

## Policy Experimentation in China's Economic Rise

Sebastian Heilmann

Published online: 27 December 2007  
© Springer Science + Business Media, LLC 2007

**Abstract** Policy experimentation is frequently highlighted as a potent means to facilitate institutional innovation, and avoid reformist leaps in the dark by injecting bottom-up initiative and local knowledge into the national policy process. Yet experimentation remains a surprisingly vague concept in the debate over variants of economic governance. This article contributes to the study of experiment-based policymaking by examining the distinctive tools, processes, and effects of experimental programs in major domains of China's economic reform. China's experience attests to the potency of experimentation in bringing about transformative change, even in a rigid authoritarian, bureaucratic environment, and regardless of strong political opposition. Large-scale experimentation stimulated policy learning and economic expansion effectively in those sectors in which political elites could benefit from supporting new types of private and transnational entrepreneurial activity. Conversely, experimental programs largely failed in generating an effective provision of social goods which would require a combination of active societal supervision and strict central government enforcement to make it work. Though the impact of reform experiments varies between policy domains, China's experimentation-based policy process has been essential to redefining basic policy parameters. At the heart of this process, we find a pattern of central–local interaction in generating policy—"experimentation under hierarchy"—which constitutes a notable addition to the repertoires of governance that have been tried for achieving economic transformation.

---

The research for this article was supported by the German National Research Foundation and the Fairbank Center for East Asian Research at Harvard University. The author is especially indebted to Elizabeth Perry, Steven Goldstein, Rolf Langhammer, Dani Rodrik, Victor Shih, Ezra Vogel, and Rudolf Wagner for their encouragement and comments. Nancy Hearst made a crucial contribution by bringing precious sources from the Fairbank Center's library to my attention that I otherwise would have overlooked.

---

S. Heilmann (✉)  
Trier University, Politikwissenschaft, 54296 Trier, Germany  
e-mail: Heilmann@uni-trier.de

## Introduction

Thanks to the institutional turn that has taken place in development studies over the last two decades, we now understand much better the impact of diverse institutional arrangements on economic growth. However, institutionalist research has not produced many concrete answers to one crucial challenge: how to facilitate institutional change despite massive inertia and opposition that block structural reform and inhibit economic development in many political economies, without trying to impose foreign blueprints and thereby ignoring the intricacies of local conditions (Evans 2004, 2005). A critical undercurrent within the institutional turn, represented for instance by Peter Evans and Dani Rodrik, has consistently stressed that it is not enough to understand and propagandize the institutional prerequisites and international “best practices” for economic growth and good governance. We need to identify political and administrative processes that help to mobilize bottom-up initiative, stimulate institutional experimentation, and feed viable local experience into national policymaking. As Charles Lindblom (1979, p 521) bluntly notes, the real challenge of policymaking lies in “smuggling” changes into often uninviting and resistant political economies.

This article attempts to contribute to the study of policy processes that can bring about administrative, legislative, and economic institutional innovation—even in the context of a rigid authoritarian-bureaucratic environment and regardless of strong political opposition. The focus will not be *what* institutions have to be established to fulfil certain tasks from a predictive functionalist perspective. Instead, I will concentrate on *how* existing, and initially deficient, institutions can be put to work, transformed, or replaced for economic and social development in an open-ended process of institutional innovation that is based on locally generated solutions rather than on imported policy recipes.

One country that potentially can provide important lessons on this is China. Judged by Evans’ (2004, p 30) emphasis on the need to “expand the range of institutional strategies explored,” China has advanced the farthest among the large emerging countries in achieving such an objective in the economic realm. During the last three decades, China’s political economy has proven to be highly innovative in finding policies and institutions to master the complex challenges of large-scale economic change while avoiding systemic breakdown. Mukand and Rodrik (2005) move the Chinese experience, together with that of India, to the center of their analysis and stress the unorthodox policies, regulatory practices, and unclarified property rights regime that have accompanied the strong economic growth. China’s economic transition has been facilitated by an unusual adaptive capacity that, according to North (1990, p 80–81; 2005, p 154), entails an institutional structure that, despite ubiquitous uncertainties, enables it to try out alternative approaches to overcome long-standing impediments to economic development, tackle newly emerging challenges, and grasp opportunities when they open up. That this was possible in the Chinese context is unexpected since, throughout the course of its economic reform, China’s policymakers and administrators have had to work with the institutions of a Communist party-state—an institutional context that has proven to be extremely inflexible in almost every other place where this type of polity has existed (Bunce 1999).

I argue that a distinctive policy cycle, experimentation under hierarchy, is the key to understanding the emergence of an unexpectedly adaptive authoritarianism in

China. Though ambitious central state planning, grand technocratic modernization schemes, and megaprojects have never disappeared from the Chinese policy agenda, an entrenched process of experimentation that precedes the enactment of many national policies has served as a powerful correcting mechanism.

