were privatized and the continuing relationships they maintained with the state as the process advanced in the key years of the mid-to-late 1990s (notable exceptions include Sargeson and Zhang (1999) and Zeng (2010)). Based on documents obtained by the author from a county in Hubei Province (which I label here as “County J”), this chapter examines the micro-level processes through which a county-level SOE was reformed and largely privatized in the mid-to-late 1990s. What emerges is the individual and collective seizure of profit and advantage by local elites, bending a centrally directed initiative to their benefit in a version of what Joel Hellman famously called “partial reform equilibrium” (Hellman 1998), and suggesting a kind of “trapped” or “warped” top-down diffusion that is likely quite common in contemporary China and beyond.

At the national level, proponents of market reform dominated early in the decade. In the spring of 1992, a recently retired Deng Xiaoping embarked on his “Southern Tour,” touting the benefits of market-oriented reforms that had been pioneered in Guangdong Province several years earlier. That October, delegates convened in Beijing for the 14th National Congress of the Chinese Communist Party. At their first such meeting since the 1989 June Fourth Incident, China’s leaders approved a series of monumental changes to both governance procedures and core elements of economic organization. Among these were the ratification of leadership positions for Jiang Zemin and his associates, the adoption of informal conventions limiting top leaders to two 5-year terms, and a call to establish a “modern enterprise system” (现代企业制度) (Sargeson and Zhang 1999: 80–3).

At the heart of this new economic management system were the objectives of (1) separating politics from day-to-day management of SOEs, (2) improving managerial skills and adopting “scientific” techniques, (3) clarifying property rights and ownership relations, and (4) making firms more accountable (i.e. stemming losses of state-owned capital through illicit asset stripping). Perhaps even more important was the decision to prioritize market allocation throughout the entire

economy, effectively ending the “dual track system” (双轨制) that had governed SOE production and activities throughout the 1980s.

Under this older arrangement, firms still functioned as units of the planned economy. They were given quotas of inputs and production outputs, but they were free to produce and sell goods in the market once meeting these obligations to the state plan. The new socialist market economy removed plan guidance and subsidies, but also allowed firms to break free of the last vestiges of plan strictures. Central to transitioning firms into this new environment, as well as to advancing the other goals of the modern enterprise system, was a restructuring of corporate governance in the state sector.

Most firms were to be reorganized into shareholding companies. Some large SOEs were to form “enterprise groups” (企业集团) capable of competing on the world stage as national champions of Chinese industry (Nolan 1998, 2001). In these and other very large firms and newly forming conglomerates, the state was to retain a majority controlling interest. Smaller firms were to be privatized through one of a variety of mechanisms, ranging from conversion to shareholding corporations to simple liquidation. The general logic of retaining the “commanding heights” while jettisoning the lesser competitors that had been dragging down overall SOE performance has dominated political and economic policy debates in China for the past two decades.

Many observers have noted the Chinese policy of “抓大放小” (grasp the large, release the small), which emerged officially following debate on the shape of the ninth Five Year Plan (1996–2000), and the accompanying fact that by the end of the 1990s the government had divested itself of a majority of state and collective firms. But few have traced the micro-level dynamics of the process on the ground, especially as they developed prior to the 15th Party Congress in 1997. Indeed, some scholars have even argued that the changes began only in the wake of the Party Congress (e.g. Zeng 2010: 257–9). In particular, we do not yet have a clear understanding of just why firms and local governments chose to transition small SOEs to new forms of ownership and governance, how successful these moves were in improving efficiency or firms’ performance more generally, or what the broader political implications of this shift were in counties and townships across China.

Most of the extant literature has tended to focus either on firms that were retained by the state or on township and village enterprises (TVEs or 乡镇企业). Large state firms saw wrenching and difficult change in the late 1990s and early 2000s, and many have come to resemble private firms in their market behavior, labor relations, and general strategies (Gallagher 2005; Hurst 2009). While the reforms certainly took a toll, the processes unfolded dramatically differently in these firms, ranging from the state retaining a controlling interest or outright full ownership well into the first decade of the twenty-first century, to those jettisoned or privatized earlier in China’s transition.

In the TVE sector, a relatively clear picture emerged of nascent property rights being defined in favor of managers or local cadres and to the relative disadvantage of labor and ordinary villagers (Ho *et al.* 2003; most chapters of Oi and Walder

1999). Although these changes unfolded through at least five distinct processes (Walder and Oi 1999: 11–12), their overall dynamic was powerfully shaped by the facts that nearly all TVEs were collective – rather than formally state-owned – enterprises and that the village cadres and officials who most often oversaw their operations occupied positions below the lowest reaches of the formal state hierarchy and officially budgeted salary ranks (Ho *et al.* 2003: 5–6). Very few works examine processes unfolding in SOEs controlled by city or county governments. Anita Chan and Jonathan Unger do address some dynamics of this sort of reform in a city-level state-owned distillery, with a particular eye toward labor politics and industrial relations (Chan and Unger 2009).

The micro-level processes involved in restructuring and reform of a genuine small SOE (under the ownership and control of a county or district government) are likely to be rather different from those observed in collective village enterprises or large urban state firms. Specifically, the personalistic interests and strong local social ties so common among the village cadres and enterprise leaders described by scholars of TVEs are much less likely to exert such a strong influence in a county-level SOE. Also, due to the relatively larger size and greater importance of these firms, few local individuals or actors are likely to be able to acquire them outright, while county governments are likely to care much more deeply about their fate, upon which the health of the local economy and budget depend.

This chapter examines the micro-level process of transitioning one county-level SOE, in the Upper Changjiang region, from state ownership into a shareholding limited liability company. My analysis is based mainly on a series of county government and enterprise documents from 1996 and 1997 (the crucial years of transition), which I obtained during field research in 2000. I find a case of what could be called “trapped” or “warped” top-down diffusion, in which powerful local interests have bent central initiatives to their own particularistic advantage (without securing any tangible benefits for the local economy or society). This suggests a perhaps new pattern of semi-coercive diffusion from above, that is not so much resisted but exploited by local elites who serve their individual interests rather than those of local firms or social constituencies (or even local political and social stability).

## **County J and the case of the County J Machine Tool Plant**

County J is a mostly agrarian county of just over 600,000 inhabitants and lies within the jurisdiction of a sprawling, mostly rural, prefecture-level “city” (地级市) of just under 3,000,000 in a mountainous area of Hubei in a region I have characterized as the Upper Changjiang (for a definition of this region and description of its political economy, see Hurst 2009: 19). In addition to agriculture, there are more than 100 enterprises of various sorts in the county, of which the County J Machine Tool Plant was among the largest and most important in 1996. The Machine Tool Plant was also one of only a handful of county-level SOEs in County J.

In 1996, enterprise managers and local officials decided to transform the County J Machine Tool Plant into a shareholding company, with several spin-off

companies. Over the ensuing 18 months, drastic changes wracked the enterprise, from which it emerged as a new company, but not in exactly the form envisioned by local or higher-level leaders, as company managers negotiated a process that benefited their individual interests at the expense of workers' and the firm's (or at least many of its constituent parts). Rather than separating the plant from political control and disentangling the state from day-to-day operations, the reforms actually enmeshed the new company even more deeply in the local government's embrace and did little to clarify property rights and ownership relations.

The County J Machine Tool Plant was established in 1956 as part of the First Five Year Plan. By the reform era, it employed more than 900 workers producing an array of automotive parts and components, as well as industrial and construction equipment and some low-end electronics. During the 1990s, it also turned from being a profitable enterprise into a loss-making firm. By 1996, the losses were becoming substantial.

The Upper Changjiang region was at the forefront of privatization efforts in the mid-1990s, with the pace of change in its key provinces exceeding that of all other provinces except Hebei and Shandong between 1991 and 1996 (Han and Pannell 1999: 285). This was despite the region lagging well behind Guangdong and other key early movers in the overall extent of reform throughout the 1980s and most of the 1990s (Han and Pannell 1999). Although Han and Pannell were primarily concerned with urban firms and workers, not the fate of rural enterprises like the County J Machine Tool Plant, the general trends still show that this particular region was an early innovator when it came to implementing calls to restructure many of its SOEs (in a pattern somewhat akin to what Kennedy and Chan describe in their chapter on electoral reform).

Within the Upper Changjiang, County J is a relatively typical county, with its mostly rural population, relatively high population density (roughly 180/km<sup>2</sup>), and presence of rural industry, as well as its large and thriving county town. The County J Machine Tool Plant also appears relatively typical of county-level SOEs during this period and in this region. Thus, it is a good case study for better understanding the micro-level dynamics involved in this crucial area of SOE reform. The basic reform carried out in the County J Machine Tool Plant is also in line with the pattern outlined elsewhere in the case of TVEs transitioning into shareholding companies (Lin and Chen 1999). It is to this process that I now turn.

### **The process of reform in the County J Machine Tool Plant**

The County J Machine Tool Plant's process of reform at this critical juncture can be examined over a relatively brief span between 1996 and 1997 using the series of documents I obtained. There are four key stages. First, following the promulgation of the Ninth Five Year Plan, the County Party Committee directly ordered the plant to undertake reforms to transform itself into a shareholding cooperative and restructure its governance and finances in additional specific ways. Second, plans were drawn up to issue shares to workers, cadres, and managers; reconstitute the leadership structure of the firm; spin off subsidiary companies; and undertake to

repay significant outstanding debts. Third, the process was initiated by firm managers with decidedly mixed results and complex reactions from county authorities (including the audit bureau, the state assets management bureau, and others). Fourth and finally, it became clear that significant further assistance and subsidies would be needed to sustain the reconstituted firm and promote its development. In sum, the county aggressively took up the call to implement privatization reforms, the implementation was imperfect and accrued to the advantage of local officials and enterprise managers, and the end result was less beneficial for the finances of the local state than it was for the economic position of political elites in place since the planned economy. Select managers and local officials bent central policy initiatives and directives on the reform of small and medium state-owned firms to serve their individual economic and political interests, even at the expense of the firm's health and local economic vitality.

### ***Reform commandments: Summer 1996***

In a locally monumental speech on August 31, 1996 (Wu 1996), Comrade Wu XX, Secretary of the County J Communist Party Committee, laid out an ambitious program for reform, based on decisions taken at an economic work conference of the County J Party Committee held August 10–13. In his statement, he made clear that the reform process is both commanded from the center and due to what he perceived as local economic necessity, arguing that “without reform, our county’s entire economy would face a severe crisis. Regarding this, we must increase our sense of crisis and urgency” (Wu 1996).

The Party Center and Provincial Party Committee had already given clear guidance on exactly how the county should reform. Wu pointed out that the 14th Party Congress report stated clearly and directly that “some small SOEs can be leased or sold to collectivities or individuals to manage.” Since the previous August, he observed that General Secretary Jiang Zemin had stressed the need to deepen SOE reforms no fewer than four times. Secretary Wu also noted Zhu Rongji’s emphasis in May 1996 that SOE reform was a top priority, specifically regarding the issues facing small enterprises.

Once the center had signaled its approval of local experimentation, beginning with the 14th Party Congress and reinforced by Jiang’s and Zhu’s statements, the provincial government had issued an explicit demand to cities and counties at a work conference on SOE reform held in June 1996: there should be “great changes of direction” in 1996, “great breakthroughs” in 1997, and “great successes” in 1998. According to Wu, the Provincial Party Committee had also called upon each locality to put a priority on three goals: “stop hemorrhaging state capital, manage according to the law, and basically pacify workers.” To achieve these three goals, officials and cadres were authorized to adopt any methods necessary, opening scope for local variation (and rent-seeking) under the broad auspices of a still centrally championed and directed initiative.

Comrade Wu then spent some time on a detailed example of a city in Shandong that had successfully begun implementing a shareholding system earlier during the

1990s. This example, he said, provided not just hope but competition, as success elsewhere had rendered this type of reform “an irresistible trend.” Specifically, he maintained,

We have many difficulties, but we can't just wait for the government to come and solve our enterprises' problems. Nor can we stand still in front of the crashing wave of the market economy. It is just as the Provincial Party Secretary said, we have to loudly sing the *Internationale*, “There are no immortal emperors in the world, we must depend on ourselves” [apparently paraphrased from part of the second verse, often translated in English versions as “No faith have we in prince or peer, our own right hand the chains must shiver”] – there are now only two roads, not reforming is waiting for death, only by undertaking reform can we carve out a living road. Thus, in issues of SOE reform, we absolutely must swim with the tide, accept challenges, liberate our thinking, break out of our fetters, struggle forward each step, and fight to take the initiative.

(Wu 1996)

Urgent reform efforts of this sort could achieve progress on four fronts, he maintained. First, they could help address the concentration of the county's few profitable firms in a small number of sectors and geographic areas (which, he said, had rendered previous successes an “empty shell”). Second, they could have some effect at stemming the loss of state assets through illicit stripping or other pilfering. This problem had become so bad, Wu maintained, that it resembled “an ice-lolly exposed to high temperatures slowly melting away unnoticed” (高温下的冰棍悄悄融化). Third, reforms could help improve returns to capital and overall productivity. Fourth, and finally, county finances and workers' incomes could be improved. County J possessed only “eating finances” (吃饭财政), he maintained, but reforms could bring money for upgrading and longer-term construction projects. The most critical step for progress in all these areas, according to Wu, was separating enterprises from the state (政企分开).

The prescribed reform for the county's SOEs was to transition them to a shareholding system and shareholding cooperatives. Failure to act, Wu argued, would stymie enterprise development and difficulties would intensify. This reform, however, can only succeed if it is genuine and complete, emphasizing the clarification of property rights, making rights and responsibilities transparent, and separating the state and the enterprise. As Wu puts it, “true reform, true change; false reform, no change.”

To get the process started, Wu announced that, since the Provincial Chinese Communist Party (CCP) Committee had called on County J, “to experiment with reforms this year, push them ahead opening next year, and complete the whole SOE reform process the year after,” 14 county SOEs and 9 TVEs had been selected as pilot cases for reforms. These pilot cases would provide experience and guidance for other firms in the county, but they would also take key steps toward righting the county's finances in the nearer term. The County J Machine Tool Plant was designated by the province as one of the 14 county SOEs to serve



as pilot cases, giving it more room to shape higher-level policies to local realities as well as political cover to pursue the mandated reforms further than local leaders might have felt comfortable doing otherwise, affording them additional political space in which to maneuver locally.

### ***Concrete plans for enterprise restructuring at the County***

#### ***J Machine Tool Plant***

By December 1996, the Machine Tool Plant's managers had developed concrete plans for reform. Specifically, they hoped to sell shares under a simple formula to workers, managers, and enterprise cadres; reorganize its leadership structure into one controlled by a board of directors and eliminate many layers of management; lay off a significant percentage of its workforce (mainly through "internal retirement"); and put together enough capital to repay outstanding bank loans. Enterprise management laid out their objectives for financial restructuring in a simple document (Enterprise Basic Management Situation 1996) that was circulated internally within the plant and to various County J officials. Table 5.1 outlines their basic objectives for reform.

In addition, the same document specified that just over 29 million Yuan in liabilities (2.27 million in severance payments, 4.8 million in housing and facilities, and over 21.3 million in land used for the factory and enterprise facilities that could be sold or put to more lucrative use) had been covered through bank loans. A total of 8.38 million RMB of these had come from the Industrial and Commercial Bank of China, over 20 million from the Bank of China, 620,000

*Table 5.1* Basic indicators of firm performance (as described in the Enterprise Basic Management Situation Document)

<i>Indicator</i>	<i>Before reforms</i>	<i>After reforms</i>
Total personnel	748	597
Employed 678 (including 67 internal retirees and 7 "others")	Of these, on-post: 604	555
Of these managers	250	100
Structures (机构)	16 sections	Not yet specified
Valid assets	55,098,000 RMB	31,926,000
Depreciation	720,000 RMB	566,000
Labor productivity rate	51,825 RMB/person	67,538 RMB/person
Tax rate on capital	-22.9%	32.4%
Administrative costs	1,500,000 RMB	800,000 RMB
Financial costs	7,200,000 RMB	950,000
Marginal costs	1205 RMB	900 RMB
Marginal profits	-165 RMB	220 RMB
Gross profits	-3,960,000 RMB	7,920,000
Average income per capita	350 RMB/Month	500 RMB/Month



from the Agricultural Bank of China, and 33,000 from the local Finance Bureau, all of which the firm desperately needed to repay. The enterprise proposed to repay the loans over 5 years based on diversion of taxes on the restructured company's profits and revenue generated from the sale of stock shares sold.

The reform plans made clear that labor relations and lay-offs had become a serious issue. Already, by the end of 1996, the firm was supporting a large percentage of its nominal workers as retirees or informally laid-off workers (Enterprise Basic Management Situation 1996). More than 135 personnel had been bought out (买断) and moved to various categories of retirement or "internal retirement," costing the enterprise 2,273,000 RMB (about 16,875 RMB per worker).

Finally, the firm leaders also filed a formal application (Reorganization Application Book 1996) in 1996 to the County J System Reform Commission (体改委) and State Assets Management Bureau for permission to reorganize and incorporate as the "Goldstar Machine Tool Limited Liability Company"<sup>1</sup> (hereafter "Goldstar"). At the core of the reorganization plan was the sale of shares, valued at RMB 1000 each, to workers, managers, and cadres within the firm (there was to be no public offering of shares).

By January 1997, the enterprise leadership had much more detailed plans and issued a circular on exactly how reform was to be implemented (Document 1 1997). This document outlined a series of concrete rules and procedures for the transition to a shareholding company. Specifically, a small staff would take over exclusive administration of "non-productive" assets of the firm, as well as coordination of relationships with other companies. The old factory Party committee would oversee all welfare aspects of the new Goldstar, including care for laid-off workers and care for all workers' "political lives." Only auto parts production lines would be absorbed by the new Goldstar. Other production lines (e.g. of batteries) would be spun off as independent shareholding companies. Overall, enterprise assets should be distributed among the new companies in accordance with practical needs. The old enterprise is still responsible for paying off liabilities in accordance with Document 5 (1996) of the County J System Reform Commission.

New corporate leadership for Goldstar would be selected democratically, in accordance with the law on corporations – likely by shareholder vote. In each of the new companies, workers' congresses should play a role in deciding how to deal with internal retirements and lay-offs, while the distribution of the workforce should be responsive to market demands. Obligations to employees (and to retirees and laid-off workers) would be divided among the new companies.

Several specific points on the transition to a shareholding company were also elaborated with respect to workers' welfare. First, the transition to the new company would be split into two phases. In the first phase, every employee (manager, cadre, worker, etc.) would be obliged to purchase two shares for 2,000 RMB. In the second phase, to take place after the first shareholders' meeting and the official establishment of the new Goldstar, each category of employee would be further obligated to purchase additional shares, at a price of 1,000 RMB per share (2–3 shares per worker, at least 5 shares per mid-level cadre, 8–10 shares per member of the board of directors, 15 shares each for the general manager and

chairman of the board). Of course, any employee could also purchase shares in excess of these minimum quotas. Those who could not afford to make the required purchases would be allowed to take loans from the company twice to do so.

Some special provisions were also put in place. For example, temporary workers hired from outside the plant would need to pay a fee of 2,000 RMB and also commit to purchasing three shares (for an additional 3,000 RMB). Also, sons and daughters of plant workers, should they take up employment in the new Goldstar, would be required to commit to purchasing three shares for 3,000 RMB. Finally, the document leaves open the possibility of filling specific slots with temporary workers, presumably in roles for which existing workers either lacked necessary skills or which they did not wish to take up, according to procedures to be decided on a case-by-case basis.