First, I propose a definition of transformative experimentation that helps to understand why this approach to reform differs fundamentally from conventional policymaking and is not confined to mere incremental change. Next, I examine the specific tools and processes that facilitated experimentalism in China. Then I turn to case studies of experimentation in crucial economic reform domains that, although sharing the same basic processual patterns, reveal very different political dynamics and innovative effects, due to a starkly varying constellation of actors, interests, and risks that promote or inhibit change in different policy subsystems. The following section synthesizes the insights that China's experience gives on the interrelation between policy learning and rent-seeking in experimentation. In the conclusion, I discuss the applicability of the experimental approach to reform-making in other political economies.

### **Policy Experimentation as a Distinct Mode of Governance**

Several prominent scholars have pointed to policy experimentation as an effective mechanism that may help to find out what works on the ground, induce behavioral changes, and produce institutional innovations that are conducive to entrepreneurialism, investment, and economic growth (Hayek 1978; North 1990; Roland 2000; Mukand and Rodrik 2005). Though the importance of experimentation is frequently highlighted, it remains a surprisingly ill-defined and vague concept. In a lax usage, experimentation often just paraphrases the cycles of policy reversals and policy reprioritization that are characteristic of all political systems if established policies come to be seen as failing, too costly, or politically risky. Experimentation in a stricter definition, as used in here, implies a policy process in which experimenting units try out a variety of methods and processes to find imaginative solutions to predefined tasks or to new challenges that emerge during experimental activity. Policy experimentation is not equivalent to freewheeling trial and error or spontaneous policy diffusion. It is 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.

In more technical terms, experimentation aims “to inform policy by using experiments with direct interventions and control groups instead of observational studies or theoretical analyses” (Mosteller 2006, pp 487, 496). If experimentation is designed and evaluated by social scientists as part of government-sponsored pilot programs, it is usually limited to narrowly defined trial measures and preselected target groups. It often is confined to the fine-tuning of implementation technicalities (such as testing the suitability of a new social security card in a pilot site), but only very rarely to substantive policy formulation (such as the extent, focus, or budgeting of social policies) that are the object of complex bargaining processes in which tactical political considerations weigh much heavier than outside expertise (Jowell 2003).

In contrast, the transformative policy experimentation laid out in this article is much more comprehensive and ambitious since it strives to alter economic and

administrative behavior and institutions. Such experimentation also opens up entirely new market segments and establishes new types of corporate organization, thereby regularly moving beyond the originally defined test groups and procedures and involving policymakers on different levels of the political system. Mosteller (2006, pp 479, 480, 492–496) sees such “reorganization experiments” as the most difficult to carry out because they depend on a chain of complex interrelations, may require a great deal of time and resources, tend to provoke stiff political opposition, have to deal with ongoing contextual changes, and are subject to political-administrative interference and changes of the rules of the game in the middle of the experimental process. Transformative experimentation usually comes in the shape of demonstration projects taking place in a politically realistic—i.e., fluid, disturbed, and contested—context that escapes strict scientific controls, but can give a fuller view of the workings of novel policies and their impact on major social, market, or administrative actors.

Policy experimentation in this variant constitutes a distinct mode of governance that differs in one fundamental way from standard assumptions about policymaking. The conventional model of the policy process that is widely taken for granted by jurists, economists, and political scientists holds that policy analysis, formulation, and embodiment in legislation *precede* implementation. Policy experimentation, as presented in this study, means innovating through implementation first, and drafting universal laws and regulations later.

At first sight, policy experimentation displays commonalities with what Lindblom (1959, 1979) characterizes as the incremental method of successive limited comparisons in making public policy: the exploratory, reversible character of policymaking and the prior reduction of political antagonisms by avoiding drastic change at the outset. Yet, under certain conditions identified in the following analysis, experimentation can transcend incrementalist tinkering with existing practices and lead to drastic policy departures and transformative change marked by the emergence of new configurations of actors, interests, institutions, ideologies, and goals.

The pursuit of extensive, continuous, and loosely institutionalized experimentation can be understood as a crucial policy mechanism in China’s economic rise. Several students of China’s political economy have already emphasized the importance of experimentation in facilitating institutional innovation and economic efficiency gains (Rawski 1995; Cao et al. 1999; Roland 2000; Qian 2003). However, the specific origins, tools, processes, and effects of experimentation in major domains of economic reform have largely been unstudied. Chinese policymakers and their advisors, in public statements and in interviews conducted for this study, tend to explain the pervasive use of experimental programs as a product of reform entrepreneurship, either as a controlled “scientific” generation of novel policies or as a way to pioneer policy change in circumvention of political and bureaucratic constraints. In social science explanations, Chinese-style policy experimentation is treated either as a product of specific structural preconditions that allowed for sectoral and spatial gradualism (see Roland 2000), as an outcome of administrative decentralization and jurisdictional competition (see Montinola et al. 1995; Yang 1997), or as a second-best approach forced onto reformists by the need to broaden their base of political support while avoiding ideological controversies and keeping factional rivals at bay (see Shirk 1994; Woo 1999; Cai and Treisman 2006).

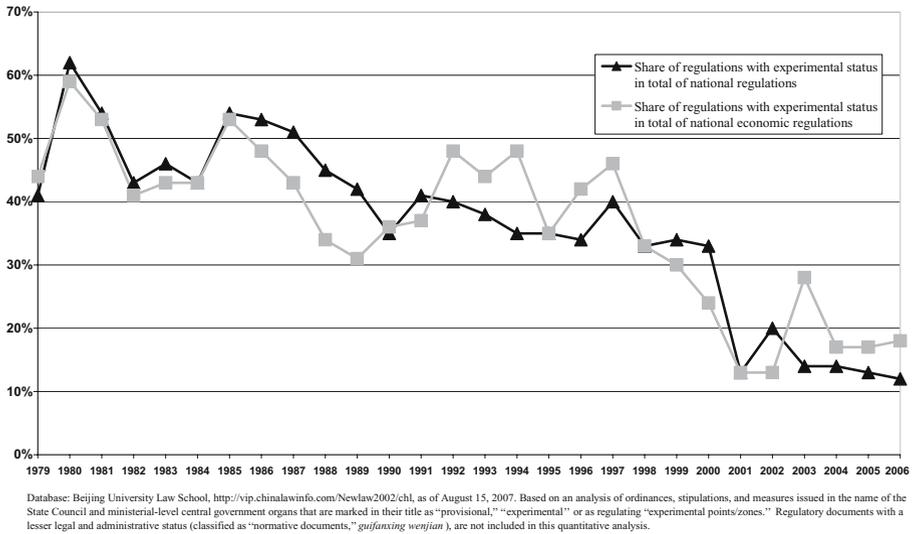
Each of these explanations captures important individual aspects of China's economic reform policy. Taking a broader view that includes the entire policy cycle, the processes that are at the heart of large-scale experimentation in China do not easily fit into standard assumptions of central-local interaction and policy implementation that are based largely on the experiences of democratic and federalist systems in advanced political economies where constitutional government produces vertical checks and balances. In the hierarchical setting of China's party-state, the causal relationship that underlies central-local interaction in experimentation is different. In China, proceeding from experimental programs to national policy is shaped by a policy terminology and methodology that stem from the formative revolution-era experience of the Chinese Communist Party, which legitimated developing policy by "proceeding from point to surface" and implementing policy "in accordance with local circumstances" (Heilmann 2008). The pattern of experimental governance that we find in China's party-state, experimentation under hierarchy, has distinctive foundations and is not identical with what is treated conventionally under sweeping headings such as decentralization or federalism. Though hands-on experimentation is delegated to local officials, China's central government plays an indispensable role in scaling up and generalizing local innovations, thereby providing coordination to the reform process. This approach to experimentation resembles the modes of social program replication that have been discussed in the development community (see Wazir and Oudenhoven 1998), in particular, the approach of "staged replication," which moves from local pilot testing through implementation in a broader selection of demonstration sites to universal replication. In contrast to the experience of other countries, including India, where the "corpses of pilot projects litter the development field" (Pyle 1980, pp 123, 124), Chinese-style experimentation managed to transform many pilot projects into full-scale operational programs that cover a broad policy spectrum ranging from economic regulation to organizational reforms within the Communist Party.

## Tools of Experimentation

In democratic polities, policy experimentation comes as mostly small-scale explorative pilot projects, as pioneering legislation by individual states in federal systems ("states as laboratories"), as experimental or sunset clauses incorporated into formal legislation, or, very rarely, as a special dispensation for local administrative districts to be exempt from certain provisions of national law (see Morand 1993; Greenberg et al. 2003; Hummel 2003). The approach in China's party-state is very different. Experimentation comes in three main forms as (1) experimental regulation (provisional rules made for trial implementation), (2) "experimental points" (model demonstrations and pilot projects in a specific policy domain), and (3) "experimental zones" (local jurisdictions with broad discretionary powers).

### Experimental Regulation

An examination of regulations dealing with the economy (including health services and social insurance reform) during the first two decades of China's economic



**Fig. 1** Experimental regulation in China, 1979–2006

reforms shows that throughout this period, well above 30% of the total were marked in their titles as provisional or experimental or as regulating experimental points and zones (see Fig. 1). In 1985, the national legislature made a formal decision, giving the central government the power to formulate interim regulations concerning economic structural reform. Since then, the government has made full use of this prerogative and issued thousands of economic regulations, bypassing the legislative bodies. Corne (2002, p 382) points to a proliferation of experimental regulations in China's economic policymaking, characterizing it as "a form of 'quasi-law,'" that is, revised and finalized by formal legislation only after sufficient experience has been obtained during the trial period. Since 1997, the share of experimental economic legislation has declined, due to the growing overall institutionalization of economic administration and World Trade Organization (WTO)-driven harmonization with international regulatory standards. From 2001 to 2006, the share of experimental economic regulation has fluctuated between a bottom of 13% (2001, 2002), and an extraordinary peak of 28% in 2003, when rural and welfare experimentation were pushed energetically by a just installed new leadership. From 2004 the share remained almost constant at 17% to 18%. Considering that the main burden for policy experimentation was formally delegated to regional governments in 1998, the share of experimental regulations issued by the central government since then remains significant. Clearly, the increasing comprehensiveness of economic legislation and the impact of the WTO have reduced, but not terminated, the role of experimental legislation in policy innovation. Although experimental regulations have lost the quantitatively striking importance they enjoyed in the 1980s and 1990s, they are particularly important in certain policy domains, such as rural and welfare reform, that draw strong attention from top policymakers. In actuality, the distribution of reformist ambition over the spectre of policy domains can still be derived from the concentration of experimental regulation in individual sectors.