In terms of the firm's bottom line, the core of the plan was to sell 1,500 shares at 1,000 RMB each to workers and managers on a compulsory basis, and then use these funds to increase capital, while diverting money that would otherwise go toward payment of taxes to repaying outstanding loans and providing welfare benefits for workers laid off before or during the transition. The logic of these moves was further explained in a circular to enterprise workers describing their obligations to purchase the new shares (Explanation Book 1997), with quantitative justification as summarized in Table 5.2.

Reforms, especially stock sales, were hoped to improve the new Goldstar's profitability dramatically, as explained in Table 5.3. Specifically, firm managers proclaimed,

We have a plan to use capital gained from stock sales to build up the company's assets, acquire new technology and broaden the scale of production, and to quicken the development of tertiary industry. By these means, we hope to improve our financial picture along the following lines [as laid out in Table 5.3].

With all of these changes, Goldstar took on increasing obligations to more and more workers who found themselves internally retired or otherwise laid off. The County J government was sensitive to this situation and also mindful of the

*Table 5.2* Quantitative indicators of enterprise performance, 1994–1996 (according to the *Goldstar Explanation Book*)

<i>Indicator</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>
Sales revenue	RMB 25,480,000	51,350,000	35,220,000
Costs, taxes, and other expenditures	25,800,000	51,340,000	35,250,000
Gross profits	–320,000	10,000	–30,000
After-tax profits	–320,000	10,000	–30,000
Gross assets	RMB 50,910,000	56,450,000	61,850,000
Gross liabilities	42,030,000	36,250,000	39,280,000
Net assets	8,880,000	20,200,000	22,530,000

*Table 5.3 Hoped-for progress in firm performance under reform (as elaborated in the Goldstar Explanation Book)*

<i>Indicator</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>
Sales revenue	40,320,000	44,800,000	50,400,000
Costs and taxes	32,400,000	36,000,000	40,600,000
Gross profit	7,920,000	8,800,000	9,800,000
Company profit	620,000	600,000	600,000

mandate to “basically pacify workers” laid down by Party Secretary Wu. Thus, the County J State Assets Management Bureau issued a document (Document 9 1997) explicitly allowing Goldstar to pay for workers’ benefits out of net assets, with losses to be assumed by the local government. In other words, the state committed to covering the social liabilities incurred by the company during transition. These labor provisions also helped Goldstar meet obligations spelled out in its new corporate charter (Charter 1997: Articles 68 and 69):

According to County Regulation on Problems in Enterprise Transition, firms should provide after transition for payment from net assets of: internally retired workers’ salaries, disabled workers’ salaries, retired workers’ pension insurance and medical costs. As of September 30, 1996, your units total assets were RMB 58,358,280; but total liabilities were RMB 59,014,542, leaving a net shortfall of –656,262 RMB.

We agree that RMB 2,610,138.50 should be paid from net assets to cover the above expenses for workers. After allotting for this expenditure, your total debt to the state will be: –3,266,400.50 RMB. You should consider yourselves responsible for taking care of this. (可以作为视同负责处理)  
(Document 9 1997)

Thus, before any substantial changes were even undertaken, the local government had played a role in initiating the process by command. It then offered vital assistance to the firm by allowing the newly reorganized company to repay bank loans with money meant for taxes on its profits over 5 years (essentially a 5-year tax holiday to help cover corporate debts). Finally, the state agreed to assume the costs of providing essential welfare payments to Goldstar’s growing unemployed. All in all, the process was clearly politically motivated and supported from the start through an alliance of firm management with key local cadres and officials. Clearly, the goal of separating the firm from politics – or even really from the state – had taken a back seat. The goal of extracting rents from the privatization process and ensuring continued influence for existing elites took center stage. Central imperatives to improve profitability of state firms and rationalize their relationships with local governments took a back seat.

***Changes enacted: First half of 1997***

As the firm leadership enacted some of the changes it and the county government had earlier proposed, results were mixed, both in terms of economic performance and the achievement of policy and reform objectives. In February, the company moved to sell its 1,500 shares and hold a shareholders' meeting and election of a board of directors (Report on Temporary Directors 1997). Factory lines were split into three plants – the first specializing in the production of core products, the second producing more specialized or niche products, and the third developing new products for manufacture and sale. Production of batteries and electric components was spun off to a new company. All this proceeded apace without any apparent severe disruption to the production process. By March, however, an issue had arisen.

When Goldstar registered with the County J authorities, it reported its total capital as 4,520,000 RMB in existing state capital, plus 1,500,000 pending the completion of its share sale (Examination Report 1997). When the audit bureau reviewed these claims, however, it was uncovered that Goldstar had an additional RMB 12 million in state capital in the form of land holdings. This put the company in a significantly better financial position than it had disclosed. In fact, sale of these land holdings could have paid off immediately more than 30 percent of the debt owed to the various banks.

But no such sale was mandated or even suggested. In fact, in May 1997, the County J government issued a circular confirming support for Goldstar's plan to divert money that would have gone to tax payments to service its debt (Document 7 1997). By June, it was clear that profit targets and gains from reform (at least in the short term) had been overstated. An internal company document indicates that revenues were actually slightly lower (on an annualized pace) in the first 5 months of 1997 than in 1996 (Basic Introduction 1997). More importantly, revenues were more than 22 percent lower than projected. Clearly, loans would go unpaid, at least for some time longer than had been forecasted. The County J government again had to step in to fill the gap to stave off collapse of the enterprise and local economic catastrophe.

Throughout the whole process, reform was orchestrated, facilitated, and ultimately financed by the County J government and Party committee. While it does not seem that it opened any bonanza of asset stripping or breakneck privatization, reorganization also did little to curb problems that may have been present earlier. As the company shed workers and received ever-increasing subsidies and tax breaks, any economic or social logic for reform must have lost its luster even for those, like Secretary Wu, who had most enthusiastically embraced it from the start.

The distribution of shares, assets, and gains was also considerably less equitable, and more directly and nakedly in the interests of managers and selected local officials, than the model described by Sargeson and Zhang in Hangzhou (Sargeson and Zhang 1999: 85–90). There was also a notable lack of negotiation or bargaining between managers, workers, and officials (Zeng 2010: 261–2), with reform policy largely dictated by officials, who were often managers themselves (or closely tied to them), while workers and other losers from privatization did not appear able to mobilize for redress of their grievances (Zeng 2010: 280).

In all, continued political control by county and enterprise cadres, combined with weakness on the part of workers, allowed the firm to slip into a kind of partial reform equilibrium. Managers enriched themselves; political powerbrokers remained just as powerful as they had been, while workers and other local residents were left to absorb the costs. Top-down diffusion had given way to local rent-seeking and the expression of vested interests. An important central reform initiative had been bent to the advantage of local elites out for particularistic gain.

### *Epilogue*

Ultimately, the reforms at County J Machine Tool Plant can be viewed as something of a success story by 2011. The new companies are successful financially and have greatly expanded their export business in auto parts (particularly to Germany and other parts of Europe). The firm currently operates three factories, with 12 divisions, and enjoys a capitalization of at least 100,670,000 RMB (Goldstar Website 2011). The negative side of this story, however, is that the firm now employs only 368 workers, roughly 40 percent of the total in 1996, despite continuing expansion of the population in County J and growing demand for nonfarming jobs (Goldstar Website 2011). Although productivity, and apparently profits, had almost certainly improved markedly in the intervening 15 years, this did not come without significant political, social, and economic costs. Workers and the local state bore the brunt of these costs, while managers and individual cadres clearly benefited. The top-down diffusion of privatization policies for small state-owned firms had been warped, and effectively stalled, even though the superficial goals were realized.

### **Conclusion**

Throughout this watershed period, reform at the County J Machine Tool Plant did not appear to resemble an organic bottom-up process of local leaders finding ways to promote local firms in accordance with economic and political restraints imposed by structural factors and higher-level decisions (Whiting 1999). Rather, reform here (as across much of China's SOE sector) was accomplished as much through top-down political fiat bent to the political and economic advantage of local elites – not through any sort of smooth diffusion or local entrepreneurial experimentation (Hurst 2009: 55–6). Recognizing this, some more recent commentators have explicitly backed away from earlier formulations of SOE reform to call for the state to retain a stronger stake in small firms. Specifically, they have argued that small firms must be “rescued” rather than “released,” so as to preserve a crucial source of mass employment (Shen 2009). For many, however, it may be too late as the wave of privatizations and liquidations that crested in the early 2000s claimed more small SOEs than remain to be rescued.

In terms of mechanisms, at least based on the example of County J Machine Tool Plant, county SOEs appear neither to have been sloughed off in the manner often allegedly characteristic of TVE privatization nor retained under direct state control and direction as so many of their urban counterparts were. Clearly, simple dichotomies between large and small or retained and released firms carry little water. Likely more

useful for understanding differential outcomes among the city- and county-level SOEs where most workers were actually employed in the 1990s are more finely graded distinctions between, for example, firms in different regions, of different pre- and post-reform ownership and governance structures, or across generally disparate sectors.

In instances where firms were profitable and stable prior to reform, incentives for insider privatization would have been high, but central policies would have required state ownership to be retained and corporate governance strengthened. Where firms had no valuable assets – that is, where they were just cost centers for their managers and local governments – there were strong incentives to sell firms to outside investors or companies. Where firm assets were valuable, yet liabilities were also sufficient to drag down profitability (as in County J), the challenge for local elites was to off-load liabilities to the local or central state, while privatizing profitable assets or revenue streams. This complex set of political and economic maneuvers, leading to a partial reform equilibrium under which local elites benefited at the expense of both workers' and central policy makers' interests, represents a sort of stalled or warped policy diffusion that seems to have predominated much of Chinese SOE reform.

The massive reorganization of smaller SOEs initiated at the 15th Party Congress has changed forever the relationship of the Communist Party and government to society at the grassroots. With the withdrawal of state ownership and support for enterprises came the retreat of the state and party from crucial areas of political, social, and economic life across countless county towns throughout China. It is precisely in such spaces that top-down reform directives are most easily bent to the advantage of local elites, giving way to partial reform equilibria. Given that incentives for such suboptimal processes align in a number of key areas, scholars must be cautious in their claims or predictions regarding policy diffusion and optimization in contemporary China, as in other transitional economies.

Abandoning so large a share of its base also risks leaving the party open to losing its grip, creating a situation in which the notional reach of the state far exceeds its realistic grasp. Worse, it leaves open a social and political space in which alternative sources of legitimacy and power can potentially coalesce, threatening the CCP's continued rule. The short-term economic savings from jettisoning small- and medium-scale SOEs may well pale in comparison to the longer-term political costs.

## Note

1 NB: name changed to conceal company's identity.

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## 6 China's grassroots NGOs and the local state

### Catalysts for policy entrepreneurship

*May Farid<sup>1</sup>*

This chapter proposes that grassroots nongovernmental organizations (NGOs) can act as agents of policy influence, innovation, and diffusion through their interaction with the local state, and presents a number of mechanisms through which NGOs influence policy change when engaged in reciprocal or collaborative relationships with local government agencies. As local state officials often lack access to the technical expertise, human resources, budgets, or political leeway to conduct research or experiments in many policy areas, NGOs are able to step into the void and use the experimental points system to act as agents in the testing of new approaches. Local officials need to solve governance challenges to win promotion but innovation carries significant political risks. By using collaborating NGOs as proxies, local officials avoid the risk of failure and gain political credit (*zhengji*) for successful innovations. Particularly when NGO–state relationships are informal in nature or involve unregistered NGOs, local officials can claim plausible deniability of their activities if something goes wrong and avoid accusations of contributing to social instability. Combined with local policy discretion often enjoyed by local officials in many issue areas, these forces result in a low-risk, high-benefit strategy of using NGOs as innovators. When successful models emerge, NGOs have gained access to channels by which new ideas and methods can be scaled up and diffused. Thus, policy influence is often achieved precisely through successful social programming in an environment amenable to “experimental points,” in which NGOs can act as proxies for government in testing new approaches.

Other scholars also suggest that civil society organizations can realize “system innovation” by influencing government policies, which can “only be realistically achieved through face-to-face collaboration between civil society practitioners and government officials in specific fields.”<sup>2</sup> By engaging with NGOs and allowing or encouraging them to implement innovations, local leaders can take credit for success and evade the risks of failure. NGOs, in turn, benefit from such arrangements by gaining channels for policy influence and upward diffusion.

Observers have had high hopes for NGOs as important new political actors, emphasizing their significant contributions to political life and political change,<sup>3</sup> the transformational impact they can have on political structures and processes,<sup>4</sup> and their ability to influence legislation and public policy.<sup>5</sup> However, “the



relationships between NGOs and governments are so heterogeneous that it is difficult to generalize about the potential impact of NGOs on the state and patterns of governance.<sup>6</sup> NGOs are not always successful in their efforts to exert pressure on local elites or local governments, and though they can act as catalysts for change,<sup>7</sup> they often have an interest in maintaining the status quo.<sup>8</sup> In short, “there is no simple or consistent story of good NGOs confronting evil governments.”<sup>9</sup>

Scholars of Chinese civil society, too, have been preoccupied with the following question: to what extent are China’s social organizations able to exert an influence on the state? The answer varies according to the type of social group under consideration. Government-organized NGOs are inherently characterized by close ties with the state, and have opportunities to serve policy advisory functions. Large private foundations and international NGOs operating in China are also often able to bring significant financial power and international legitimacy to bear in exerting influence on government departments with which they collaborate. But small grassroots NGOs operating in rural areas or small cities are without pre-existing ties to the Chinese government, foreign governments, or large well-known international agencies. Are they, as many observers suggest, generally limited to the provision of social or cultural services?<sup>10</sup> In his work on authoritarian resilience, Nathan argues that the Chinese regime has

developed a series of input institutions (that is, institutions that people can use to apprise the state of their concerns) that allow Chinese to believe that they have some influence on policy decisions and personnel choices at the local level.<sup>11</sup>

Grassroots NGOs can act as such input institutions, but do authorities merely maintain the illusion that they have a say, or is the possibility of such influence real? Understanding the extent and ways in which these grassroots organizations are able to exert an influence on government policy and practice allows for deeper insight into “the interpenetration and mutual shaping of state and society.”<sup>12</sup>

This chapter seeks to uncover mechanisms through which influence is exerted by NGOs on the Chinese state. The object of this influence is government policy and practice, broadly defined. At the central level, this can encompass a range of direction, from high policy articulated by the State Council and Politburo in legislation and plans, to guiding documents and interpretations issued by relevant ministries and bureaus, to less concrete central directives and approaches instituted through informal means, to the methods invented by bureaucracies in implementing such directives. Similar patterns are replicated at provincial and local levels.<sup>13</sup> Most of the examples described in this chapter are of changes made at local levels, while others might be more accurately classified as changes in procedure, rather than policy per se. Some distinction should be made between high policy and the realm in which lower-level governments exercise a certain degree of latitude in implementing or developing policy. Most of the grassroots NGOS included in this study, when they aim at “policy change,” do so in a highly localized context, typically affecting the implementation of existing policies at the local, or at most,

provincial, level. However, as the remainder of this chapter will discuss, they do not do so to the exclusion of eventual effect on high policy. First, the gaps often left by high policy are so large that local implementation is, in effect, policy. Second, even a well-articulated policy is significantly affected by its implementation, particularly where local bureaucrats are given flexibility, which is quite often as seen in the Mei and Pearson chapter.<sup>14</sup> Last, when so much of high policy is informed by local experience and models of success and experimentation, local experiences and learning developed from policy implementation can sometimes be scaled up and more widely adopted. Thus, relatively small changes in local practice can have long-term, multiplier effects.

This chapter provides examples gathered through fieldwork of two mechanisms by which grassroots NGOs have been able to influence government policy: through what they say and by what they do. First, NGOs are able to affect discourse on a number of social issues and act as channels for the conveyance of policy information and suggestions in the context of a mass-line model of communication between state and society. They are also able to model innovations and contribute to policy formulation and reform in carrying out concrete programs, which is made possible by an environment characterized by policy flexibility and amenable to experimental points. Specifically, grassroots NGOs were found to exercise policy influence through the provision of expert advice, involvement in intermediary entities, in public spheres and the media, and through their ability to coordinate dialogue between multiple stakeholders. They were also able to realize advocacy goals through their operations by establishing alternative models, directly training local officials, facilitating the implementation of existing policy, and providing feedback about policy weaknesses. Although diffusion of such policy innovations beyond a single locality has, to date, been limited or has occurred in ways difficult to trace, examples do exist of experience and successful models diffusing in a manner consistent with local-center and intraprovincial patterns.

Of course, even in Western industrialized nations, the policy process is often a black box making it notoriously difficult to prove policy influence. In the Chinese context, where the policy process is characterized by a lack of transparency, direct causation would be incredibly difficult to prove. Therefore, based on analysis of field observations and interviews, I argue in a more limited fashion that grassroots NGOs are able to exert some influence on the formulation and implementation of policy in several social domains at the local level and that policy diffusion of these experiments has occurred.

### **Mechanism 1: Participation in discourse and deliberation**

The participation of NGOs and individuals associated with them in discourses<sup>15</sup> about social issues is one mechanism through which they are able to exert influence on policy: "Substantive campaigns raised by NGOs place alternative considerations into the minds of decision-makers through the exercise of normative authority, lobbying and the carrying of ideas."<sup>16</sup> Both instrumental rationality and moral argumentation are processes through which governments interact with

NGO advocates.<sup>17</sup> Stone points out that NGOs “cannot impose policies on a political system. They can merely exhort. They can only be engaged in lesson-drawing rather than the coercive aspects of transfer.”<sup>18</sup> Nonetheless, she finds that NGOs can act as policy entrepreneurs in their expertise in a specialized subject and collection of a network of contacts that provides new ideas for programs.

In the Chinese context, the central government has highlighted the function NGOs play in channeling communication between citizens and governments. A Ministry of Civil Affairs official asserts that NGOs “serve as a bridge for mutual communication that will link government and society,” “disseminate expert information,” and, “through various means, NGOs help the government draft laws, regulations and policies.”<sup>19</sup> The director of the Policy Research Center under the Ministry of Civil Affairs commented of NGOs: “As organizations, they can represent individuals to voice their concerns, coordinate dialogues with the government, and supervise the government, which are quite important to the building of democracy in China.”<sup>20</sup> For some scholars, official statements such as these are manifestations of mass-line vocabulary.<sup>21</sup> This model is one in which information about the people’s needs and demands is systematized and incorporated into policy by the Communist Party. The populace then provides feedback on official policies during the implementation process. This is an “input, output, and feedback process” that has also been applied by the party in its relationships with mass organizations, democratic parties, and professional associations.<sup>22</sup>

Salmenkari argues that Chinese NGOs “work in a social and political environment characterized by deliberative roles for social actors” and that this deliberation is directed to the state as well as to the public. The state “uses NGOs as objects of consultation for improving its policymaking. This model of consultation is based on the mass-line model and on its application within democratic centralist administrative hierarchies.”<sup>23</sup> In the Chinese context, “Hierarchical mass-line type of consultation through a democratic centralist process is meant to provide truthful and many-sided information for policymaking.”<sup>24</sup> Consistent with my findings on reciprocal engagement between state and society, the model encourages vertical and cooperative linkages with the state and “assumes permeating boundaries between social organizations and the state, especially when it comes to individual contacts between state officials and ordinary citizens, since these are contacts the mass line explicitly promotes.”<sup>25</sup> In contrast to a typical advocacy model in which an independent civil society influences the government through public pressure, the mass-line model allows for influence to be exerted through providing the state with information. In this sense, “this model seems to concentrate on the *deliberative* functions of civil society rather than on its associative functions.”<sup>26</sup> Thus, NGOs can

apply deliberative means to persuade the government to act. Deliberative power is wielded not by pressuring the government, but rather by introducing and framing issues so that new views and conceptualizations would change the thinking both inside and outside the government.<sup>27</sup>

The deliberative function civil society can play is consistent with the consultative authoritarianism model advanced by Teets, in which both consultation with an operationally autonomous civil society as well as indirect forms of social control can take place within authoritarian regimes.<sup>28</sup> Other scholars, such as Mertha and Spires, have documented cases in which China's grassroots NGOs have been able to participate in policy formulation as well as implementation.<sup>29</sup>

As explained in more detail in the following sections, grassroots NGOs participate in ongoing dialogue about social issues taking place in the official, semi-official, and public realms when they provide "evidence-based" specialized or expert advice about particular issues, by their involvement in intermediary entities and in public spheres. When they contribute their views, what they say is not always what officialdom wants to hear. In such cases, their survival and the degree to which their input successfully influences policy depends largely on the extent to which their relationships with local government are characterized by what I elsewhere term "positive-sum reciprocal engagement."<sup>30</sup> One of the diverse modes of relationship that can emerge between the state and social organizations, positive-sum reciprocal engagement is a dynamic and interactive process characterized by proximity, communication, joint action, mutual influence, mutual benefit, and mutual empowerment.

### ***Expert advice***

Participation in discourse can aim specifically at influencing "policy or opinion makers with informed, expert research or analysis."<sup>31</sup> According to several Chinese scholars, Chinese NGOs are "striking a balance in their approach between struggle and cooperation . . . Rather than simply relying on accountability and protesting, they focused on the 'practice' of expertise to provide constructive advice."<sup>32</sup> They have tended to approach "efforts to influence in terms that were not merely critiquing government policy but seeking constructive ways of developing and improving it."<sup>33</sup>

Conferences, seminars, and training sessions provide spaces in which dialogue between grassroots NGOs and local government officials can occur. The preparation of publications and research reports concerning specific social issues is also used as a tool of communication and influence. For example, one organization that is focused on ethnic minority issues conducted an investigation and prepared a critical report on the influx of outsiders taking over businesses and moving into the local ancient town, and driving local residents out, and the effects of this influx on minority culture for the local Ancient Town Management Bureau:

We submitted the report to Ancient Town Management Bureau. They supported this project financially . . . But they will frankly talk about their views. For example, this research we did on the ancient town, we criticized the trend that so many outside groups are coming in and taking over ancient town spaces. The government said that the original residents were not local either, they became [the local ethnic minority] and these will also become [the ethnic minority]. Every citizen has their own freedom whether or not to rent, and the historical

reasons for moving are different, so it's not just the government's fault, but they thought we were blaming them. So we don't see ourselves as opposed to them, but provide research and opinions so they themselves can reflect on these issues, which may also affect individual interests.<sup>34</sup>

Other NGOs also found themselves called on to provide technical know-how in environmental projects. NGOs' ability to provide expert advice means that policy influence on local government can particularly be brought to bear in the more technical issue areas they face, such as environment.

### *Involvement in intermediary entities*

Overlapping membership between grassroots NGOs, NGO network associations, and local or central government agencies operates as another mechanism through which policy influence occurs. The multiple hats that China's local officials sometimes wear and their involvement in social organizations, acting as board members or advisors, can provide them alternate spheres of experience, ownership, and participation, and socialize them in alternate norms and values, in such a way that these are passed on to other spheres of political engagement. Similarly, the involvement of NGO leaders in formal political and academic spheres can facilitate the flow of influence in the opposite direction.

For instance, one environmental NGO leader also functions as the managing director of the government-organized Provincial Environmental Protection Union. The union meetings provide important opportunities to engage with local officials on environmental policy issues.<sup>35</sup> Another environmental NGO founder is also a university professor, vice-president of the provincial and municipal Environmental Protection Union, and a Chinese People's Political Consultative Conference (CPPCC) member for his municipality. He sees these various roles as enabling his NGO work:

Why can I do this? Because I am in government, media and I can affect the public . . . Also I can have an effect and give work to the students I teach. . . . When we have meetings with government, sometimes I participate as an expert, sometimes as an NGO representative.<sup>36</sup>

Government-organized associations and fora also provide spaces for issue-related discourse to occur. An environmental science association under a provincial Environmental Protection Bureau explained that those who participate in the association meetings "have to be representative of society and the government. This is required by policy." Participants include

those in fields related to technology and environmental protection: for example, from society to industry representatives and academics . . . We are an interactive academic association . . . This can convey the opinions of the people to the government.<sup>37</sup>

Chinese grassroots NGOs often join umbrella organizations<sup>38</sup> located in Beijing or provincial capitals. These intermediary entities can provide often-isolated grassroots organizations with coordination, exchange, funding, and access to central officials.<sup>39</sup> Some such intermediary entities are semi-official in nature; effectively state appendages, they are rich in government linkages. The channeling of experience and innovations through such umbrella organizations can be one important way in which policy innovations are diffused upward, allowing for initially intraprovincial diffusing of innovations to be channeled up to relevant central government agencies, eventually allowing for the emergence of local-central patterns of diffusion.

Relationships with academic institutions, often semigovernmental, are also important channels through which policy recommendations and more informal forms and influence flow. One development NGO was founded by two close friends, both scholars of the Provincial Academy of Social Sciences. Each took on different responsibilities in these two interconnected organizations: "On this side, I'm the head, on that side, he's the head."<sup>40</sup> A Yunnan environmental NGO highlighted the key role played by another academic in his successful petition to the provincial government to reform microfinance policy.<sup>41</sup>

When suggestions and feedback are not heeded, some NGOs, particularly those that enjoy significant legitimacy and strong relationships with government, may take other measures:

We give government some suggestions. My own identity is as a CPPCC member (*zhengxie weiyuan*), I wrote my own ideas about the protection of [name of lake], that it is not a scenic tourist area, there are many tourist sites, these are things we don't want to see. If they build some entertainment facilities there, we firmly oppose it (*jianjue fandui*) . . . we oppose the government to build more construction to the south of the city near the lake. This will affect the biodiversity and birds. And if a flood comes, these developments will certainly be flooded. So as an individual I have to express my own voice. They may accept this opinion; or, on the other hand, they may find it impracticable. As for me, I tell it like I see it when I am with them. But whether or not they absorb it, only time will tell . . . There also exist other ways to influence them. For example, I may write some recommendations based on my observations, but if these are not heeded, I will go to the media. Some issues can be explored with government, but other issues are very close to our hearts and we have to communicate more broadly.<sup>42</sup>

This section has outlined some of the potential benefits of networks that span the divide between state and civil society. The "idea of ongoing public-private intimacy" can be seen by public administration purists as "threatening the insulation necessary for clearheaded decisions that are in the public interest" and by market advocates as "hopelessly muddying the logic of individual incentives and rational resource allocation."<sup>43</sup> There are fears such relationships can too easily cross the fine line to corruption and clientelism, but

if the remedy to corruption is seen as the creation of a strict bureaucratic structure to separate the servants of the public from the public, it is likely that behind the closed doors of a centralized system corrupt practices can flourish without much fear of exposure.

Doing so “may encourage other forms of opportunistic behavior to proliferate along with corruption.” Instead, when public officials and the citizens they are supposed to serve work together in diverse sets of open, nested arenas, productivity can be higher and all forms of opportunistic behavior are more likely to be exposed, but never totally eliminated.<sup>44</sup> Consistent with classic work on the “blurred public and private divide,”<sup>45</sup> overlapping membership between governmental and nongovernmental agencies can offer significant opportunities for policy influence and diffusion without always necessarily compromising organizational integrity.

### ***Public spheres and media***

As the above interviewee points out, the media is another public space in which discourse on social issues takes place, and through which NGO influence can be brought to bear on both state and society. Scholars have noted that in their interactions with mass media, alternative media, and the internet, Chinese NGOs’ “use of public debates and media campaigns has a discursive outcome, since they introduce new discourses into the public sphere.”<sup>46</sup> With regard to environmental issues, for example, they posit that “a fledgling green public sphere is emerging in China” with environmental NGOs as “its primary discourse-producing publics.”<sup>47</sup> Since media is used as a channel for distribution of information to both administrators and the public, it is consistent with the mass-line model. NGOs can “use the media both to invite government attention to the problems and to arouse public awareness.”<sup>48</sup>

The media is also used by NGOs to influence society and government by introducing new ideas and approaches into public discourse. Government and NGO interviewees reported that NGOs have been effective in introducing new environmental concepts and terminology into official discourse,<sup>49</sup> often through media channels.<sup>50</sup> One organization publicized their work to protect a local forest in the media. As a result, the local government ended up providing significant funds for its expansion.

These examples indicate that grassroots NGOs may be able to use the channel of media to influence government discourse and practice. With regard to policy influence, however, the results of this study differed from other work on the subject. While other empirical studies of NGOs (usually larger or better known NGOs in Beijing or major cities) have found evidence that NGOs are able to “initiate real policy change”<sup>51</sup> using the media, for the NGOs included in this study, using media to pressure for change was not considered an effective strategy. In fact, among the NGOs included in this study, the only instance where an NGO actively tried to use media as a strategy to alter government policy was largely unsuccessful.<sup>52</sup>



While interviewees occasionally expressed the need to be cautious about the picture of government and local conditions they painted in media, they generally expressed more concern about the effects of media publicity on healthy organizational growth. Too much positive attention from media and public can set charismatic NGO leaders up for a fall and should be used sparingly.<sup>53</sup> In contrast to some large, well-known Chinese NGOs that thrive on media attention, interviewees working at the grassroots often recognized the greater importance of effective programs and practical results to their long-term development. Even where media publicity is available to them, some NGO leaders note that where they “haven’t done anything with [real meaningful] results yet, if we immediately go and do promotion work (*xuanchuan*), it comes across as very empty; it may not be good.”<sup>54</sup> In general, the grassroots NGOs in this study tended to use media as a forum to influence government discourse, to showcase their work and to raise government’s and the public’s consciousness about issues, rather than as a tool to pressure government to change policy.

In addition to being consulted as experts, participating in semigovernmental, academic, and public forums, and exerting influence through the media, NGOs can occasionally play the role of mediators in ongoing dialogues and disputes between government and society. In one notable case, an environmental NGO was able to use its unique role as a third-party mediator in settling a dispute between villagers, a coal-fired power plant, and local government, facilitating redress of villagers’ grievances.<sup>55</sup>

## **Mechanism 2: Advocacy in action**

The previous mechanism shows how grassroots NGOs influence government policy through discursive participation – by what they *say*. The other important mechanism through which policy influence occurs is when grassroots NGOs model innovations in action – by what they *do*.

Even globally, many NGOs tie advocacy functions to operational ones, and therefore “act as both advocates and practitioners.”<sup>56</sup> While emphasis is usually placed on the importance of the advocacy function in policy influence, in the Chinese context, implementation can be just as important, if not more effective in informing policy. The kind of “advocacy” discussed here is not limited to the provision of information and influencing discourses on social issues. If deliberation refers to dialogue and exchange of information such that the “better argument” comes to light, then a diversity of policy innovations on an experimental basis is an opportunity for government to see the “better argument” in action. The context and characteristics of the Chinese policy-making process facilitate influence in a number of ways described below. The literature has “clearly demonstrated the important role that decentralization has played in promoting local initiative since the late 1970s.”<sup>57</sup> While the scope of local discretion is expanded, it is also constrained by “bureaucratic inertia” and the prevalence of centralizing norms.<sup>58</sup>

Especially with respect to broad-based policy directives from the central government, lower administrative levels often lack the expertise, capacity,

and experience to take the step to implementation on their own. One educational NGO took advantage of this lack of experience and used the opportunity to register by incorporating a legal vehicle under a government-organized charity association. Official inexperience can open opportunities for NGO influence:

Why did [a provincial government-organized charity association] accept our incorporation? Because they didn't have any actual experience. People's organizations have actual practical experience, how to do things operationally. For them [government] it is just a blank (*yipian kongbai*), they are "feeling stones to cross the river." They go out to study. They can watch what we do and how we do things, and now they use some of these things. For example, we used to fund poor students, then they also started doing it. Many projects, as we started to do them they also started to do them. Red Cross, for example, auctions donated goods to support heart disease victims. They draw on some of our people's (*minjian*) experience.<sup>59</sup>

A "fragmented authoritarianism" system permits a certain degree of flexibility in decision-making by administrative authorities.<sup>60</sup> Scholars tend to agree that significant variation in policy implementation exists and have examined various factors that influence policy implementation in the post-Mao era. While a certain amount of discretion and flexibility can promote innovation and allow for the adaptation of broad guidelines to local conditions, it can also lead to self-serving and coercive behavior or produce unexpected outcomes.<sup>61</sup>

Varied policy implementation reflects the differing conditions and needs of each locality, but policy areas also vary in flexibility. For example, while birth control policies are generally thought to be among the most unpopular, yet they are generally consistently enforced because they are regarded as hard targets that must be met and because of their effects on how local cadres are appointed and evaluated. Other policies are broad-based directives coming from the center directly to local departments to promote a more vaguely defined ideal, such as "participatory education" or "ecological development." In these cases, how, and even whether, to comply with directives is largely up to the discretion of local officials, and depends on available resources and opportunities.

Local conditions can also affect compliance, relaxing requirements for "hard" or key policies, and increasing pressure to carry out "soft" directives. In one locality with a high population of ethnic minorities, a Civil Affairs director mentioned that though his department is evaluated on getting rid of illegal NGOs, the requirement is relaxed and more NGOs are permitted to exist because "culture is important here."<sup>62</sup> Other government interviewees reported significant flexibility in such policies as poverty line welfare provision (*dibao*)<sup>63</sup> and AIDS policy.<sup>64</sup> For these cadres, flexible policy implementation is one characteristic of able leadership: "A government's ruling capability (*zhizheng nengli*) has to fit local conditions. To implement policies flexibly according to the local conditions is a talent and standard (*shuiping*) of local officials."<sup>65</sup> As the examples in this section suggest,

selective policy implementation can create spaces for governance innovations that are sometimes diffused elsewhere.

Officials can take advantage of policy flexibility and exercise discretion through such modes as “pioneering,” “bandwagoning,” and “resisting.” Pioneers’ behavior of “compliance in advance” may simply represent voluntary (and often spontaneous) local innovations which are later captured by the central government in search of a nationally applicable solution to a serious policy problem. Alternatively, pioneering localities may possess local conditions most favorable to experiment with the proposed policy. In the former case, the decision to pioneer may be rooted in personal convictions of local leaders and/or popular demands for change. In the latter, the risk of pioneering is shared by the central government which controls and protects them through intricate networks of clientelism.<sup>66</sup> “Bureaucratic careerism” may also affect the decision to “pioneer.” Local implementers may stand to gain “political credit” (*zhengji*) or expect promotion to a higher position in the event of a successful innovation.<sup>67</sup>

NGO interviewees generally recognized that local cadres can be motivated by bureaucratic careerism as well as a sincere desire to respond to local needs:

For each official it will depend on their character and ideas. Some will be just for promotion, others really want to do things. For example, in the field of education, they want to make education better. But in the existing education system it is very hard for them to bring their ideals to reality, they see that this is not being done well, but don’t do a lot. But there is change little by little, not big reforms.<sup>68</sup>

It is important to note that the sorts of innovations or strategic entrepreneurial behavior referred to here, in the context of Chinese policy-making and implementation at the local level, do not involve dramatic or radical change. As the above interviewee points out, in many issue areas, it is incremental reforms that accumulate over time and change the field of what is possible for both NGOs and local cadres. NGOs have, in many cases, been able to model small local innovations that pioneering officials appropriate when they demonstrate effectiveness.

“Resisting” local implementers do not comply with the center, either by delaying the execution of a given policy or bending it to serve other, more parochial interests as also seen in the Mei and Pearson chapter. Resisting “may also require ‘heroic’ leaders who sincerely view representing local needs and sentiments to be more important than saving their own necks.”<sup>69</sup> By engaging with local, often unregistered, NGOs or even being aware of their existence without taking punitive action, resisting officials choose to ignore policies that are meant to restrict NGO scope and operations. In doing so, they stand up to significant pressure and potentially damaging risks from higher-ups or from peers.

In both “pioneering” and “resisting” modes, as well as “strategic entrepreneurship,”<sup>70</sup> officials bear significant risks. While it has been pointed out that these risks can be mitigated by the existence of clientelistic networks with higher administrative officials, a third factor may also be at play here: NGOs may act as agents or

implementers of particular policies hitherto ignored by local officials. If implementation of such policies by local NGOs is successful, officials are enabled to claim positive experiences and innovations that have come about in their domains as their own successes. In the event of failure, however, the consequences are borne by NGOs. Officials have plausible deniability; they can deny any knowledge of actions taken by local NGOs in the event of a negative reaction from higher-ups, especially if the NGO in question is not formally endorsed by or registered with a supervisory agency.

Contextual factors can also give rise to “benign neglect” of local innovations and deviations. In crisis or uncertainty, the central government may “gradually relax its control” over current policy without having “a well thought-out package of alternative policies to remedy the situation.” Historically, “a gap between the need for a new policy and the absence of an alternative was filled by local innovations . . . which the central government gradually co-opted as a national policy.”<sup>71</sup>

In the case of China’s NGOs, legal regulation is characterized by a significant “grey area” in how NGOs can operate and engage with the state. For many social issues, the lack of a “well-thought out package of alternative policies” can lead to many of the situations described by Chung, including “benign neglect,” and heightened tolerance of “innovations” and “deviations” on the part of NGOs. While some scholars argue that innovative activities carried out by NGOs<sup>72</sup> are ignored by government due to limited administrative capacity,<sup>73</sup> what is being suggested here is that allowing such activities performs an important function which implies that it is often by design.

Some of the grassroots NGOs included in this study are cognizant of the opportunities for influence afforded by benign neglect in many of the issue areas they work in, and are thus better positioned to take advantage of them:

The larger policy environment will affect the building of this relationship. For example, if the higher-higher levels (*shangshangji*), the level above the higher levels, come out with a document stipulating such a thing cannot be done, or is not permitted, then even if the mid-level leaders think this program is fine and can be carried out, will comply with their leaders’ guidance because of stipulations from above. But I think there are some enlightened leaders . . . there are some leaders that will try experiments, they will allow such people to try experiments, they will take initiative (*zuozhu*) to let you do these things. Some will do this. For example, a few years ago, when I was . . . in X region, the previous leader very much approved of (*rentong*) this way of thinking and of carrying out this program in that place. But later, when the leader changed, the new one didn’t really approve of this program, so there was no way to continue cooperation. Also, when the previous leader had approved the project, the . . . administrators all supported it quite a lot. But after that, their attitude and thinking changed.<sup>74</sup>

With regional variation in patterns of policy implementation, and a widening scope for innovation and initiative open to local officials, experimentation becomes an increasingly important practice in policy formation and implementation.<sup>75</sup>

Analyses of political decision-making and policy implementation can be strengthened by an appreciation of the importance and extent of local initiative in “generating novel policy instruments and in transforming the parameters and priorities of central policymakers over time.”<sup>76</sup> For Heilmann, it is experimentation under hierarchy, that is, the volatile, yet productive combination of decentralized experimentation with *ad hoc* central interference, resulting in selective integration of local experiences into national policy-making, that is the key to understanding China’s policy process.<sup>77</sup> Changes in the political climate, as in the period of the Great Leap Forward, have been known to shrink the political space available for innovative experimentation. Present oscillations in political climate and in officials’ attunement to political sensitivities also impact the risks associated with supporting NGO initiatives and innovations.