## Experimental Points

Even more pervasive than formal experimental regulation is the use of a particularly Chinese governance technique in preparing, testing, and revising policies and regulations: “experimental points” or “proceeding from point to surface.” The term experimental point indicates experimentation with new policies or institutions limited to a certain policy area or economic sector and carried out in limited experimental units. Most major reform initiatives in post-Mao China were prepared and tried out by means of experimental points before they were universalized in national regulations. At the end of the 1980s, the experimental point method became fully institutionalized at the central government level. Within the National Commission for Economic Structural Reform, a high-level Bureau for Comprehensive Planning and Experimental Points was established in 1988. This bureau, in existence until 1998, was charged with guiding and coordinating the various departmental and local experimental points in economic reform, as well as with drafting related economic regulations. When the bureau was overwhelmed by the administrative complexity and political controversies inherent in this task, experimental point work was officially delegated to the regional governments in 1998 (Zhongyang zhengfu jigou 1998, pp 466–469). However, individual central government bodies continued to coordinate experimental point work to promote major national reform initiatives. General implementation guidelines are issued for every experimental point that is authorized by the central government. Initially, these guidelines were vague, simply establishing guiding thoughts and general demands. In recent years, provisions regarding the establishment, objectives, and legal embedding of individual experimental points have become much more elaborate. A series of recently designated experimental points dealing with rural reforms, for example, has been established by issuing a formal State Council circular for each pilot program (*Yearbook* 2005, pp 50–54, 90–92). Between 2003 and 2006, a total of 138 experimental point programs coordinated by 31 ministerial-level State Council organs, can be documented, with a special focus on rural economic and societal policies, financial regulation, social security, health care, and education. Each of these experiments was implemented in several locations concurrently. Notwithstanding the overall regularization of legislative procedures since the mid-1990s, experimental points continue to be emphasized by national ministries as indispensable in optimizing the implementation of national policies.

## Experimental Zones

Whereas experimental points in a narrow sense involve testing specific measures in a specific policy area only, experimental zones are geographical units and jurisdictions that are provided by the central authorities with broad discretionary powers, for example, to streamline the economic bureaucracy or to promote foreign investment and thereby generate or test new policy approaches (State Council General Office 1992, foreword). Every new reform push was marked with the establishment of a new batch of special zones (see Table 1), “creating a new system alongside, or in the interstices of, the existing one” that served as a test ground for entire new sets of

unorthodox policies and institutions (Naughton 2007, pp 406–408). The internationally best-known examples of this reform approach are China's special economic zones, which were also authorized to draft and to enact their own legislation. The Shenzhen Special Economic Zone (SEZ), due to its proximity to Hong Kong, turned out to be the most active laboratory of such legislation. It issued more than 400 pieces of economic regulation from 1979 to 1990, and exerted a strong influence on national economic legislation with regard to foreign trade and investment (Zhang 2003, pp 140, 141). The SEZ experiments are characterized by testing in a Chinese context controversial policies that often were inspired by experience in neighboring East Asian or Western advanced economies. The actual content of many major experimental policies pioneered in the SEZs, for example, those dealing with land auctions, wholly foreign-owned companies, or labor market liberalization by far exceeded the reform limitations, which then still applied to the rest of China. Thus, SEZs were distinct from conventional experimental points that remained fully integrated in the domestic economy and were subject to stiffer political constraints.

Due to China's deep integration into the international economy, constraints on experimental policy solutions have been growing. The rules of the WTO have placed restrictions on experimental regulations in the special economic zones (Wu 2004). China's national legislature has taken an increasingly critical stance toward government experimentation that bypasses formal legislation. The Chinese Communist Party itself emphasizes law-based policy implementation more. Despite these recent constraints, institutional and policy experimentation continues to be employed vigorously in China. The government's ambitious plan to create a "new socialist countryside" has become a new field of intensive decentralized experimentation. In the 2000–2007 period, a stupendous variety of experimental point programs and

**Table 1** Major types of experimental zones designated by China's central government

Major types of experimental zones	Number
1. Special Economic Zones (from 1979)	5
2. Cities with status as "experimental point for comprehensive reform" (from 1981)	72
3. Economic and technological development zones (from 1984)	54
4. Coastal economic development zones (from 1985)	7
5. Experimental zones for rural reform (from 1987)	30
6. Experimental zone for developing the commodity economy (Wenzhou 1987–1989)	1
7. High-tech industrial development zones (from 1988)	53
8. Investment zones for Taiwanese investors (from 1989)	4
9. Shanghai Pudong new zone (1990)	1
10. Bonded zones (special customs regulation) (from 1990)	15
11. Border-area economic cooperation zones (from 1992)	14
12. "Experimental zones for comprehensive coordinated reform" (from 2005)	2
13. "Experimental zones for coordinated and balanced development between urban and rural areas" (from 2007)	2