Where engagement exists, the potential for social organizations to influence policy is increased: when NGOs enjoy institutional or personal ties with the state, not only do they strengthen their ability to negotiate and expand their autonomy and influence, but they also “tend to exercise more leverage when it comes to asking for cooperation from the state, or influencing policy.”<sup>78</sup> For instance, Saich argues that the existence of often decried regulatory controls that are meant to limit NGOs has at times ended up leading to an increased influence from them. Because relatively few NGOs exist in China, and because their dependence on official support means they must interact closely with government, they can end up having considerably more impact on the policy-making process than more autonomous and numerous agencies in other national contexts.<sup>79</sup>

Thus, policy influence is often achieved precisely through successful social programming in an environment amenable to “experimental points,” in which NGOs can act as proxies for government in testing new approaches. Other scholars also suggest that civil society organizations can realize “system innovation” by influencing government policies, which can “only be realistically achieved through face-to-face collaboration between civil society practitioners and government officials in specific fields.”<sup>80</sup> By engaging with NGOs and allowing or encouraging them to implement innovations, local leaders can take credit for success and evade the risks of failure. NGOs, in turn, benefit from such arrangements by gaining channels for policy influence and upward diffusion.

### ***Advocacy in action***

“Advocacy” is a relatively broad term that can encompass any activity that a person or organization undertakes to influence policies through means other than governing.<sup>81</sup> Globally, NGO scholars and practitioners tend to see a sharp distinction between organizations that engage in advocacy and those that merely provide services. The “operational” aspect of NGOs involves activities that directly provide services to those in need, such as education, health, clean water, or disaster relief.<sup>82</sup> This is seen as distinct from work that involves political advocacy or public education, and is provided by a separate set of NGOs than advocacy NGOs which “work primarily at the centres of power.”<sup>83</sup>

In this section, I argue that not only is there a much more blurred distinction between operational and advocacy functions in Chinese grassroots NGOs, but also that advocacy influence is exerted most successfully “in action,” when it is integrated with service provision. In contrast to many observations, China’s grassroots NGOs are not content with or limited to service delivery or improving some aspect of life in the populations they work with. Almost all of the NGOs included in this study expressed an explicit concern with influencing government policy in their work. But the different way in which this influence is exerted in the Chinese context can obscure it from view.

Previous work done on NGO advocacy in China has also pointed to the precedence that practical solutions take over denunciations in advocacy: “We don’t just wave flags and shout battle cries: we don’t just ‘guide the nation with inflammatory prose’<sup>84</sup> . . . ‘Environmental organisations like ours can’t just stop there . . . We also need to practice what we preach to change the situation . . .’”<sup>85</sup> Action is the medium through which advocacy and influence can flow:

We do some things that the government is not paying a lot of attention to, but that we think are very important. And when the government sees what we are doing and how important it is, even if we leave the government will continue to do it . . . as an organization, our power is very limited, so to be able to do it well, the government’s involvement is very important. If they support, participate and observe what we are doing and the positive results of our actions, they will accept it. Then it will fulfill an advocacy function. Because our ability is limited, and the number of people we can reach is limited, and we can’t replace the government, we can only supplement a little bit.<sup>86</sup>

However, to fulfill an advocacy function, action must be effective. Grassroots NGOs need to be able to demonstrate the viability of their models and approaches, especially if they are holding them out as alternatives to government programs. This requires a certain degree of operational capacity and program quality, the results of which are observed by local officials and are potentially incorporated into local policy and implementation:

Sometimes their level of trust in us is not very high. One reason is time; this program has not been here for a long time, they need long-term observation and understanding. Another reason is the reaction of the villagers to our training and program, and the feedback they get. What are the results of the program on the village? How much does it help us? Slowly, slowly, often this cooperative relationship or the trust in our program is built on the process of doing things and exploring . . . When we were discussing our project with the district level Women’s Federation, they said “We really want to find an organization like this. We don’t have a set of materials to train villagers in capacity building and we are doing so many different things, our time is very limited.”<sup>87</sup>

In this case, the Women's Federation officials suggested adopting the NGO's training materials on environment and sustainable agriculture and participatory methods in its own work. Both participant observation and interviews revealed numerous other examples of grassroots NGO action affecting government policy and programs, even when action was in its early stages and had only been carried out on a small scale.

One NGO organized an activity to clear weeds and algae from a local lake and invited officials to participate. A local Environmental Protection Bureau official said, "We hadn't done this before, but . . . we will pay attention to this in future environmental protection work." He continued, saying of the organization, "We are very eager to work with them. Even though they are a people's organization, their activities have a great effect . . . Some of their ideas will also affect us and we are learning from each other and dialoguing about experience."<sup>88</sup> One interviewee described how an environmental protection NGO worked to find alternate sources of income for mountain-dwellers whose livelihoods depended on deforestation resulting in soil erosion and environmental damage. Eventually, the local government "took some corresponding measures to stop this kind of exploitation too."<sup>89</sup> Another environmental NGO training villagers suggested that local Poverty Alleviation officials lacked knowledge of effective ways to fulfill "educational poverty alleviation" mandates from above and thus drew on NGO experience in this area.

Grassroots NGOs with specialized know-how and experience can enable pioneering officials to carry out broad-based directives that government departments would not otherwise be able to fulfill. For example, a district-level Education Bureau official discussed the department's difficulty complying with numerous central government policy documents requiring the promotion of participatory educational methods because of a lack of knowledge about these methods or how to implement them in local schools. Collaboration with a grassroots NGO specializing in participatory educational methods allowed the Education Bureau to pioneer such approaches in keeping with policy directives.

The district Education Bureau's director of educational research also sits in on the activities and classes of the NGO, and in the training it provides to teachers. Informal dialogue and communication between the two parties is frequent and touches on implementation of education policy. As seen in the next section, insights gained by officials through collaboration with the NGO affect its perception of education in the region, its adoption of new educational approaches, and that some of these insights and approaches flow upward through the government hierarchy, influencing educational policy implementation and even formulation.

### *Models of successful innovations*

Both government and NGO interviewees agreed that local government agencies often lack expertise in social programs and look to NGOs for successful models. One Poverty Alleviation official explained:



In some areas, non-governmental organizations are even more professional than government. For example, in Poverty Alleviation, they have a set of systems and methods, for example, they have participatory methods. When we come into contact with these things we also emulate and learn from them, if you don't emulate and learn, how do you improve? You can't isolate yourself, you have to dialogue with outside world.<sup>90</sup>

Policy influence is more likely to occur where authorities are seeking new methods and approaches, particularly in policy areas that figure prominently in central directives, but are broad based, and thus less quantifiable, measurable, and less straightforward to implement:

This relationship [with government] does not have negative effects on them, but it does have small positive effects. Because they are, to a great extent, thinking about a question: how can I raise the general consciousness of the villagers? I want to build the new countryside (*xinnongcun jianshe*), I want to advance the development of the whole village (*zhengcun tuijin*), I want group development (*qunti fazhan*). But where do the answers come from? It is exploring. It also cannot think of any good methods. But we have gone and attempted things. We have gone directly into the village, and engaged in dialogue and learning with the villagers. The consciousness of those villagers who have participated in our training has been raised.<sup>91</sup>

The director of another NGO focused on the education of women and children talked about the government's recent focus on early childhood education and the organization's plan to implement rural early childhood education programs. "If we do it well," she said, "we will give the government some suggestions and models about how, within a small scope, this can be promoted."<sup>92</sup> The same organization, which has been working in the locality for over 10 years, also works with populations affected by HIV/AIDS, which has spread rapidly in the area:

Many officials come here to learn about it. So our model of AIDS communities will be transmitted to higher leaders when they go back, and then conveyed to the central government. So [X town's] trace (*yinzi*) is in all this. When you bring about a successful model, it has an impact.<sup>93</sup>

Since it was established, one of the NGO's main areas of focus has been HIV/AIDS prevention among vulnerable populations. In an interview with the local government agency responsible for AIDS, the official proudly pointed out that the locality in which the NGO and local government agency cooperatively worked was named "the National AIDS Prevention Model County."<sup>94</sup>

Many of the department initiatives and innovations described by this official were initially piloted and promoted by the partner grassroots NGO. With respect to one area of work, the government official directly referenced the influence the organization was able to exert on local policy and practice:

NGOs can be quite flexible in much of their work. [This NGO] was working with entertainment services population . . . but then we saw that this area of work was very important and so the government started doing it too. At the time it was hard to imagine that this would ever be an area of work that the government would do.<sup>95</sup>

Another NGO working in the same region reported their model of working with AIDS orphans was adopted, and ultimately duplicated, by the local Bureau of Civil Affairs.<sup>96</sup> A grassroots NGO working in an ethnic minority region concerned with the preservation of minority traditional culture created educational materials to teach local children their mother language. In collecting folk music and arts, the organization took particular care to obtain the locals' agreement and protect their interests and compensate the local community. This practice was later taken up by a local government agency:

For example, the Education Committee (*jiaowei*) itself also has some mother language educational materials. But when they saw what we have done, they learned from it. . . . So we hope to use these cooperative methods to influence them. And the government, through cooperation, sees this and reflects on it. We have also communicated [these principles regarding the protection of traditional intellectual property] to the Intellectual Property Bureau.<sup>97</sup>

A grassroots environmental NGO stated one of its organizational aims as "to establish some development models for China and even the world, and to promote our work through our past programs and current programs." One of these programs was a sustainable honey production program in a rural community to raise incomes and protect the local environment.

How do you develop the community's economy? . . . No one has a method or program to sustainably improve the production and ecology, and in this way be able to protect the area . . . So it helps them [government] and also the community. It also advances the government's goals. So we are trying to operationalize this. In this way we hope to create a model. Then when you go to Sichuan or Xinjiang or Qinghai you can also use our methods and promote them in more places.<sup>98</sup>

These examples illustrate the ways in which NGO experimentation diffuses to other localities.

### *Training officials*

Another operational area of work carried out by these NGOs, often categorized as service delivery, is the training of local officials. Many NGOs that carry out "leader training" courses do so with the purpose of securing legitimacy and support for their programs from local government, but also in an effort to affect local policy and practice.

NGOs conduct training courses in environmental or educational issues, for example, training in how to work with youth or training in gender sensitivity for local government agencies.<sup>99</sup> The content of many of these courses carries an explicit purpose of changing official viewpoints: “When we do this type of training . . . it’s not only for civil society organizations, but also for government officials, because we want to change their mindset too.”<sup>100</sup> These efforts link to NGO’s policy expertise role as well.

### *Providing feedback about policy weaknesses*

As NGOs implement programs, and interact with beneficiaries and local government officials, they are well positioned to provide feedback to government. This feedback is based on practical, on-the-ground experience, rather than the abstract study of policy weaknesses. Feedback is mingled with empirical data and anecdotes from the field, rather than simply delivered as criticism through media channels, petitions, or other forms commonly seen in advocacy, lobbying, or policy reform approaches.

The grassroots NGO collaborating with a government department focused on HIV/AIDS issues emphasized this: “Because in carrying out programs we are able to affect the way they do things, when we see the weaknesses, so the AIDS office can change some of their procedures.”<sup>101</sup> An environmental NGO was able to change the provincial microfinance policy by lowering the standard interest rate for loans when it received an informal visit from a central government think-tank researcher, who subsequently arranged an discussion on the policy with provincial finance bureau and Poverty Alleviation officials:

Because of our thorough understanding of the situation at the grassroots we were able to affect the policy. So as NGOs, we have the ability to give them information on how policy should be . . . Our thoughts, methods and approaches are adopted (*caina*) by government because of our practical experiences, if you go and ask the relevant government offices they will verify this.<sup>102</sup>

But *how* policy weaknesses are pointed out also matters. The director of a grassroots NGO that has been able to exert a significant influence on policy gives an account of how policy feedback can be given:

Our main goal is for society to benefit. Because our service is meticulous and detailed, it can allow government policies to be implemented well in the local area so that they can benefit. In the process of doing things, we may see that there are policies that are not being implemented. Through investigation, you may see that certain people are not getting certain things, you can give feedback (*fankui*) to the higher levels and affect things. But this shouldn’t be done in a way that places blame. Instead, you say: “Are there certain links (*huanjie*) that can be strengthened?” . . . In China, generally the

policy from above is very good, but the implementation differs, because it is people who are doing things, so the level of responsibility is different, so we may discover certain issues and reflect or report them to higher officials and give suggestions. There is receptivity to this, because it can improve their work . . . Because abroad they see problems in a different way, they say things very directly, but this is not acceptable in our culture. You have to achieve a balance in this, so the other party doesn't feel . . . It has to be expressed in a way that local people can accept, because we have to survive in this environment. You can't destroy principles that the government wants to support. This is a process, it's not just through your one organization.<sup>103</sup>

The above examples suggest that when care is taken in how weaknesses are described and the context in which suggestions are raised, there can be significant scope for policy reform by grassroots NGOs.

Although most of the examples given in this section apply to policy implementation and formulation at the local level, as discussed above, a model of policy innovations as "experimental points" can allow policy innovations to be promoted on a wider scale when they are successful. The NGO director quoted above related that officials from around the country came to observe local innovations and models, and conveyed this experience to the central leadership: "Government officials come and see what you are doing and want to take it back to their own places, they see how we have helped the local areas."<sup>104</sup> Often this type of policy learning flows from the bottom-up inside a particular province and sometimes to the center, conforming to intraprovincial and local-center patterns of diffusion.

## **Conclusion**

In comparison with the overt forms of advocacy and rights protection in which NGOs in other countries engage, and the influence those efforts can bear on political and social structures, these examples from the Chinese context may seem negligible. But their significance should be seen in light of numerous portrayals of Chinese NGOs as powerless, circumscribed by a repressive state and that see only the influences *acting on* these organizations and not the influence they are able to *exert on* the state.

Other studies have reported that while NGO activists can provide information and suggestions to the government, they express dissatisfaction that they are sought out for advice only at the government's choosing, and "have very little influence on whether the government chooses to be responsive." A desire to play a role in the decision-making process itself, rather than solely in deliberations about policy, reflects assumptions

that the ideal NGO role resembles the presence of Western social organizations in advisory bodies or in corporatist negotiations rather than their use of communicative power to conceptualize and frame social problems in novel ways, which is their role according to the tenets of deliberative democracy.<sup>105</sup>

Reciprocal engagement between NGOs and local government agencies enhances their leverage in expanding autonomy and policy influence.

The mechanisms of influence uncovered through field research and participant observation indicate that even small grassroots NGOs are often able to affect government policy and practice. In a context characterized by fragmented decision-making, decentralization and regional variation in policy implementation provide such NGOs with significant opportunities to participate in the formulation and implementation of policy on the issue areas in which they work. Particularly in areas where regulatory infrastructure and capacity is limited, NGOs can model small local innovations or act as agents of policies hitherto ignored by local officials. Officials, in turn, demonstrate “benign neglect” and a heightened tolerance of such “deviations” on the part of NGOs, not from a lack of administrative capacity, but because in arrangement, risks can be avoided and successes appropriated by officials.

While the diffusion of such innovations in policy and practice is limited by the newness and small scope of experimentation and emergent models of success, one can see traces of both intraprovincial and local-center patterns. Innovations and successes can be gradually filtered from county, district, and municipal government agencies to provincial, and, sometimes, central departments through the channels and mechanisms described above.

This is a kind of influence, but this influence is just a small piece in the corner of the huge government system. If you are perceptive, if you use keen vision, some people may be able to see a little. But many people, probably many government officials, cannot see this change. They have not yet seen this change, but . . . in future they will see it.<sup>106</sup>

It is hoped that future research can further uncover theoretical insights that can allow for more light to be shed on these dynamics of influence, as well as patterns of diffusion. The more clearly they are seen, the keener will be our vision of social and political change in China, and in authoritarian regimes more broadly.

## Notes

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## 7 Public security bureaus' containment strategy toward Protestant house churches

*Marie-Eve Reny*

It is often presumed that without formal institutional reform in a particular policy area, institutions do not change. This assumption is intimately linked to a pervasive belief that “actors’ incentives and expectations are shaped primarily, if not exclusively, by formal rules” (Helmke and Levitsky 2004, p. 725). Where gaps between policy design and implementation are common practice, however, informal institutions emerge to fulfill functions that formal rules are unable to accomplish (Chan *et al.* 1995; White 2010). In these circumstances, informal institutions may be more indicative of how actors operate and the room they have to maneuver in the system than the actual rules written into the state’s regulations. This is particularly true in socially contested or unpopular policy areas, where evasion is frequent, even rampant.

In China, the central government’s policy states that religious practice should take place within the confines of government-sanctioned religious sites. Failure to register (*dengji*) with the relevant authorities makes a religious group and all of its activities illegal (*feifa*).<sup>1</sup> Nevertheless, many Protestant church leaders routinely bypass this requirement, avowedly in the name of a strict separation between church and state. Churches seeking to operate outside government control have proliferated in urban areas since the 1990s. Normally, local religious affairs bureaus (RABs) are assigned the responsibility to supervise registered worship sites. But, because unregistered churches are illegal, the task of monitoring them falls to public security bureaus (PSBs). Public security officials have had to develop a strategy to ensure that the increasing population of extra-legal congregations does not threaten the regime’s long-term stability. In particular, local police stations are in charge of tackling cases where unregistered churches might “disrupt” everyday neighborhood peace, while the Domestic Security Detachment (*guobao dadui*), which is a special division inside the PSB, pays careful attention to church leaders’ religious and political beliefs to make sure they are not antagonistic to the regime.<sup>2</sup> While the mere presence of unregistered churches does not call local government authority into question, the fact that these religious organizations want to be autonomous from the state creates a dilemma. Authoritarian regimes by definition seek to prevent the emergence of an independent civil society and, for that reason, are wary of the intentions of organizations pushing in that direction. The law would normally compel PSBs to enforce the

central government's regulations on religious affairs and push illegal congregations to register. Yet this strategy can only work with pastors' consent, and most churches refuse to be subjected to central policies of co-optation. In this context, what strategy have PSBs employed to ensure that extra-legal churches do not pose a challenge to local stability?

In some municipalities, PSBs have used an innovative strategy of containment to ensure that several churches the RABs are unable to co-opt do not threaten local stability. The strategy has not resulted from a central–local diffusion pattern, and so far, it has not percolated up to the center. I define containment as a bargain whereby PSBs grant extra-legal churches some informal autonomy provided that they keep a low profile and share information about their internal affairs with local authorities. Access to information enables the authorities to differentiate politicized congregations from apolitical ones, and understand the complex relationships that bind different churches together in their localities and beyond. This information, in turn, helps security agents mitigate any risk that religion could be instrumentalized for purposes of political mobilization.

Not all unregistered churches are contained. Rather, containment remains but is one of many possible solutions PSBs can select from a broad menu of strategies.<sup>3</sup> Containment can be applied to certain types of pastors. These are pastors whose activities attract government concerns because they are either embedded in a church network or have a relatively large congregation (i.e. over 100 members), and they want to maximize their ability to survive as extra-legal unregistered actors. These religious leaders are often willing to compromise with the local PSB in exchange for informal autonomy and protection.

It is beyond the scope of my analysis to explain exactly why PSBs have opted for containment, but a few words on the question are in order. There is little evidence that the strategy resulted from competition between local RABs and PSBs. RABs have limited resources and it is in their interest not to spend too much money on the management of unregistered churches. Furthermore, public security officials are more powerful in the bureaucracy than their religious affairs counterparts. Their decisions ultimately have more weight than those of RABs.<sup>4</sup> There is also little evidence that PSBs contained house churches because they were embedded in community networks toward which they felt obligated to be accommodative (Tsai 2006). I conducted most of my research in medium and large urban centers, where the odds that public security officials were personally acquainted with house church leaders were quite small.

Containment is an *ad hoc* mechanism, adopted by municipal-level PSBs as a result of cost–benefit calculations regarding how best to ensure that extra-legal churches remain quiescent in the long run. Those calculations became necessary in light of a growing local governance challenge: Beijing's policy of religious co-optation was not working and the population of unmonitored churches operating outside government reach kept growing. While containment is identifiable in a number of municipalities, it does not originate from a central–local diffusion pattern and it remains too premature to determine whether it will percolate up to the center to become a national policy.

My findings are based on 114 interviews I conducted in Beijing, Chengdu, Nanjing, Shanghai, Suzhou, Zhengzhou, and Wenzhou in 2009–2010. I also was able to complete nine targeted follow-up interviews in Kunming, Ningbo, Shanghai, and Wenzhou in May 2012. Approximately one-sixth of my 125 interviews were with local state officials, the heads of religious patriotic associations (Three-Self Patriotic Movement, or “TSPM” – the main state association for Protestant churches) at the county-level or city district-level, and TSPM-registered church leaders. I selected cities based on two criteria. First, I had to include large- and medium-sized urban centers, with varying proportions of Christians. While Beijing, Ningbo, Nanjing, Wenzhou, Shanghai, and Zhengzhou have a higher concentration of Protestants, Chengdu and Suzhou have fewer of them. There are no accurate statistics on the number of Christians in China. Yet, registered Christians in Beijing would amount to approximately 95,094; 74,615 in Ningbo; 157,783 in Wenzhou; 106,305 in Nanjing; 208,580 in Shanghai; 99,969 in Zhengzhou; 16,160 in Chengdu; and 55,455 in Suzhou.<sup>5</sup>

Additionally, my sample included cities where the government coerced house churches more often and cities where it was much more permissive. Zhengzhou, Shanghai, and Nanjing are said to have more state coercion; they are also politically conservative and have relatively powerful official churches. In cities like Wenzhou, Ningbo, and Beijing, the official church is much weaker, which, for many house church leaders, can also mean there is less coercion.<sup>6</sup> Despite these variations, my findings were consistent in all cities: small, medium, and large churches embedded in domestic and/or international church networks, and whose leaders do not express antagonistic opinions toward the government, are commonly the target of containment.

In the rest of the chapter, I first elaborate on the limits of state corporatism in the management of religious affairs and explain how these limits have motivated PSBs to contain house churches. Based on specific examples from the field, I then explore the forms that containment takes and how it encourages compliance from church leaders. Finally, I conclude by looking at how containment has made local governance more effective.

## **The management of religious affairs and the limits of state corporatism**

### ***The proliferation of unregistered churches***

In China, religious practice must take place within the confines of state-sanctioned institutions. Essentially, this means that the government needs to approve all religious sites, clerics, and activities (Vala 2009). Protestant Christian religious practice is closely supervised by two government-sanctioned entities, namely the TSPM – *jidujiao sanzi aiguo yundong* and the China Christian Council (CCC) – *zhongguo jidujiao xiehui*.<sup>7</sup> This system dates back from the early years of the People's Republic of China. Then, the Chinese Communist Party (CCP) justified the corporatist representation of religion as essential to curb potential foreign

influence on religious practice (which it associated with imperialism), and to prevent religion from becoming a tool for antiregime mobilization (Marsh 2006).

State corporatism has, nevertheless, become increasingly unpopular. Underground churches have proliferated in cities since the 1990s, avowedly in the name of a separation between church and state. While Protestants accounted for 5–7 million believers in the 1980s, nonofficial sources now estimate them to range between 70 and 100 million (Homer 2010, p. 61; Madsen 2010, p. 62). Ye Xiaowen, the former Head of the State Administration for Religious Affairs (SARA) – *guojia zongjiao shiwu ju*, claimed that Christians may already constitute 11 percent of the population. Today, Beijing alone is thought to have 2,000 house churches with a minimum of several hundred thousands of believers (Homer 2010, p. 58).

Local and central governments were unable to prevent churches from proliferating for two reasons. First, until the late 1990s, county-level officials commonly distorted the statistics on increases in religious believers, anticipating that they would look bad if they reported high figures honestly. Ye Xiaowen suggested that reporting negative or lower growth in the number of believers facilitated cadres' promotion: "the negative numbers come from the cadres and the cadres come from the negative numbers" (Yang 2011, p. 96). Transparency over the expansion of the Christian population would have attracted central government concerns in a context where CCP leaders still embraced the Marxist belief that religion ought to disappear. It would have also revealed local cadres' incapacity to enforce regulations on co-optation and negatively impacted evaluations of their performance. Second, until the 1990s, offices in charge of religious affairs were, for the most part, absent at the level of counties and the local party secretaries who served as their substitutes often neglected policy issues like religion in favor of a narrow focus on economic development (Hunter and Chan 1993). Local governments thus were neither able to trace religious growth effectively nor in a position to differentiate and compare the changing numbers of official and nonofficial churches and their parishioners.

Now that the population of unregistered churches surpasses that of official congregations (Li 2009, p. 19), PSBs are faced with a dilemma. They cannot enforce co-optation upon unregistered churches without their leaders' consent, and most leaders refuse to register. Past attempts at enforcing co-optation failed to eliminate underground churches and instead contributed to their expansion. Shutting down churches caused them to change locations within a city and to hide.<sup>8</sup> When churches hide, local government officials' access to information about churches is cut off, and tracking churches and their leaders down subsequently requires additional resources. Because co-optation is ineffective and costly, PSBs are left to find a strategy that simultaneously enables them to keep an eye on the activities of extra-legal churches and ensures that churches do not eventually pose a challenge to local stability. Without regular monitoring, they cannot know what the underground clergy's political intentions are. Public security authorities want to make sure that house churches do not take advantage of their extra-legal status to push for their legal recognition as autonomous religious organizations or to use religion as a tool for antiregime mobilization.

Local PSBs have been particularly preoccupied with certain church types, which, if tolerated, could hinder local stability, and cost officials bad performance evaluations from higher echelons of the government.<sup>9</sup> These types include heretical churches with a potential to become “evil cults” (*xiejiao*), large unregistered religious organizations capable of being socially embedded or churches part of broader congregational networks, and congregations whose clergy are critical of the government. Local governments believe that these categories of churches, if not closely monitored, are especially likely to instrumentalize religion for purposes of mobilization. For that reason, an academic researcher and adviser to the State Council claimed that “the local government needs to be well informed about house churches’ religious motives and activities.”<sup>10</sup> He suggested that while many churches are harmless, some have the potential to become harmful and therefore must be subjected to closer scrutiny by PSBs. In a similar vein, the TSPM chief in a city in Zhejiang claimed that it was okay to give unregistered churches some space, “but the ones whose political overtones are too provocative and that are too high profile must be severely controlled.”<sup>11</sup>

To find a solution to a policy of co-optation that does not work, and to make sure that unregistered churches do not eventually become a challenge to local governance, PSBs have resorted to a strategy of containment. This emerged out of their experiences as the most cost-effective and efficient policy to ensure quiescence on the part of extra-legal churches. The next section turns to containment.

### ***Containing house church leaders***

Containment is a tactic whereby public security officials give pastors informal autonomy in exchange for regular access to information about their internal affairs and a commitment to remain quiescent. Containment creates incentives for political moderation: the more moderate and cooperative house church leaders are, the more lenient the authorities are toward them. These conditions are unwritten and generated outside public channels. Rules are, nevertheless, self-enforcing and patterns of interaction between public security officials and house church leaders become more predictable over time. In sum, containment is a stable strategy insofar as the two negotiating parties – PSBs and church leaders – commit to respecting the conditions of the bargain.

Containment cannot apply to actors who are unwilling to cooperate with the state on some levels, nor can it be applied to activist pastors who engage in open defiance.<sup>12</sup> From the state’s perspective, containing activists would entail granting religious leaders with “dangerous” intentions the space to grow stronger and organize collective action more effectively. This would conflict with the PSBs’ number one goal of ensuring political stability. Thus, pastors who have been targeted for containment tend to be leaders of small-, medium-sized, and large churches, who all have in common that they refrain from expressing openly anti-regime opinions or instigating provocative actions. Some might have antagonistic beliefs, but they strategically choose not to voice them; most are ambivalent



toward political authority; some are even genuinely loyal to the regime. Another characteristic that these pastors share is that they are embedded in some domestic and/or foreign network(s) of churches. While these networks are relatively loose, they generate concerns for the authorities, who fear they could grow more cohesive or enable churches to organize collective action – something local authorities obviously want to avoid.

Containment increases house church leaders' autonomy in three ways. First, they are permitted to rent or purchase unregistered property to conduct their services and religious activities. For example, a pastor in a rural area surrounding Wenzhou was able to buy property and build a seven-story building a few blocks away from a local police station. The police initially tried to make him comply with regulations on the registration of religious sites, but he refused. Following several rounds of negotiation, officials agreed to leave the unregistered church alone, as long as the pastor did not hang a cross in front of the building. That way, people driving by would not know that the building is a church.<sup>13</sup> Similar stories abound in various localities. Local PSBs usually do not interfere in house church affairs unless they receive a complaint from neighbors.

Second, unregistered churches have full control over their congregations' affairs and finances. Unlike state-sanctioned pastors, whose salary is fixed and determined by the government, house church leaders are not subject to such constraints. The revenues of an unregistered church are also more diverse than those of Three-Self churches (Vala 2009, p. 111), and may originate from Christian business communities, real estate investments, and even foreign organizations.<sup>14</sup>

Third, unregistered churches are able to promote religious education relatively freely, even if regulations stress that "no organization or individual may make use of religion to [...] interfere with the educational system of the State."<sup>15</sup> Indeed, some house church leaders have opened Christian elementary and high schools, Bible camps, and unregistered Protestant seminaries throughout the country. It is estimated that China might have 10,000 unregistered Protestant seminaries.<sup>16</sup> Some of these schools are even registered with the Ministry of Civil Affairs under the fake label of educational companies with local governments' approval.

Tacit autonomy is granted on the condition that house church leaders keep public security authorities posted on their churches' activities, share the identities of their congregants, and inform the PSB of pastors' intentions to travel domestically or internationally for religious reasons. One PSB, for instance, has become more lenient toward a pastor who, 4 years ago, was a constant target of political harassment. A friend of the pastor observed that he had become more "cooperative" with the police; not only did he share the identities of his congregants with them but he also gave them updates on his church's activities twice a month.<sup>17</sup> Similarly, the leader of a church of 700 believers in Beijing was able to rent a large commercial space for his congregation, in exchange for cooperating with the PSB. For instance, he shared the identities of one-third of his congregants upon their consent. Two-thirds of church members, nevertheless, refused to have their names revealed to the authorities. Containment in this case proved to be less

effective, even when both church leaders and the PSB endorse the strategy. Still, the pastor's good intentions were fruitful: he stopped receiving unpleasant visits from the authorities because he agreed to cooperate.<sup>18</sup>

While the information pastors provide the local police with is invaluable, PSBs also use other informants to collect information about house churches. These include official pastors, some of whom are able to build close ties with unregistered congregations.<sup>19</sup> While there has historically been a divide and little communication between official and underground pastors, the state-sanctioned clergy is now in a better position to cooperate with house churches and collect information about them. Indeed, the political and denominational tensions between underground and official churches are less significant today than they were three decades ago, and the younger generation of clerics are less likely to refuse to speak with TSPM pastors (Vala 2009).<sup>20</sup> Vala adds that several TSPM pastors in Guangdong, Heilongjiang, Hunan, Jilin, and Yunnan are enthusiastic about organizing joint religious training activities with house churches leaders (p. 117). Some house churches have more resources and flexibility to organize these events, and TSPM churches benefit from that (Vala 2009). State-sanctioned and underground pastors know each other through various channels. Some were former classmates in state-controlled seminaries.<sup>21</sup> In other cases, TSPM pastors eventually went underground but kept in touch with former colleagues (Vala 2009). Regardless of the channels through which official pastors build connections with underground clerics, these relationships enable the official clergy to collect helpful information about house churches and their leaders, how different unregistered churches relate to one another, their internal problems, and so on. In some cases, PSBs also rely on the help of members inside unregistered congregations, or even "fake" believers, planted in house churches to report back about their leadership and the content of sermons.<sup>22</sup> The authorities want to ensure that whatever pastors tell their congregants during church services is devoid of any subversive political content.

Even if pastors agree to share information with the authorities, there is always a risk that they might cross a red line during critical political periods or events. Officials in charge of public security may thus pay religious leaders a visit to remind them that their cooperation would be appreciated during such times. Prior to the 2008 Beijing Olympics, some pastors were said to have received gifts from the authorities as a reminder to keep a low profile during the games.<sup>23</sup> Similarly, before the 2010 Shanghai World Expo, some religious leaders in Zhejiang got a visit from State Security Department officials. They wanted to know whether the pastors planned on taking their children to the World Expo, and if so, when they intended to go.<sup>24</sup> Such visits are meant to remind religious leaders that they are closely monitored and to put pressure on them to remain moderate.

Despite these occasional unpleasant reminders, containment generally emphasizes mediation. Rather than storming house church services as the authorities might have done so in the 1980s or 1990s, local PSBs are more restrained in justifying their visits and interrogations. "They stress that they cannot interfere with our freedom to practice religion and that they are here because they simply want

to better understand who we are, what we do, and what we believe,”<sup>25</sup> a pastor observed.

### Containment and local governance effectiveness

Containment makes local governance more effective in two ways. First, it helps PSBs to be more selective and targeted in their dealings with house churches. Containment adds up to a repertoire of already existing formal and informal strategies they can use to navigate the underground Christian space. Authorities have discretion to judge which unregistered churches are “safe” enough to leave informally autonomous and which ones must be subjected to stricter implementation of formal rules (i.e. forced co-optation and/or coercion). Additionally, if compliant churches were to defect from the containment bargain with local authorities, the PSB has the institutional flexibility to return to implement central regulations strictly. An academic and house church leader observed that, overall, local governments are becoming smarter at managing house church affairs: “[They] rel[y] upon an informal policy of differential treatment (*qubie duidai*), dealing with different churches in different ways.”<sup>26</sup>

Second, the informal privileges granted house churches under the containment bargain have helped ensure respect for local authority. House church leaders could risk compromising their tacit autonomy if they were involved in political activism or if they publicly called for a separation between church and state, a strong disincentive to disrupting the informal bargain.<sup>27</sup> “I can be a citizen and criticize the government, but when I work for the church, that would not be appropriate,” a contained preacher maintained.<sup>28</sup> Moreover, informal autonomy has fostered the impression among some believers of their churches already having been accommodated to a large extent. “Nowadays there is no more need for house churches to fight with the government. Churches all have access to a normal life,” a house church member claimed confidently in 2012.<sup>29</sup>

So far, containment has constituted a bottom-up solution to ineffective policies of religious co-optation disseminated by the center. While many municipalities have employed the strategy, containment has yet to evolve into a consolidated policy at the national level through a local–central pattern of policy diffusion. One reason is because local government responses to underground churches still vary across localities. For instance, in particularly predatory areas across rural Anhui, Henan, Jiangsu, Liaoning, and Xinjiang, house churches remain the target of arbitrary coercion by public security officials. These officials see vulnerable citizens like underground religious clerics as attractive opportunities for generating revenues or rents relatively easily. They detain them arbitrarily on the grounds that they run an illegal church, and then ask that they pay a fine as a condition for their release.<sup>30</sup>

Although explaining such regional variation is beyond the scope of my analysis here, I hypothesize that the incentives underlying PSB governance are different in predatory and nonpredatory localities. In predatory localities, which are characterized by low levels of economic development, local PSBs make

decisions that yield short-term self-enrichment. They are not professionalized, and unlikely to believe that developing long-term strategies to help secure stability will advance officials' narrowly defined self-interest. What this means in practice is that in predatory areas, PSBs do not treat extra-legal churches as a potential security dilemma for the locality. In economically more advanced nonpredatory areas, local PSBs are more professionalized and their officials are likelier to seek career advancement through the cadre evaluation system; they make collective decisions to secure long-term stability, perceiving that these bring collective and personal payoffs (i.e. facilitate their promotion). In such places, the expansion of extra-legal churches is likely to be understood as a development that could pose a security problem if not closely monitored.<sup>31</sup> Containment is a bottom-up strategy developed by officials in nonpredatory localities who worry about securing long-term stability and their own career advancement in the system.

Another reason containment is unlikely to evolve into a consolidated policy at the national level is that Beijing has not expressed any interest in reforming its policy of religious co-optation, notwithstanding its ineffectiveness. Rather, the central state has reiterated the need to strengthen regulations on religious affairs and to force house churches to conform to them. In January 2011, *Xinhua News Service* and the *People's Daily*, traditionally mouthpieces of the Central Propaganda Department, published an article stating that SARA would "guide Protestants worshipping at unregistered churches into worshipping at government-sanctioned ones."<sup>32</sup> Additionally, official statistics recently published on unregistered Christianity suggest that the central government does not intend to reform formal institutions in the foreseeable future. Nonofficial sources, including some government officials in charge of religious affairs speaking in interviews, estimate that unregistered congregations constitute the majority of churches in China today, but *Xinhua* still claims that 70 percent of Protestant churches are state sanctioned.<sup>33</sup> The government's statistical underestimation of the total number of underground churches is revealing of its struggle to protect the legitimacy of state-sanctioned institutions.

Under what conditions could the localized practice of containment eventually transform into a national-level strategy? For starters, the central government could change its perceptions toward house churches as a result of political learning. Successful examples of containment in some localities could make the central government realize that *de facto* autonomous churches generally do not pose a threat to political stability. In such circumstances, containment could spread through a horizontal pattern of policy diffusion if the central government were to see benefits in applying the strategy widely across localities while still keeping it informal. No sign of this is apparent at this point. The central government could also preemptively legalize house churches before pressure to do so comes from the churches themselves. Yet, the legalization of house churches would require shifts in the ideology of the CCP, whereby the party would agree to abandon its corporatist management of religion. In the absence of such ideational shifts, containment is likely to remain informal and localized.

Religious affairs would not be the only or first policy area in which the central government has reformed its formal policies as a result of ideational shifts. Tsai

(2008) provides the example of Beijing's policy toward large-scale privatization. In the 1980s, many party leaders disagreed with privatization and still considered capitalists to be party enemies. But in a post-1989 context, the expansion of the private sector eventually came to be seen as crucial for China's pursued economic growth and for the regime's resilience. Jiang Zemin launched the concept of the "Three Represents" and private entrepreneurs were officially invited to join the CCP in 2001 (Tsai 2008, p. 44). Long before this policy change, local governments had already permitted large-scale private enterprises to exist on an informal basis. For Tsai, these tacit arrangements served as testing grounds for Beijing to assess the costs and benefits of legalizing large-scale private enterprises and ultimately helped ease central reforms.