Data as of July 2007. Data compiled from: State Council General Office 1992; Yearbook, 1989ff. Homepages of the Ministry of Agriculture/Research Center for Rural Reform (<http://www.rcre.cn>), State Council Taiwan Affairs Office (<http://www.gwytb.gov.cn>)

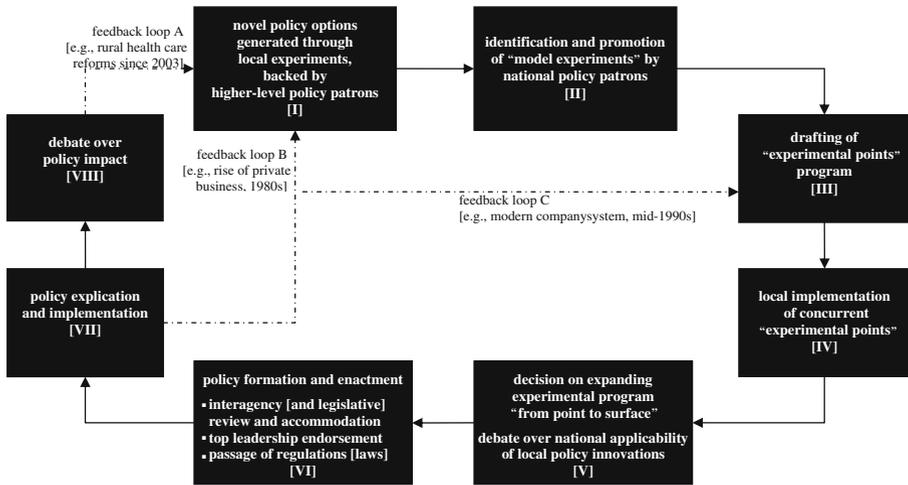
point-to-surface replication efforts have dealt with pressing rural issues such as the marketing of rural products (from 2000), reduction of taxes and levies (2000–2004), land management (2001–2004), cooperative health care (since 2003) and rural credit cooperatives (since 2003). Experimental programs resulted in major policy change regarding the abolishment of entire categories of rural taxes and levies and the introduction of central government co-funding of rural health services. Beyond rural reforms, in 2005 and 2006, two “experimental zones for comprehensive coordinated reform” in Shanghai and Tianjin have been designated by the central government to take on the issue of institutional complementarities between economic, social, and administrative development. Experimental policy tools continue to be used for pioneering reforms that belong to the top of the policy agenda.

### The Experimentation-Based Policy Cycle

In rule-of-law systems, the principle of law-based administration virtually rules out discretionary and experimental administrative measures before enacting laws and regulations. One striking feature of the legislation-centered policy process in liberal democracies is that the potential impact of policies under deliberation must be largely assessed beforehand, without first being able to refine novel policies through implementation in experimental sites. Even the much quoted state-level policy innovation in federalist systems (“laboratories of federalism”) firmly rests on issuing laws and regulations, rarely on pre-legislation administrative experiments.

Conversely, discretionary experimentation through implementation *in advance* of legislation plays a crucial role in China’s policy cycle. The analytical model depicted in Fig. 2 synthesizes common features that can be identified across the different domains of reform experimentation and also lie at the heart of the policy cases examined in the ensuing sections of this article. The processual patterns differ starkly from standard models of the policy cycle in their content and sequence.

As can be expected in an authoritarian party-state, initiation of experimental programs from inside the government is by far the most frequent starting point of policy experimentation. Based on the findings obtained in a series of interviews with senior officials who have been in charge of experimental point work over the last three decades, most experimental efforts are set off by local policymakers who, to tackle pressing problems in their jurisdiction and at the same time pursue personal career and material interests, seek the informal backing of their pilot efforts by higher-level policy patrons. Contacts are usually taken up during inspection tours of senior leaders to the localities or through secretaries, advisors, and researchers that serve as go-betweens for policymakers on different administrative levels. Encouragement and protection extended by senior leaders to local experimenters, a mechanism of informal “policy hedging,” is a major determinant of pioneering behavior on the local level since unhedged individual initiative can be either risky careerwise or simply futile in China’s polity. Even in cases such as rural decollectivization and private business growth, in which popular entrepreneurialism at the outset triggered local policy adjustments, the informal rules of policy hedging and senior patronage turned out to be decisive in legitimating, defending, and scaling up local experiments. In a hierarchical system, bottom-up experimentation goes nowhere without higher-level patrons or advocates



**Fig. 2** China's experimentation-based policy cycle

who are indispensable in propagating and rolling out locally generated policy innovations. In essence, as the case studies will demonstrate, distinguishing between bottom-up (“spontaneous”) and top-down (“mobilization-style”) initiation of experimentation is nearly meaningless since there is a strong element of both, local initiative and central sponsorship, in the initial stages of major experimental efforts. Neither works without the other. The dynamics of the experimental process rest precisely on this interplay (Fig. 2; I).

After the results and means of local experimentation have been endorsed by a powerful policymaker as a model for others, veritable campaigns to broaden support for the new policy option are initiated by top-level policy advocates and their followers. Policy advisors and researchers are typically asked to make systematic studies that take into account domestic and foreign experience. Foreign experts from economically advanced countries and international organizations are invited to contribute to policy intelligence and to drafting concrete proposals (Fig. 2; II). If positive results of local experiments and potential benefits of policy innovation can be successfully communicated among the policymaking community, and if other top-level decisionmakers join the policy initiative, national guidelines for piloting in a larger number of “experimental points” will be formulated. This action leads to an intensification of lobbying efforts by local officials who strive to obtain official “experimental point” status to gain access to central preferential treatment and to improve their career prospects (Fig. 2; III).

The central government authorizes the jurisdictions that have been selected as official experimental points to try out new policy solutions. The center also selectively extends generous subsidies (at least to the end of the 1990s) and discretionary powers to the designated pilot projects that are obliged to report regularly to higher-up authorities (Fig. 2; IV). Inspectors are sent in to conduct official evaluations. Feedback and consultation between national policymakers and local experimenters are facilitated during official conferences that deal with the lessons learned from local experiments. Policymakers identify successful innovations produced by the experimental units. These innovations become the subject of

internal and often also public debate. If several major national policymakers support the “model experience” of specific experimental points and agree to “proceed from point to surface,” a new wave of piloting based on the “model experiment” is extended to a much larger number of local jurisdictions. Simultaneous emulation campaigns are started, which frequently trigger a veritable policy tourism, with hundreds of outside delegations converging on the sites of officially designated “model experiments” (Fig. 2; V).

National policymakers order the drafting of formal government regulations or laws and give detailed directives to the drafting group. Then a complex process of interministerial review and accommodation commences, which is similar to bureaucratic regulation-making in most other polities. Top national policymakers can still stall the new policy initiative. If none of them raises and organizes energetic opposition, the new policy will be accepted by the Politburo and the State Council and imposed nationwide through central party directives, government regulations, or law (Fig. 2; VI). Yet, the adoption of new regulations or laws is not the end of the policy process since the ensuing explication and implementation of policy (Fig. 2; VII) may yield an immediate next round of experimentation, as indicated by the feedback loops B and C. Those government regulations that are marked as “provisional” and “experimental” in their title expressly invite efforts at policy modification through implementation. Feedback loop A, through which a new round of experimentation is initiated in response to the impact of new policies (Fig. 2; VIII) is the standard feedback mechanism. All three basic types of feedback processes are found in the case studies presented below.

It is the distinctive interaction of generating national and local policy that is essential for continuing the experimental policy cycle. We find the hands-on experimenters in local governments, not in the central government whose role is focused on filtering out generalizable models and policy lessons that can be derived from local experience. Centrifugal forces that naturally come up in such a policy process are contained by the hierarchical nature of the Communist Party’s system of top-down cadre appointments including all important leading positions in the polity and state-controlled parts of the economy. Due to its segmented character, policy experimentation prevents collective action by local governments that, instead of collaborating in demanding all-out decentralization, lobby the central government for individual concessions (Zweig 2002, p 52). The atomistic character of intrastate lobbying essentially bolsters the political authority of the center.

In their study of central-local interaction in China’s reform process, Cao et al. (1999, pp 124, 125) draw analogies with federalism but miss the central role of higher-level policymakers in granting local experiments a go-ahead through nonintervention, informal patronage, or public advocacy. In a hierarchical system of official appointments, the authority of higher levels is a fact and must be taken into account even by the boldest local-level pioneers of reform. The “federalism, Chinese style” approach suggests that hierarchical governance has been replaced by administrative decentralization, jurisdictional competition, and central-local bargaining. Although these factors play an important role in central-local interactions and local governments clearly feel more confident and secure today in making local policies, none of these changes has eliminated the weight of hierarchy and ad hoc central interference in China’s political economy.

As an organizational approach, the Chinese “point-to-surface” approach in policy development is devised to ensure local initiative while maintaining ultimate hierarchical control (Shue 1980, p 88). Since this method is decidedly open with regard to the means of reform, it naturally leads to decentralized initiatives that cannot be anticipated by the center. In the process of policy conception, implementation, and revision, governments at various levels thereby become participants, sometimes leaders, and sometimes followers of reform initiatives. The entire policy process must be conceptualized as an oscillating multilevel interaction rather than as a dichotomized process of centralization vs. decentralization.

### The Impact of Experimentation in Major Policy Domains

The pervasive use of special tools and patterns of experimentation substantiates the importance of unorthodox policy mechanisms in China’s approach to economic reform but it does not tell us much about the actual interests behind and effects resulting from experimental regulations, points, or zones in the policy process. To clarify the functions and effects of experimentation in China’s economic transformation, we must take a closer look at crucial contested domains of reform-era policymaking.