Containment could become a consolidated strategy through local–central diffusion if Beijing realizes that there is a legal vacuum (which it feels must be filled) with respect to how the government should deal with unregistered churches. So far, regulations on religious affairs have been designed specifically to apply to "normal" worship organizations that are registered and approved by the government (Peng 1996). The regulations do not say what local governments should do with "abnormal" religious sites. Not only does Beijing lack a clear strategy toward unregistered churches, but several academics have also observed that the government is uncertain of how to respond to the recent large expansion of these illicit organizations.<sup>34</sup> In the context of such uncertainty, the central government may look to successful local models of house church management for inspiration. Local and central governments' mutual interest in maintaining political stability could lead Beijing to harmonize containment policies and practices across localities and regions. With local officials being unable to co-opt a large autonomous organizational space, adopting alternative measures that can effectively maintain stability without requiring significant formal institutional reforms may prove to be a win-win strategy for both local governments and Beijing.

## Conclusion

This chapter suggests that PSBs have played an important role in redesigning local policies toward unregistered churches. Rather than enforcing the SARA's policy of co-optation, PSBs have contained extra-legal churches. They have done so by enabling these congregations to remain informally autonomous, in exchange for their quiescence and intelligence about their internal affairs. Containment has not resulted from local officials' pursuit of self-interest (Pei 2006; Whiting 2004), nor has it come from bureaucratic competition between local officials in charge of religious affairs and public security. Rather, it emerged as the most effective solution to a knotty problem of governance: how to ensure that increasingly large and numerous churches operating outside state control do not pose a challenge to political stability.

Containment yields significant advantages for local and central governments. It helps authorities identify which churches are politically threatening and which are not. The strategy has also so far kept the state's corporatist system of religious

representation intact, while minimizing the risk of underground churches asking for formal recognition. But whether containment constitutes a double-edged sword for Beijing in the long run has yet to be determined. The strategy discourages open defiance, but it may not necessarily guarantee church leaders' ideological moderation over time. In the medium- or long term, house churches could seek to redefine the rules of the bargain with the Chinese state and press for formal recognition.

## Notes

- 1 State Administration for Religious Affairs (2005).
- 2 Hunter and Chan (1993). This article is about how public security bureau (PSB) officials deal with house churches, but it is, nevertheless, worth noting that some unregistered pastors have had to cope with officials from other departments, including the Ministry of State Security (*guojia anquan bumen*). State security officials particularly care about religious leaders' relations with foreigners or overseas Christian organizations. Hence, the churches receiving visits from these officials usually have ties to foreign congregations or are suspected of having some (Interview with house church leader, Beijing, 2010, among others).
- 3 Turning a blind eye toward churches and coercion (or the threat of force) are also common tactics. In predatory localities, public security officials may coerce church leaders to extract rents from them.
- 4 Academic, Hong Kong, 2010.
- 5 These numbers were collected by Asia Harvest and in no way reflect the opinion of the author. They are conservative estimates of what the registered Christian population in each city might be today, based on Three-Self Patriotic Movement (TSPM) calendars from 2002.
- 6 Academic and house church leader, Shanghai, 2010.
- 7 The TSPM and the China Christian Council (CCC) are both in charge of managing and supervising religious affairs, which include selecting or approving church leaders. TSPM churches should not be confused with the TSPM as an organization. The former are the churches that the latter supervises. The TSPM and the CCC are called the *lianghui*, or "two associations," and for Hunter and Chan (1993), they are perfect examples of products of state co-optation (p. 62).
- 8 Official from a City Management Office, Zhejiang, 2010; academic. Shanghai, 2010.
- 9 To ensure that local government officials across departments carry out party interests, the central government has implemented the cadre evaluation system (*ganbu kaohe tixi*). Cadres receive bonuses and promotions according to their performance and ability to contribute positively to the enforcement of a certain set of party objectives in their respective localities. Accomplishments are based on different standards, including their ability to secure political stability, prevent disruptive instances of collective protests, and ensure a limited number of petitions or letters of complaint by citizens, among other requirements (Edin 2003; Guo 2007; Whiting 2004).
- 10 Academic and Adviser to the State Council, Beijing, 2010.
- 11 Leader of a city district-level TSPM, Zhejiang, 2010.
- 12 Containment could not be used against congregations that resort to public mobilization. This was particularly the case of Shouwang church in 2010 and after. In the fall of 2010, Shouwang church was forcefully evicted from the space it rented for its services, and it chose to contest that decision by organizing outdoor services. Shouwang leaders were open to negotiating their informal autonomy with the Beijing municipal authorities (Vala 2013), but from the government's perspective, they had already crossed a red line by mobilizing outdoors.



- 13 House church leader, Zhejiang, 2010.
- 14 While some registered churches may draw upon similar sources of funding informally, this is not sanctioned by the State Administration for Religious Affairs and would be considered cases of corruption subject to state punishment.
- 15 State Administration for Religious Affairs (2005).
- 16 House church leader, Zhejiang, 2010.
- 17 Academic and house church leader, Shanghai, 2012.
- 18 House church leader, Beijing, 2010.
- 19 House church leader, Henan, 2010.
- 20 House church pastors are often unaware of who among the TSPM clergy is an informant. This is particularly the case as the TSPM is increasingly politically diverse. It is comprised of clerics that follow the line of the party strictly, and those who are more independent. A TSPM informant could also present himself or herself as an independent preacher to better access house church leaders.
- 21 Three-Self Church pastor, Zhejiang, 2010; house church pastor, Zhejiang, 2010.
- 22 House church leader, Zhejiang, 2010.
- 23 The interviewee who claimed so did not specify what gifts were given. For many church leaders, it is embarrassing to talk about it. Most pastors are opposed to the idea of being bribed by the authorities for information. A pastor in Zhejiang, known for having connections among politically active intellectuals, once got a gift from a university professor, who was hoping to get information about his church. At that time, the pastor was not aware that the professor worked for the *guobao dadui*. When he found out about his genuine identity, he refused to speak to him again.
- 24 House church leader, Zhejiang, 2010.
- 25 Underground pastor, Beijing, 2010; house church leader, Zhejiang, 2010.
- 26 Academic and house church leader, Shanghai, 2012.
- 27 Similarly, in the context of a different study, Stern and Hassid (2012) suggest that “speculation surrounding a warning or punishment generates a set of imagined rules designed to prevent future clashes with the authority” (p. 17).
- 28 House church preacher, Yunnan, 2012.
- 29 House church member, Shanghai, 2012.
- 30 Religious affairs lawyer, Beijing, 2010.
- 31 It is possible that factors other than the predatory or nonpredatory features of a locality explain variations in PSBs’ strategies toward house churches. For instance, a locality characterized by more frequent cases of social unrest may seek to avoid confrontation with house churches and opt for containment rather than coercion. This hypothesis would, nevertheless, need to be tested across a wide number of localities with different social unrest levels.
- 32 Xinhua, “China to Lead Protestants Worshipping at Unregistered Churches to Official Ones,” January 24, 2011; the article was republished in the *People’s Daily* on January 25, 2011.
- 33 See Note 32.
- 34 Academic. Shanghai, 2012; researcher and former United Front Work Department official, Beijing, 2010.

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## 8 Election reform from the middle and at the margins

*John James Kennedy and Dan Chen*

Village elections in China began as an experiment with a trial law in 1987 that became a formal law in 1998. However, after 25 years, competitive direct elections with an open nomination process for local leaders have not developed beyond the village level. For the Chinese Communist Party (CCP), experiments with village elections and land reform began in the 1930s during the Jiangxi Soviets period and developed further in northern Shaanxi Province in the 1930s and 1940s (Hsu 1945; Keating 1997). After 1949, village elections were part of the land reform from 1950 to 1952, but administrative villages were consolidated after 1957 into communes (township level authority). It was not until the end of the Maoist era (1949–1976) and the disintegration of the communes in favor of the household responsibility system that direct elections for village leaders were reintroduced. In the 1990s, a number of Chinese and foreign scholars suggested that the introduction of village elections was an indication of greater democratic reforms (Epstein 1996; Horsley 2001; Rowen 1996). There was a general expectation that after establishing direct elections with an open nomination process at the village level, we would observe the eventual introduction of direct elections for the township government and even county government leaders. Even the central leadership hinted at expanding popular elections. In 2006, Premier Wen Jiabao said in an interview,

we are confident that when the people are capable of running a village through direct election, they will later be able to run a township, then a county and a province, true to the principle that our country is run by the people.

(Xinhua News Agency 2006)

This established the impression of linear development of election and participatory innovations moving toward greater democratic governance and more autonomous local government bodies. Yet, despite the optimism from some scholars and hints from central leaders, election reforms over the last 25 years have only developed at the margins and reflect “delimited innovations.” Moreover, some local election innovations reduced the autonomy of local governing bodies in order to strengthen grassroots party organization. The diffusion pattern tends to be sporadic and dependent of the timing and location of the initial election innovation.

The three factors that led to this type of delimited innovation are (1) vague cues from central and provincial leadership, (2) the promotion of innovations as an incentive for leading cadres, and (3) the cadre management system at the county and municipal levels.

Indeed, economic and social policy innovations in China have become part of the policy-making process. Heilmann (2008) demonstrates that the CCP has pursued a continuous experimental-policy approach from the 1930s and 1940s until the present with “no systematic shift between Mao and Deng eras” (p. 27). This includes incentives for leading cadres (party secretaries and government heads) to create and introduce local model reforms. While Heilmann suggests innovation as a means to an end for creating new policies and model reforms, we suggest that innovation has also become an end in itself for mid-level officials at the county and municipal levels. That is, most election innovations do not challenge the current institutions and election system. These are initiated for the sake of innovating rather than creating a new election system or a significant change to the current system. We argue that the meaning of the term “innovation” has changed over time and it has become a part of the local party–government lexicon. As a result, the act of creating an innovation, even a modest election innovation, may attract the attention of higher party officials and improve chances for promotion. In response to election innovations that have challenged the system, the central leadership has resisted changes that require significant legal reform, such as amending the national election law to allow direct elections for township government heads. As a result, many of these reforms remain at the margins of institutional change.

Although dramatic and even radical local experiments have defined China’s economic development for the last 30 years, political innovations have been more even paced and controlled. However, since the late 1990s, there has been an increase in local election innovations. From the “open recommendation and selection” (*gongtui zhixuan*) method at the township level to the “two ballot system” (*liangpiao zhi*) for electing village party secretaries, mid-level leading cadres at the county and municipal levels have introduced a wide variety of election innovations. Many of these election reforms have catchphrases that are connected with originating county or municipality, such as the Wenling model of Zhejiang Province or Qing County model of Hebei Province, while other models have a more numerical ring to them such as “two recommends and one vote” (*liangtui yixuan*) or the “three recommends, one study and one vote” (*santui yikao yixuan*). These innovations have neither changed nor challenged the existing election laws. Thus the modest and limited nature of these innovations suggests that the introduction of a new modest local election reform is an end rather than a means.

Despite the various types of local election innovations, there are three shared characteristics regarding the administrative level and the extent of innovation. First, innovations were launched and implemented at the village and township level. There are few, if any, experiments that attempt to introduce direct elections and open (public) recommendation process for higher levels of government, such as county or municipal leading cadres. Innovators at the county and municipal levels tend to be promoting election experiments at the lowest administrative level

(township) or below (village). Second, election innovations are tightly controlled and thus remain at the political and institutional margins. For example, the open recommendation process creates an opportunity for local residents to participate in the selection of the township government head, but the final decision still remains with the township party branch and the county organizational department. Finally, these are mostly driven by a middle-down process rather than top-down from the center or bottom-up grassroots process emanating from the villages.

Neither the central leadership nor the village leaders have initiated the vast majority of these election innovations. It is the cadres and officials at township, county, or municipal levels that have launched most of the local election innovations. We argue that this can be attributed to the cadre responsibility system and promotion opportunities. Indeed, scholars have demonstrated that the cadre responsibility system continues to shape the incentives for promotion at the county and township levels (Edin 2004; Heberer and Trappel 2013). During our 2012 interviews with a municipal mayor and county party secretary in Shaanxi Province, the officials stated that the responsibility system (*ganwei zerenzhi*) has a list of key duties that are counted toward promotion for county and township leading cadres. Of course, social stability, economic development, and more recently urbanization are at the top of the list, but local political innovations are counted as promotion measures. However, how much these political innovations are counted toward promotion varies across municipalities and provinces. The difference among localities may depend on the weight innovation plays in cadre evaluation. Some areas have few opportunities for cadres to enact urbanization or economic development projects. For these cadres, innovations are a venue for promotion. Thus, we observe innovations across a wide variety of localities (i.e. wealthy and poorer regions). Moreover, not all leading cadres are willing to initiate innovations. Although the party-government has recently popularized the term, there is an element of risk when introducing reforms, even modest election innovations. Thus there are institutional as well as personal factors that influence the decision to enact local innovations.

The literature on election reform in China analyzes both top-down and bottom-up approaches. In line with the experimental political culture explanation, scholars have identified bottom-up grassroots innovation as the initial start, but these local experiments became top-down national policy after central leaders discussed and adopted the innovation (Bai 2001; Kelliher 1997; O'Brien and Li 2000; Wang 1997, 2003). For example, O'Brien and Li (2000) show that when a report on the 1980 village-level democratic experiment with village committees in Guangxi Province reached Peng Zhen, the vice chairman of the Standing Committee of the National People's Congress, the central debate on village elections began. Kelliher (1997) describes the central leadership debate over village elections that reflected the reformer versus conservative splits within the central leadership in the early 1980s. Once national leaders settled the debate, the national policy was enacted first as the trial law in 1987 and then the full law in 1998. Studies of recent election reforms suggest a bottom-up, grassroots process especially for local democratic consultation (*minzhu kentan*) or deliberative democracy

(*xieshang minzhu*) (Fewsmith 2004, 2005; Leib and He 2006). However, within the top-down and bottom-up debate, there is little discussion regarding the role of mid-level reformers such as leading cadres and officials at township level and the institutional incentives for local election innovations. Moreover, the explicit and stated goals of these election innovations are to create more representative and autonomous village and township governing bodies. Yet few studies have examined the success of these election reforms regarding stated goals and outcomes.

In our study, we find that election innovation in the 1990s was a unique and risky venture for local officials, and there were few incentives to change the election system or laws. However, propagating the idea of innovation provides an outward appearance that local and central leaders are attempting to resolve entrenched social and political problems. Moreover, after 2001, the central leadership was more receptive toward innovating existing election mechanisms at the margins rather than pursuing significant institutional reform. As a result, innovation in the current system may not result in substantial change but rather incremental adjustment that might not contribute to needed political reforms. Ironically, the experimental system that Heilmann points to as the foundation of past success may currently be hindering the development of systematic election reforms, as Cai also finds in her chapter on land reform.

In this chapter, we will first examine middle-down reforms including village and township election innovations. Geographic location and diffusion of reforms are important factors in assessing these innovations, because these factors help determine success and failure of local innovations. Why have some election innovations become widespread while others have remained limited in one area? While successful innovations tend to diffuse to other political jurisdictions, a lack of such diffusion suggests failure of election innovations. We identify the cases where reforms were adopted and spread to other areas (success), those that remained within the region (stagnant), or those that ended (failure). Of course, this is a difficult analysis because only the successful or stagnant reforms tend to get publicized, but there are examples of innovations that were abruptly ended by higher authorities. We find provincial and central leadership tend to approve and encourage election innovations that do not challenge party control, but at the same time solve local problems, such as two-position contradiction and increasing citizen representation. Second, we examine the politics influencing mid-level reformers and argue that one of the key factors that can explain innovation and horizontal diffusion is the cadre management system for leading cadres and the corresponding incentives for introducing innovations. The experimental political culture creates an incentive structure whereby ambitious mid-level leading cadres attempt to introduce the appropriate innovation (in the right time and place) that could be widely adopted as a model reform and gain regional and national attention. The cadre evaluation system may also generate incentives for innovation. While the cadre management system is applied to all localities, the weight of innovation as a measure of promotion varies among municipalities and counties. Finally, we examine a county case study where election reforms have created less village autonomy and an increased township party-government influence in

village affairs contributing to rural grassroots party building. This case illustrates the political process of local election innovation and regional pattern of diffusion. The implication of our findings is that despite the increase and diffusion of new election mechanisms and methods at the village and township levels, many of these innovations have not contributed to any significant change in election laws at the national level.

### **Middle-down reforms: Successful diffusion of village election innovations**

The history of village election reforms can be traced back to the late 1980s. The diffusion of reforms varies with some, such as the “open sea nominations,” becoming widespread, while others, such as various “open recommendation” methods for selecting village party secretaries, being less broadly adopted. We define “success” of an election innovation based on whether the stated or implicit goals are achieved and whether the new method is adopted beyond the originating township or county. However, change in the local election process does not necessarily mean greater villager participation or even innovation. Indeed, it is important to make a distinction between election innovation intended to advance reform and those used to manipulate the election process. For instance, amendments in village election procedures may result in greater villager participation and control over the election process, but others may reduce villager control and influence over village leader selection process. One example of this distinction is the nomination process for the village committee members and chair of the villager committee (i.e. village leader).

Before 1998, the nomination process for village committee elections was not written into the 1987 Organic (trial) Law. As a result, township and county leaders experimented with different types of nomination practices. One of the earliest innovations that allowed for the expansion of potentially qualified candidates during the nomination process was the “open sea” method. In December 1986, township and village cadres from Linshu township in Jilin Province introduced the “sea-electing” (*haixuan*) or “open sea” nomination process to elect village leaders and villager committee members (Bai 2001). This process takes place at a village mass assembly on the day of the election and any eligible voter or group of voters can nominate the candidates, and then the candidates make a campaign speech before the election. The key point is that villagers directly nominate the candidates on the day of the election. Throughout the 1990s, the “open sea” method was widely adopted in villages across rural China and the basic principle of this nomination process was added to the 1998 Organic Law of Villager Committees. According to Article 14, “For villager committee elections, eligible villagers [voters] have the right to directly nominate candidates.” Moreover, the law states that village and township party branches can provide guidance, but must not interfere in the election and nomination process.

This innovation diffused both horizontally across the village level but also vertically to be included in the Organic Law. However, the nomination process still



varies across villages within the same province, county, and even township. The reason for the variation is due to the resistance of some township leading cadres to fully implement the 1998 Election Law. Township officials depend on the village leader to implement unpopular policies, such as family planning, but an open nomination process reduces the township influence over who will be selected as the village leader. Thus, it is in the interest of the township officials to manipulate the election in order to ensure a cooperative village leader. However, there is no diffusion pattern; in fact, the nomination process can vary by municipality, county, township, or even village. One study found a strong variation among counties suggesting that full implementation of the 1998 Election Law is at the discretion of the county leading cadres (Kennedy 2007). Although there is wide variation, several types of nomination methods dominate: "open sea" nomination, self-nomination, village small group nomination, head-of-the-household nomination, as well as more controlled candidate selection procedures such as village party branch nomination and township government nominations. These controlled nomination procedures constitute election manipulation because they directly violate the Organic Law (1998). The result of this illegal interference in the village nomination process is reduced villager choice and increased local party control at the village party branch and township level. In the 1990s, a number of Chinese scholars reported on the manipulation of the nomination process (Bai 2001; He 2000; Lu 2000; Wu 2000). This manipulation of the nomination process continued after the 1998 Organic Law (Kennedy 2007). Thus, from the inception of the Organic Law in 1987, county and township leading cadres have introduced innovations to promote reform as well as those intended to manipulate the village election process.

The success of village elections especially with the open nominations and competitive selection process has also created greater tension between elected village leaders and appointed party secretaries (Guo and Bernstein 2004). This is the "two position" (*liangwei*) problem or two position contradiction (*laingwei maodun*). In the 1990s and after 2000, there have been two types of election innovations introduced to resolve the contradiction. One innovation promotes a more transparent selection of the village party secretary and maintains the autonomy of the popularly elected village committee while legitimatizing the selection of the local party leaders (Li 1999). Another innovation integrates the village party branch into the village committee, thereby strengthening rural party organization and weakening village committee autonomy (Guo and Bernstein 2004). It is unclear whether either innovation completely resolves the two position contradiction or each innovation has clear implications for the autonomy of the popularly elected village committees.

The "two-ballot system" innovation tends to focus on greater villager participation in the selection of party secretaries without interfering with the village committee elections. In 1991, a village in Chengguang township, Hequ County, Shanxi Province, implemented the first "two-ballot system." In essence, the process involves two rounds of elections. First, villagers select (open recommendation) party candidates, and then village party members directly elect the party secretary. The selection begins with a village-wide meeting where representatives of all households cast a secret ballot for



village party member candidates. The top vote getters are nominated as the official candidates only after the township party committee vets the list. During the second round, the township party committee provides the final list and party members choose the new party secretary and other members of the party branch committee. The two-step election process is believed to increase support from both party members and villagers (Li 1999; Shi 1999). Chengguang township leaders introduced this innovation in 1991 in reaction to villager complaints about the wrongdoings of a village party secretary (Li 1999). In March 1992, Hequ county organization department institutionalized the reform in a 17-article regulation. According to the regulation, the secretary and all members of the village party branch are subject to a two-stage election (*ibid.*). The “two-ballot system” was successful in expanding villager participation in the party secretary selection process.

The diffusion of the “two-ballot system” within Shanxi Province and later to other provinces also reflects the success of this innovation. It was first implemented in Hequ County and later adopted in at least 6 of Shanxi’s 11 prefectures. In 1996, it was initiated in the neighboring province of Inner Mongolia. In 1997, it was introduced in Henan Province (Li 1999). In 1998, it was adopted in several counties in Hubei Province (Wu and Jiang 2001). As recently as 2010, Longchang County in Sichuan Province introduced the “two-ballot system” (Wu 2010). One factor that contributed to the diffusion of the “two-ballot system” was support from the central leadership. In 2002, the General Office of the CCP Central Committee and the General Office of the State Council jointly issued a “Notification on Further Improving the Work of the Village Committee Elections” that emphasized the right of villagers to recommend candidates for village party leaders (CCP 2002). Thus, the “two-ballot system” is a good example of a successful election innovation that has spread both horizontally and vertically beyond the initial pilot site.

Unlike the “two-ballot system,” the “one shoulder selection” (*yijiantiao*) innovation integrates the village party branch into the village committee, thereby strengthening rural party organization and weakening village committee autonomy (Guo and Bernstein 2004). This innovation began in the 1990s as a reaction to the “two position contradictions” and has spread throughout rural China. In 2002, Central Committee Secretariat and State Council General Office produced the “Circular Regarding Improving the Work of Village Council Elections” that endorsed the “one shoulder” model that requires the village party secretary to be a candidate for the village leader (Alpermann 2013). In essence, the township party committee puts the village party secretary on the slate of candidates for village leader. The idea is that the villagers can elect a party secretary to hold concurrent positions as the nonpopularly elected party secretary and the popularly elected village leader. This is meant to resolve the two position contradiction as well as to make the party secretary-village leader more accountable to the electorate. However, this also reduces the autonomy of the village leader and village committee from the local party branch. In addition, the “one shoulder” model violates Article 14 of the Organic Law of Villager Committees (1998) that clearly states only villagers can nominate candidates. Despite this legal infringement, provincial and central leaders have allowed the diffusion of this “election reform,” since

such innovation not only intends to resolve the two position contradiction but also retains the control of party secretary at the village level.

The “one shoulder” innovation has also been selectively adopted. Rather than having a whole county or municipality adopt the specific method, only a selected number of villages within a county or township have the party secretary serving as the elected village leader. For example, Guo and Bernstein (2004) find in a 1999 evaluation of one municipality in Shandong Province that 77 percent of the village leaders were elected party secretaries. In a 2004 survey, Liu *et al.* (2009) surveyed 114 villages in five provinces and found 19 percent of the villages had the “one shoulder” village leaders, but variation among the five provinces was high. One province reported 47 percent and another province reported only 10 percent of villages adopting the model. A 2010 county study in Shanxi Province reported that 40 percent of the villages implemented the “one shoulder” method (Wang 2011). Finally, our own 2010 survey of a single county in Shaanxi Province found that 15 percent of the villages had concurrent village leader and party secretary positions.

While this innovation tends to strengthen the rural party organization, having the party secretary serve as the elected village leader may not be a problem for villagers depending on the local conditions and personalities. Indeed, village party secretaries are also rural residents and members of the community. However, the variation in the percentage of villages with the “one shoulder” model suggests uneven implementation and possible selective manipulation of the village election process. In their sample, Guo and Bernstein (2004) found that in many villages where the party secretary lost the election the winning candidate replaced the village party secretary (as long as he or she was also a party member). In another county, they found that county and township party leaders “adjusted” the composition of the villager committees so that 86 percent of the villages had congruent office holding for village leader and party secretary.

There are at least two possible conditions for such uneven implementation. First, one study suggests economic conditions influence the need for introducing the “one shoulder” model. In a government report from Kunming City, Yunnan Province, Zhang (2009) suggests the “one shoulder” model is suitable for sparsely populated villages with a weak economy and incompetent village leaders. However, this model is not suitable for larger villages with numerous private enterprises and competent village leaders and committee. Second, in our own 2010 sample county, an official from the county civil affairs department admitted that the “one shoulder” model was selectively introduced to villages that had tension among several lineage groups within the village as well as problems with the “two position” contradictions. In other words, the “one shoulder” model was used to reduce tensions as well as the autonomy of the village leader and committee.

### **Challenging party power: Unsuccessful township election innovations**

Once village elections developed in the late 1990s, many scholars and even central leaders suggested that the natural evolution would be to hold direct elections for township leaders. However, experiments with direct township elections ended

as quickly as they were introduced. There are official as well as unofficial reasons for these unsuccessful election innovations. The official explanation for the central government's resistance to direct elections of township government heads is that these elections are unconstitutional in that it violates Article 101 of the state constitution, whereby only local people's congress can elect the government head and deputy head of townships and towns. The irony is that the central leadership has selectively applied this election law to the township innovation while ignoring the "one shoulder" violation of the Organic Law of Villager Committees. The unofficial reason for central resistance to election innovation of township government head is that direct elections may strengthen the legitimacy and autonomy of the township government at the expense of the township party committee. Moreover, direct elections for village leaders have generated the "two position contradiction," and this could be more complicated at the township level. Of course, there is a blurred line between government and party, and many township and county leading cadres may serve as a government head for 3 years and then be promoted as a party secretary (or vice versa). Nevertheless, innovations that attempt to launch direct elections for township government heads have been discouraged in favor of less direct policy innovations that include villager recommendations for candidates, but maintain local party influence in the selection process.

In the case of township government head elections, the innovations have gone through an evolutionary development where provincial, municipal, and county party leaders have incrementally built on previous innovations until they reached a critical point where the innovation was stopped. Unlike the village reforms, these innovations were driven by bottom-up needs, and the mostly vertical diffusion that moves up the administrative level was halted by the central government when deemed threatening to party control. The first experiment with popular elections for township government heads occurred in early 1998 in Nancheng town in Sichuan Province. The provincial organization department allowed for the direct election of government heads and deputy heads of the township. This is the first direct township election of its kind since 1949 (Li 2002, 2007). The experiment was initiated by party leaders in the provincial organization department, without any written communication with the provincial party committee, let alone approval from Beijing (Li 2002). The election process permitted every eligible voter an opportunity to nominate candidates. However, Nancheng township party committee screened the nominees first and then the county organization department vetted the list of candidates. After the preliminary candidates delivered speeches, the primary election was conducted with roving ballot boxes. The results were announced the next day that specified official candidates for township head and deputy heads. In December 1998, formal voting took place and the township head and deputy heads were elected. Still, this election was kept secret until 2001 (Li 2002, 2007). It seems that the provincial officials were aware of the central resistance to the direct township elections, and after 2001 the central leadership officially banned these direct election township experiments as unconstitutional (see below).

Another town in Sichuan introduced election innovation for township leaders in 1998. A district party committee within Suining City conducted direct nominations for candidates and a competitive election process in Baoshi town (Li 2007). This innovation combined the villager open nomination of candidates with municipal party organization department screening and a formal written and oral examination. After the district party committee confirmed two candidates for the township government head elections, the presidium of the Baoshi People's Congress made the formal nominations for a competitive election. However, this election was illegal because the presidium should nominate the exact number of candidates rather than introducing competition among candidates (Cheng 2001). In addition, district party leaders also included township-wide people's deputies, village party secretaries, village committee directors, and villager small group leaders as selectors. Nevertheless, county, township, and village cadres viewed the open nomination of the township government candidates in competitive election in Baoshi as a success. This innovation was even praised by Sichuan provincial organization department and was reported by the provincial television station and newspapers (Li 2002). Encouraged by this, district party leaders also organized the open selection process for three other township government head elections in 1998 and 1999 (Cheng 2001; Li 2002).

Following hints about election reform from the central leadership and recent local government experiments, municipal and county leaders held direct elections for the Buyun township government head in Suining municipality. All eligible village voters were allowed to participate in direct election of the Buyun township head, and it was conducted through secret ballot with vote by proxy prohibited. The election results were announced the day following the election, and the Buyun People's Congress confirmed the results (Cheng 2001; Dong 2006). In November 1998, the Shizhong district government, also located within Suining municipality, released a document titled "Suining municipality Shizhong district trial method for the open selection of the heads of town and township people's governments (discussion draft)." The district party committee made this decision to move beyond the open nomination for candidates in an indirect people's congress election in favor of a direct election process not unlike the one spelled out in the 1998 Organic Law for village election. However, they made this move without formally consulting their superiors (Cheng 2001; Li 2002), a purposeful strategy to avoid potential opposition and to please the superiors in a way. If the innovation failed to succeed, uninformed superiors do not necessarily need to take responsibility; if the innovation was a success, the superiors can take credit (Li 2002). Consequently, Buyun township was used as a test site to implement direct election of township heads in late November 1998. The results of the Buyun elections were not kept secret, and there was swift reaction from the provincial and central leadership.

The central leadership considered the Buyun election unconstitutional and nullified it. This reaction also provided a clear demarcation line for the election experiments. In October 2001, the Party Central Committee forbade the implementation of direct elections (Dong 2006). Besides the resistance from the central

leadership, other township leaders also held reservations about direct elections. A 1998 survey of 115 township leaders in Zhejiang Province show that 77.4 percent of respondents thought it was too early to directly elect township heads (He and Lang 2001). All the township election innovations after the Buyun experiment were hybrids of partial elections and villager participation (the open recommendation and selection system). In essence, this is a compromise between direct township elections and those completely controlled by the county. Indeed, the central government identified the demarcation line for election reforms, and at the same time maintained the campaign for local innovation as well as the incentive for local officials to innovate at the margins.

Among the township head election reforms, the “open recommendation and selection” method originated in Sichuan (Chen 2011). The Sichuan organization department tried to use “open recommendation and selection” to reform the cadre recruitment system (Li 2002). With this method, candidates may be openly nominated, but the nominations must be screened by the organization department through written and oral examinations. This method won support from the central organization department, and has been adopted throughout the country, especially after 2004, when a number of provinces, such as Yunnan, Chongqing, Jilin, Jiangxi, Henan, Hebei, Anhui, Guangxi, and Guizhou, joined the list of experimental points. From 2003 to 2007, there were more than 300 townships that used “open recommendation and selection” to elect township leaders (Chen 2011). The general understanding of the innovation demarcation line and the compromise with direct township elections among provincial and county leaders after 2001 may contribute to the broad diffusion of this method.

Examples of “open recommendation and selection” also include the Nancheng (province) and Baoshi (province) models. However, there is variation in this method as the Baoshi model is more inclusive, while local party organizations tend to have more control over the Nancheng model. In the Nancheng model, the township party committee and county organization department first screened nominees before they became official candidates. However, in the Baoshi model, all township people’s deputies, village party secretaries, village committee directors, and village small group leaders are involved in the selection of candidates. Moreover, the election results are directly announced rather than vetted through the township people’s congress for official endorsement. Consequently, the Baoshi reform was criticized as violating the constitution (Dong 2006; Saich and Yang 2003a, 2003b). One reason is that the model seems to reduce the influence of the party organization department. As a result, the provincial and central leadership were not ready to relinquish the authority of municipal and county party organizations.

While higher authorities rejected the Baoshi and Buyun models, leading cadres in Suining municipality continued their election innovations through the “open recommendation and selection” method. They complied with the central government’s directive that “the current policy and legal framework of candidates nominated by the Party Committee to be elected indirectly (by the People’s Congress) with the number of candidates equal to the positions under contest” (Dong 2006). One explanation for the grassroots innovation in Sichuan and the continued push

for institutional change in Suining municipality was the strong commitment to the reform of the district party secretary Zhang Jinming. She initiated the township election reform in Suining municipality, but this ended after her 2001 promotion to another municipality in Sichuan (Fewsmith 2013; Zou *et al.* 2003). This is an example of a strong personality pushing the limits of election innovations and demonstrates the variation in ambition among mid-level leading cadres to use innovation as a possible mode for promotion. She continued to initiate election innovations in her new position, but these remained within the confines of the post-2001 compromise.

### **Caught between higher authorities and the public: Mid-level innovators**

Mid-level leading cadres at the municipal and county levels are subject to the cadre management system and performance contracts. However, fulfilling the specific performance targets may not be enough for promotion. In his study of the performance contracts for municipal mayors, Landry (2004) found that specific economic indicators for mayors, such as number of development projects and increase in local gross domestic product (GDP), had no significant influence on the promotion of the mayors. Edin (2004) suggests that promotion decisions for leading cadres are based on strengthening political control and maintaining the line of command from the municipality and county to the township and even the village. This means strengthening organizational capacity of local party branches. Thus, performance contracts and targets, such as election innovations, are only part of the cadre evaluation.

The reason why one leading cadre may pursue an innovation strategy while another may decide to adopt a different path for promotion is difficult to assess. Yet, it seems that leading cadres who meet their performance targets as well as cultivate key political connections may not have the political will or need to focus on local innovations to attract attention from higher authorities. Nevertheless, we believe that the cadre management system plays a role in the adoption and diffusion of local election innovations.

In our case studies, we find that incentives for mid-level leading cadres at the municipal and county level to introduce election innovations result from the cadre responsibility system and promotion opportunities. Indeed, Saich and Yang (2003a) examined election innovations at the township level in the late 1990s and suggested that the growing competition among ambitious leading cadres in different locations might diminish the lasting power of most institutional innovations. This may explain the explosion of relatively marginal local election innovations after 2001 that involve indirect voter participation in township government and village party secretary elections. However, we argue that the proliferation of election innovations since 2001 is due to central, provincial, and county party organizations that had co-opted the term “innovation” (*chuangxin*) into the cadre management system as a way to manage the election innovations and reform as well as to strengthen party organization at the local level. Thus innovations became a measure for promotion rather than a means for institutional change and reform.



In this analysis, we consider “leading cadres” to be the party secretaries, mayors, and government heads as well as the deputies at the municipal, county, and township levels. The party organization department (*zuzhibu*) manages the promotion of these cadres at each administrative level, and promotion to higher administrative levels depends on fulfilling policy obligations passed down from higher government offices. All personnel matters, such as appointments and promotions of leading cadres, must be approved by the organization department at the next level up the administrative hierarchy. Thus, the county organization department manages township officials. Higher authorities at the county levels, therefore, have a direct influence on the behavior of township leading cadres, and municipal levels have direct influence over county leading cadres (Edin 2003; O’Brien and Li 1999).

The mechanisms that these higher authorities use to control lower-level officials are the one-level-down management system, cadre exchange system, and responsibility (or performance) contracts. In the one-level-down management system, officials at each level have the authority to appoint their own subordinates one level down, so that promotion or reassignment depends on the ability of the subordinate to carry out policies of his or her immediate superior. In the cadre exchange system, leading township cadres are transferred to a different locality every 3 to 6 years (Edin 2003). Cadre exchange does not apply to the average township bureaucrats, only to leading cadres, such as the party secretary and the township government head. Limiting leading cadres to a short fixed term of office prevents them from developing local networks that might dilute their allegiance to higher-level authorities or provide opportunities for corruption. Promotion depends on fulfilling responsibility or performance contracts with vague as well as specific goals or targets. For example, a vague goal seeks to promote and uphold the principles of the “Three Represents” or a “Harmonious Society.” However, more concrete targets include economic development projects and full implementation of family planning policy. Leading cadres who do not fulfill their policy obligations after a fixed term may receive a lateral transfer rather than a promotion. On the other hand, leading cadres who successfully complete their policy obligations may be promoted to a higher administrative level from township to county or from county to municipality. After 2001, local innovation may also be included as a performance target.

This change may also be seen by the inclusion of “innovation” in many recognition or “exemplar” campaigns. Starting in 2001, the Central Party School and the Center for Chinese Government Innovations run by Yu Keping at Beijing University established an annual award for government innovators. The award is called “Innovation and Excellence in Chinese Local Governance” (*zhongguo difang zhengfu chuangxin jiang*) and it offers 50,000 *yuan* and national recognition for the winners. A review of the winners over the last few years reveals that the awards went to a large number of mid-level officials such as municipal and county leading cadres. The organization publishes the main innovations in local governance as well as case studies and analysis of innovations by top Chinese scholars to encourage policy diffusion (see <http://www.chinainnovations.org>).



In addition, there is a proliferation of innovation programs and policies especially for party building at the local level such as the “Grassroots Party Building Innovation” campaign (*nongcun jiceng zuzhi jianshe chunagxin*). During fieldwork in Shaanxi, one county shared several pamphlets and study booklets created for leading cadres to promote this grassroots party innovation. In the same county, the county party and government leading cadres as well as department heads were encouraged to introduce policy innovation and experiments. At the national level, the *People’s Daily* and the Chinese Communist Party Information Webpage promoted the local innovations. However, as Saich and Yang (2003a) suggest, the boldness of these innovations have diminished and most of these election “experiments” tend to include villagers’ votes or recommendations as part of the broader selection process rather than significant institutional change or challenges to the existing election system. Moreover, there are wide variations of similar themes and innovations. For example, experimental policies for villager recommendation for village party secretary (party branch) elections or selection of the township government head have over a dozen permutations such as “three recommendations and one vote,” “one recommendation and two votes,” and “three recommendations, one review and one vote.” This propagation of innovation as a widely accepted concept and strategy for promotion has contributed to the diffusion of various local election methods. Moreover, widening the scope of local innovations moderates and erodes the uniqueness of these experiments.

### **The politics of election innovation: Strengthening grassroots party organizations**

In our analysis of which election innovations diffused and which were halted, we find that the type of election innovations allowed to diffuse reflect a broader political goal of deepening grassroots party organization. Leading cadres at the county and township level take policy cues from higher authorities at one level above for promotion and transfers. Therefore, it is important to observe how the introduction of a single election innovation at a lower level fits into the larger organizational aims of the county or municipal party state. To trace the larger political context, we examine one example of a recommendation and election innovation for the village party secretary that resulted in reduced village committee autonomy, but increased grassroots party organization. This case study is based on interviews with county officials from the civil affairs department and two township party secretaries conducted in October 2010, as well as county and township party and government documents on village elections and issues related with the “two position” problem.