As the discipline of policy studies has amply demonstrated, policymaking is “taking place in policy domain-specific subsystems, which operate more or less independently of one another in a parallel fashion” (Adam and Kriesi 2007, p 129). Thus the specific configuration of institutions, actors, interests, ideas, issues, and risks in a policy subsystem determines the chances and outcome of generating and revising policy. Moreover, policy subsystems tend to reveal durable patterns of interaction, which undergo major changes if systemic or sectoral crises destroy core elements of the old configuration or, less dramatically, if new actors with differing interests and ideologies manage to enter the subsystem and modify the customary rules of the game.

Table 2, to classify major domains of China’s economic reform according to their dynamics of experimentation, is structured along two key variables: (1) newly emerging economic actors and their opportunities for interest articulation in national

**Table 2** Patterns of experimentation in crucial domains of economic reform

	Denial and delay of new actors’ entrance to national policymaking	Entrance of new actors to national policymaking
Extensive policy risks in experimentation	<i>restructuring of state-owned enterprises (1978 to mid-1990s)</i> incentivized bureaucratic experimentation results in policy repertoire tinkering	<i>liberalization of foreign investment and trade (1992–2000)</i> central policy pushes trigger runaway local experimentation
Limited policy risks in experimentation	<i>toleration and promotion of private business (1978–2004)</i> low-key local experimentation sets off successive national policy adjustments	<i>introduction and regulation of stock exchanges (1990–2005)</i> technocratic grand experimentation allows policy repertoire extension

policymaking, and (2) the policy risk attached to experimentation, which shall be narrowly defined as the extent of uncertainty among national policymakers about the impact of experimentation on core properties of the political economy (state control and dominant position of state enterprises) and on essential systemic outputs (economic growth and social stability).

Political macroconditions that were particularly volatile in the first phase of economic reform (1978–1991) clearly had an immediate impact on all policy subsystems scrutinized here. Before the 1992 breakthrough, economic policy was strongly contested and “reforms seemed to advance strongly in certain years and retreat in other years” (Naughton 2007, p 97). In spite of the changing “macroclimate” in China’s polity, the four policy subsystems studied here (state-owned enterprises, private business, foreign trade and investment, and stock markets) reveal “microclimates” that diverged considerably from overall policy moods. Each policy subsystem worked according to a distinct logic of policymaking. Yet policy change through experimentation played a crucial role in each of them.

The following case studies cannot do justice to the entire sequence and intricacies of reform measures in the respective policy domains. They focus instead on the factors that help to understand the contribution of experimentation to facilitating policy change: configurations of policy actors, risk perceptions, conflict (“factionalism”) and consensus among national policymakers, the interplay between local initiative and central auspices, and the type and extent of policy renewal ranging from instrument tinkering to strategic departures.

### Policy Tinkering in a Closed Subsystem: State-Owned Enterprises

From 1978 to the mid-1990s, reforms at the core of China’s socialist economy, the state-owned enterprise (SOE) sector, took place in a virtually closed policy subsystem, dominated by powerful entrenched state bureaucratic and enterprise actors with strong vested interests and shored up by official ideological adherence to state control over strategic economic assets. Under such restrictive conditions, policy experimentation was confined to tinkering with a policy repertoire that continued to be based on bureaucratic instruments and incentives for making SOE management

**Table 3** “Experimental point” programs in China’s state sector, 1978–1997

“Experimental point” programs	Duration
Delegation of greater autonomy to enterprises	1978–1980
Delivery of contract profit to the state	1981–1982
Substitution of profit with taxes	1983–1986
Transformation of SOEs into shareholding companies	1984–1997
Bankruptcy regulation	1984–1997
Preparation of national SOE law	1984–1988
SOE responsibility contracts	1987–1993
Establishment of enterprise groups	1991–1997
Modern company system (formal corporatization of large SOEs)	1994–1997

Source: *Yearbook*, 1988ff

less wasteful. SOE managers and their patrons in industrial bureaus continued to be successful in lobbying top policymakers to refrain from exposing SOEs to harder budget constraints. These factors worked to delay the entrance of new actors and new regulatory frameworks to the national policymaking arena for almost two decades until the subsystem was forced open by mounting financial crisis perceptions and the imposition of a new policy paradigm that aimed at “grasping the big, releasing the small SOEs.”

Experimental programs of the 1980s (see Table 3), designed as a response to chronic SOE deficits, were mostly oriented to improving the performance (less waste, better products, less state subsidies) of SOEs by giving additional incentives and decision-making powers to SOE managers, albeit without transforming the bureaucratic institutional set-up outside of the companies (Steinfeld 1998). But reformist experimentation met with strong reservations among parts of the policy-making community, industrial bureaucracies, and in the national legislature. In effect, SOE restructuring that went beyond bureaucratic incentive changes and aimed at full-scale corporate reorganization turned out to be unachievable (Tanner 1999, pp 167–205).