In 2007, a county in Shaanxi Province implemented the “three recommendations, one examination and one vote” (*santui, yikao, yixuan*) model to elect village party secretary. The three recommendations are from the masses (head of the village household), village party members, and township party organization. The one examination is the township party committee evaluation of the candidates, and the one vote is when village party members elect village party secretary from

the list of qualified candidates. The head of the county organization department introduced the innovation to resolve the “two position” contradiction in the villages. The innovation is a variation of a popularized “two ballot system” in neighboring Shanxi Province, and reflects an attempt to introduce a “new” election innovation for promotion purposes. The promotion system encourages diffusion as seen in the fact that many of these innovations only slightly vary from election and participation mechanisms adopted elsewhere rather than seem to be developed specifically to deal with local problems.

The head of the county organization department introduced the “three recommendations, one examination and one vote” model to make the selection of the village party secretary more inclusive. This method allows the head of each village household to make a candidate recommendation for the village party secretary. Since the end of the 1990s, and even after the elimination of the agricultural tax and most fees, tension between villagers and the nonpopularly elected party secretary has increased. According to an official in the county civil affairs department, tensions in a number of villages increased due to “disagreements” and “contradictions” between the village party branch and villagers including specific groups such as clans and lineages. The official perspective is that the “three recommendations, one examination and one vote” will give villagers the opportunity to have input into the selection of village party secretary which should make them more willing to comply with policy implementation and village party work. Although it was too soon to determine if the model reduced tensions in the majority of villages, county officials indicated that the innovation successfully deepened grassroots party organization. While such innovation provides opportunities for greater participation for villagers, the local party is strengthened and popular participation is co-opted into party decisions without losing party control.

In addition, we also observe how specific election innovations fit into the broader county-level policy goal of strengthening grassroots party organization. In addition to the “three recommendations, one examination and one vote,” the county leading cadres also introduced a two-recommendation system for the village committee elections. In this system, villagers participate in the recommendation for party secretary candidates, and in turn village party members nominate their own candidates for the village committee elections. Although villagers may recommend candidates, only the village party members elect the party secretary. During interviews, we found that the actual number of village party members per village is not very high, about 15 to 30 members ranging between 3 and 5 percent of the village population. Moreover, the poorer and more remote villages had fewer party members. Thøgersen (2004) found a similar pattern in his study of grassroots party organization in rural Yunnan Province. In our sample, the majority of party members were men over 60 years old, and the township party secretaries we interviewed admitted that it was difficult to get younger people to join the party and stay in these villages. This is not uncommon in the poorer villages, but it does have important implications for party member elections and especially recommendations for village committee candidates. If there are few party members in a village, then the electorate for the party secretary is small as well. As

a result, encouraging popular participation through recommendations for village committee candidates becomes an important means to strengthen grassroots party organization.

Additionally, in 2008, a township party innovation introduced congruent position holding where each township party secretary in the county was also a county deputy party secretary. The congruent position has become part of the promotion process and ensures stronger party connection between the county and township. This solidifies the direction of accountability for township party secretaries (i.e. upwards to the county). Edin (2004) also reports that same congruent position holding for township party secretaries in southern Jiangsu Province as a way to assert greater party control. Thus, the combination of these “innovations” tends to strengthen grassroots party control from the county down to the village.

In this case, election innovation was vehicle for cadre promotion that also strengthened the connection between the county, township, and village party organizations. Indeed, several county documents printed for village committee elections refer directly to the “Chinese Communist Party Grassroots Organization Work Regulation” (*zhongguo gongchandang nongcun jiceng zuzhi gongzuo tiaoli*). Interestingly, we find that contrary to initial expectations, election innovations might not challenge election laws but in fact may reinforce party influence over village elections and selection of township leaders. The political context of promotion in a hierarchal system promotes innovation and policy diffusion in ways that do not challenge party authority. Innovations that do challenge party authority are quickly halted, and few mid-level cadres have the incentive to introduce reforms that will be dismissed. In fact, the county department head who introduced the “three recommendations, one examination and one vote” innovation was promoted to the municipal party-government in early 2009. He was promoted out of the county even before the village election innovation completed a full cycle (3 years). Therefore, it was the innovation itself rather than a specific outcome or institutional change that contributed to his political advancement. Within the county, department heads and leading cadres continue to contrive marginal innovations that will facilitate their promotion without fundamentally reforming the system.

## **Conclusion**

The experimental-policy approach through local innovations is part of the CCP political culture and is responsible for introducing significant and exceptional innovations in economic and political reform especially in the 1980s and 1990s (Heilmann 2008). Many of these innovations are a means to an end for creating new policies and reforms that stimulate institutional change. However, we suggest that recent election innovations do not challenge the current institutions and the election system. For mid-level officials at the county and municipal levels, election innovations are instruments for promotion.

Unique election experiments have caught the attention of national leaders and spread to villages across rural China such as the “open sea” nomination process

for village committee elections. The timing of these innovations contributed to the level of institutional changes and diffusion of these reforms. In the 1980s, significant change in local elections at the village level was necessary especially with the end of the commune system and the opening up of villagers' economic opportunities through the introduction of household responsibility system. Village election reforms also gained support from national leaders such as Peng Zhen that facilitated more rapid diffusion of these innovations. In fact, mid-level innovations, such as "open sea" nominations, spread quickly due to receptive central and provincial leadership. However, by the late 1990s the central leadership was dealing with the closures of state-owned enterprises after 1997, and the growing rural dissatisfaction with increasing taxes and fees. Rural dissatisfaction also contributed to the escalating tension between popularly elected village leaders and appointed party secretaries. The introduction of innovations that challenged central election laws and also threatened to generate discord between the elected leader and party secretary at the township level would not be tolerated in this political and economic environment. Thus, for leading cadres in the 1990s, election innovation was also a risky venture, and there was little incentive for widespread efforts to change the election system or laws. Nevertheless, propagating the idea of innovation provides an outward appearance that local and central leaders are attempting to resolve entrenched social and political problems, such as citizen representation and the "two position" contradiction between party and elected leaders. The central leadership was more receptive toward innovating existing election mechanisms at the margins rather than pursuing institutional change. Indeed, after 2001, the proliferation of election innovations seems to have diminished the exceptionalism of local election experiments as well as the risk of innovating, especially for county-level leading cadres. Recent election innovations do not challenge or even attempt to change the current system of selection for township leaders and village party secretaries. Rather, leading cadres at the municipal and county levels are racing to introduce nonconfrontational local innovations that only have peripheral institutional influence.

As the central leadership and provincial officials propagated the idea of local innovation as an incentive for improving local governance, it also watered down the influence of the local experiments. The field is growing crowded with minor reforms and slight variations on election and selection methods at the village and township levels. As the number and type of election innovations expand, it has become more difficult for significant reforms to gain attention and stand out in the crowd. The increase in marginal and incremental changes means the central leadership has allowed limited and bottom-level election reforms and diffusion of the election innovations that do not challenge the current system. This does not mean experimentation has become irrelevant. Indeed, the experimentation norms of the CCP can continue to influence policy development in China. However, successful innovations that challenge the system require institutional incentives from above and motivated cadres from below willing to take the risk. Over the last decade, general resistance from higher authorities is hampering the current system, and there are few elite cues that encourage unique and innovative election

reforms from below. Although the experimentation system reflects innovation from below, the central leadership decides whether or not to make policy adjustments. It is possible that a more receptive leadership may encourage new political openings in the future that spur risky policy experiments from below. Yet, in the end, the choice to adopt and disseminate policy experiments remains with the central authorities.

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# **Conclusion: Compliance, resistance, innovation, and involution**

## **Assessing the politics of experimentation and diffusion**

*William Hurst and Jessica C. Teets*

The preceding chapters have given us multiple examples of how actors inside Chinese political institutions adapt central signals to engage in compliance, resistance, innovation, and involution, across issue areas ranging from land seizures to electoral reforms. In our introductory chapter, we proposed a typology of several patterns of diffusion of institutional arrangements and policies in China. Specifically, we spoke of central–local, local–central, inter-regional (horizontal), and intraprovincial patterns. We also outlined some initial hypotheses about the microfoundations of policy diffusion underlying each of these patterns, which our chapter authors then expanded upon expertly. In light of this additional evidence, we now focus on the implications of our findings for understanding economic and political reform in China under the Xi administration (and beyond), and future research needed to advance a research agenda on policy experimentation and diffusion. Specifically, we are now in a position to begin zeroing in on the mechanisms that lie behind each of the broad patterns we noted earlier.

As summarized in the comparative chart in the Introduction, our authors find that all our hypothesized factors are important for diffusion, but that they result in different patterns. Responding to local needs only seems to drive subnational diffusion – horizontal or intraprovincial – but does not encourage diffusion to higher levels of government. Bureaucratic competition does not seem to play an independent role in diffusion, but, when present, it generally occurs with center–local and local–center patterns. Central support without local need drives unsustainable diffusion where local officials defy or twist these policies as needed, but central support *with* local need drives a rapid and extensive diffusion process that, ideally, can be simultaneously top-down and bottom-up. This is the pattern that Heilmann (2008) identifies in his “experimentation under the shadow of hierarchy” approach, as do many other authors in their studies of policy diffusion. In this volume, we find much more variation in diffusion patterns than other authors, and a more nuanced understanding of the politics of diffusion driving this variation at the subnational level.

Stepping beyond our typology of patterns, we may begin to divide the analyses into four perspectives in terms of mechanisms: compliance, resistance, innovation, and involution. Narratives of compliance are principally concerned with explaining how one level of government or set of actors induces others to shape

or engage with institutions in specific ways. Resistance entails deliberate action to forestall or prevent changes in institutions or the ways in which actors engage with them, in the face of direct pressure or incentives from theoretically more powerful actors. Innovation as we conceive it is the skillful tweaking of institutions to balance compliance with resistance, adherence to government discipline with concerns about practical governance. Involution is innovation or complication of institutional arrangements that serves to advance neither vertical control and government coherence nor local public service and governability.

One can expect compliance theories to focus on the strategies employed by higher-level authorities to coax obedience from their subordinates, as well as the calculus of grassroots politicians in accepting direction from above. The real story is about how the coercive power is balanced with incentives to provide the needed mix of inducements and constraints, carrots and sticks, to get cooperation from local officials in particular contexts or policy areas. Compliance in many instances is the last best option for local elites. It leaves them little discretion, yet it leaves them exposed to whatever backlash or negative consequences any given policy might engender. We can expect instances of compliance to be rare, but because of the necessary balancing involved, any such instances offer tremendous potential insight.

Theories of resistance take as their starting point the old saying that “from above there are policies, from below there are countermeasures” (上有政策，下有对策). Scholars in this tradition look at instances in which the best-laid central plans are stymied and blocked from being implemented at the local level. We do not have many instances of pure resistance in our story. For when central policies are successfully resisted *in toto* by local agents, there is no diffusion – or even any significant change – to analyze. True resistance of this type usually gives way to either innovation or involution, once the will of local elites buckles under pressure from above or clever officials find ways of bending central policy to local advantage.

Theories of innovation have tended to focus on situations in which necessity has been the mother of successful invention. Faced with suboptimal conditions, seemingly impractical central pressures, or groundswells of popular demand, local officials sometimes manage to craft policies that achieve novel gains for the local economy or social conditions and/or strengthen the relative political position of the locality. Such innovation does not necessarily mean that benefits accrue to the individual leaders responsible. In fact, sometimes it can damage their careers (especially in the short run).

Finally, theories of involution focus on situations in which established systems of power and authority cease to function optimally or efficiently. Such situations allow individuals and actors to advance their particularistic interests at the expense of collective goods and state power. Many have remarked on involution in China historically (Duara 1987) and in the current period (Lü 2000). But to date we do not have a comprehensive theory of involution’s relationship to either overall state capacity or policy diffusion.

But what does each of these perspectives tell us about the relative resilience or vitality of various political institutions in the Chinese context? How can we

assess not only central–local relations but also whether and how the overall power of the state and its specific components at each level is waxing or waning? For a start, we assume that the prime mover in most cases is at least attempted central–local diffusion. There are cases of local–central diffusion, in which innovation occurs prior to attempts to induce compliance, but these are rare. They also tend to happen in more extreme circumstances (e.g. decollectivization of agriculture – at least according to some scholars). In the world of quotidian Chinese governance, change is usually at least initiated from above (though, innovation and involution can, of course, diffuse horizontally). The general types and specific manifestations of response to policy initiatives carry important implications for assessing state capacity, central–local relations, and the effectiveness of the overall policy apparatus in China today.

To get at this, we must understand the type of power in play. What is at stake is nothing less than the infrastructural power of the central state. This is far more than just the ability to extract resources and deliver public goods (Thomas 1989) – though it is that too – but rather it encompasses the “range of actions the elite is empowered to undertake without routine, institutionalized negotiation” (Mann 1984: 188). In Michael Mann’s original conception, he assumed that elites were obliged to negotiate with civil society. In China and other authoritarian contexts, it is central principals who must negotiate with local agents. Not a mere principal–agent relationship of control, this negotiation is the axis upon which turns the infrastructural power of the authoritarian state in contemporary China.

We can thus conceive of our four basic mechanisms through this lens. Compliance represents the effective exercise of central infrastructural power through obedient local agents who, if anything, magnify the effect of top-down initiatives while preserving their original purpose and intent. Resistance is a partial breakdown of central infrastructural power as recalcitrant local agents fail to abide by central directives. Innovation occurs when local agents bend central policies to local political or social advantage (perhaps, though not necessarily, enriching or empowering themselves personally in the process). Finally, involution describes a situation in which local agents bend central directives to their personal advantage with clearly deleterious effects on local governance, economic development, or social stability.

Where we see compliance, we can surmise that not only was central coercive power sufficiently strong to overcome local resistance but also that central infrastructural power was sufficient to ensure effective and faithful implementation of the policy as conceived and promoted from Beijing. While outright simple compliance is rare, Lin and Chen found something close to it in their analysis of state-owned enterprise (SOE) reform implementation.

Where we find resistance, we can see the failure of central infrastructural power. Such instances are rare – at least in pure and sustained form. When they do occur, they often signal the beginning of the end for authoritarian regimes. Outright resistance may have been even rarer than simple compliance, but Kennedy and Chen uncovered at least some degree of resistance in the implementation of electoral and other accountability reforms. Perhaps most striking, however, was Mei

and Pearson's finding of more direct and concerted resistance in the implementation of key SOE reform policies when they threatened to undermine entrenched local interests. Similarly, Cai discovered local officials holding out against fully implementing central directives, even when they faced serious threats, though in this case their resistance was tinged with significant innovation.

Where we find innovation (as Reny and Farid both did in their studies of Public Security Bureaus' management of house churches and the initiatives of social service nongovernmental organizations (NGOs)), we should note not only the aptitude and guile of local leaders but also the degree to which the center has been either flexible or fallible in its exercise of infrastructural power. Although superficially similar, flexibility is a sign of strength, fallibility of weakness. A flexible exercise of power entails providing space for local experimentation, adoption of pilot schemes, and application of policies in a manner that accounts for local variation. A fallible exercise entails failure to compel local agents to implement a particular policy as intended and tolerating their innovation either out of ignorance or weakness. Sometimes it is hard to tell the difference. Flexible states can appear fallible and vice versa. A strong and flexible central state allowed experimentation in the 1980s, but a weak and fallible one has allowed the proliferation of an insidious symbiosis between local states and criminal syndicates over the past 15 years (Hurst *et al.* 2014).

This pattern of innovation tolerated due to ignorance or weakness borders on involution. In involution, we see a limited exercise of central infrastructural power that leaves open sufficient political space for local elites to maintain dominance and even enrich themselves through the deliberate misapplication or partial application of policy initiatives. It is akin to what Joel Migdal so elegantly characterized as the "triangle of accommodation" (Migdal 1988), in which local strongmen must be accommodated in the formation of central policies as well as in their implementation. It is also the dominant paradigm in authoritarian (and electoral authoritarian) regimes throughout Southeast Asia and likely in much of the rest of the developing world. That involution can diffuse across Chinese localities speaks not so much to the absolute infrastructural weakness of the central state, but rather to the *mutual knowledge and acceptance* of its weakness among both central leaders and the local elites with whom they negotiate.

From this perspective, it is both telling and somewhat alarming that so many chapters uncovered instances of innovation that appear to be due at least as much to ignorance or fallibility as to strength or flexibility. Additionally, a few chapters found what looks like straightforward involution (e.g. Hurst on the wave of SOE privatization that began in the mid-1990s), and these patterns of involution appear to be diffusing, both inter- and intra-regionally. As political space for rent-seeking behavior opens up across a wider range of contexts and issue areas, we may surmise that the deleterious diffusion by involution is likely to get worse before it gets better.

The sum of these findings raises the broader question of whether China is moving toward a new political reality in which it maximizes governance innovation and development through a virtuous cycle of diffusion or rather whether it might

be backsliding toward a much less auspicious – indeed an almost ungovernable – morass of involution, plagued by ever-increasing maximization of elites' private interests at the expense of those of the state and public. This is a looming question for the Xi administration as it grapples with the legacies of partial reform in China, such as land reform, SOE privatization, creating a comprehensive electoral system, and normalization of the status of social organizations.

Studies of policy experimentation and diffusion in China usually describe a technocratic process whereby subnational actors test new policies, and once the “best” policy is identified, the central government adopts this as national law. This process allows for reform and adaptation that would be difficult in the present institutional structure of China and is often used to explain the adaptability and durability of the Chinese Communist Party (CCP; Heilmann and Perry 2011). However, in this volume and in other studies (Fewsmith 2013), we identify many cases where policy experimentation does not diffuse and politically relevant experiments are selected at the expense of socially optimal ones, such as electoral innovation as described in the Kennedy and Chen chapter. Understanding the political underpinnings of the policy experimentation and diffusion process in China assists us in highlighting important reforms to the current “experimentation under hierarchy” system.

First, the central government should attempt to make this process less political and more technocratic, perhaps by expanding the resources and mandate of the Local Governance Innovation Program, run currently by Yu Keping. This program already captures information about local innovation and uses this information to give awards to subnational cadres and to train cadres at the Central Party School. With an expanded mandate and resources, it could do this in a more systematic way to capture the lessons of local innovation and offer more comprehensive analyses to the State Council and cadres at the Party School. Second, the central government should incentivize policy experimentation more explicitly, such as offering bonuses for initiating pilot programs and larger bonuses for those that are successful and sustainable. Metrics to measure “innovation” are already being included in many subnational cadre evaluation systems as both the Mei and Pearson and Kennedy and Chen chapters highlight. These two initial institutional reforms would allow for a more technocratic process of policy experimentation and diffusion, and decrease the likelihood of disguising resistance as “innovation” or creating pilots for the appearance rather than the intent of innovation.

While it is tempting to offer a facile answer to this question of whether subnational policy innovation in China is creating adaptability or chaos, to do so would be to distort a messy and often contradictory reality. To disentangle what sort of political future awaits China under the Xi administration and beyond, we must continue to pay close attention to developments at the microlevel, as analyzed in this volume. Aggregating up will yield far more insight than will scaling down from preconceived theories, even if it may take more time and offer wisdom that is less neatly packaged. Future research in this area should focus on disaggregating state actors to focus more on subnational cadres, tracing the diffusion of subnational policy experiments, and analyzing the political factors influencing

diffusion. Once we understand its mechanisms and implications better, we can begin to evaluate whether diffusion is a potential solution to or merely a conspicuous symptom of China's great political challenges.

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