In the mid-1990s, an ambitious new attempt to transform SOE operations was undertaken with the “modern company system” (MCS) experimental program. Confronted with an accelerating accumulation of debts in the state sector, top policymakers agreed on the need for a thorough SOE restructuring. As a result, a new Company Law was passed in 1993, which envisaged the transformation of SOEs in modern business entities with transparent structures of corporate governance, while still shunning the privatization of state assets. Policy implementation was then based on “post-law experimentation” (see Fig. 2, feedback loop C): MCS experiments were designed for smoothing the implementation of a reformist national law. Experimental points established between 1994 and 1997 revealed how tacit resistance from SOE managers and their supervisory agencies produced a heavily bureaucratized design for experimentation and consequently meager results. An evaluation of MCS implementation in the 100 centrally supervised experimental companies at the end of 1996 concluded that “almost no experimental enterprise had achieved the minimum standards of a modern corporation” (Wu 2005, p 155; *Yearbook* 1995, pp 138–141, 1996, pp 222–226). Overall, the MCS program appeared heavily inhibited and clumsy in comparison to pioneering experimentation that was possible in more open policy subsystems.

Policy tinkering in SOE reform helped to contain political and ideological controversies, but allowed only incremental change. By the mid-1990s, SOE management had moved away from the rigid administrative coordination of earlier times, but was still dominated by the socialist legacy of soft budget constraints. The closed and sluggish policy regime in China’s state sector was finally broken up as a response to mounting financial risks that were perceived as an immediate threat under the impression of the Asian Financial Crisis. From 1997 on, China’s central policymakers moved beyond incremental reform and adopted a package of transformative policies to turn SOEs around, including large-scale mergers, management and employee buyouts, takeover of small SOEs by private investors, the inclusion of foreign strategic partners, closures, mass layoffs, and exposure to international competition through WTO accession.

## Successive Policy Adjustments in a Curbed Subsystem: Private Business

From 1978 to 2004, the promotion of private business took place in a curbed policy subsystem. For ideological reasons, private business was one of the least acceptable emerging elements of China's reforming socialist economy and, at the outset, it was tolerated only as a marginal, temporary, and controlled supplement, which would not be allowed to disrupt the public sector and therefore did not pose a major policy risk (Young 1995, pp 13–14; Naughton 2007, p 95). The lack of official recognition severely restricted articulating private sector demands at the level of national policymaking until the mid-1990s. Locally, business interests were curbed by officials who first obstructed the emergence, then learned quickly to extract new resources (most importantly taxes, fees, kickbacks, and employment) from private companies. Private business underwent a gradual political ascent starting locally and progressing from a "dependent clientelism" to varying patterns of "symbiotic clientelism" in which private business people managed to further their interests through collusive relations with local officials who had a strong interest in opening up a new source of levies that were not subject to central control (Wank 1995). In the early stages of reform, central-state policy toward the private sector was confined to vague policy statements that had to be "stretched" by local governments to justify their ideologically dubious experimentation with private business. Therefore, policy change in this reform domain was driven by unregulated, low-key, yet broad-based, bottom-up initiative. We find a sequence of "unpublicized experimentation, followed by a general 'in principle' approval, then by ratification and specific regulations" only after the new type of economic activity was already widespread and flourishing locally (Young 1995, pp 9, 10, 16).

Moving beyond low-key local experimentation, reformist central policymakers undertook one prominent initiative for elevating a powerhouse of self-propelled private business development to a national model when they designated the coastal Wenzhou District an "experimental zone for developing the commodity economy" in late 1986. After obtaining the official label of an "experimental zone," the local government pioneered in formulating China's first regulations on joint stock cooperative firms and nonstate financial institutes, both ideologically contested institutional innovations that attracted much national publicity for about 2 years. Reformist policymakers and their advisors used the Wenzhou experimental zone for demonstrating the potential advantages of private business growth and questioning the official adherence to public enterprise dominance. The debate of the Wenzhou pattern of private sector development served to prepare the ground for new national regulations and a constitutional amendment in 1987 and 1988, which improved the legal standing of private firms. The Wenzhou experiments had a major impact on national policy debate until the political winds blowing from Beijing changed drastically in 1989 and terminated de facto the official legitimation of the "experimental zone" (Parris 1991).

Local policymaking in relation to the emerging private sector generally was strongly discretionary. Myriad provisional regulations and temporary permits were extended to private businesses. One crucial informal institutional innovation utilized by local governments across China was the registration of private companies as "collective" enterprises to conceal the true extent of the private sector and avoid the political pitfalls involved in the open promotion of nonsocialist businesses. This transitional institutional arrangement was tacitly tolerated by central policymakers

for most of the 1980s and 1990s, and came under heavy political fire only briefly in the ideologically charged 1989–1991 years. Pretending to belong to the socialist “collective” economy was crucial to the private sector’s spectacular, yet concealed, growth until the mid-1990s when most entrepreneurs began to feel safe enough to stage their public “coming out” and register officially as private businesses. Local experience with promoting and regulating private business provided the basis for successive national policy adjustments between 1987 and 2004. Official access to the *national* policy arena was obtained from the mid-1990s through the reactivation of the Federation of Industry and Commerce that had represented the private sector in the 1950s, but had been mostly dormant since then. However, private enterprise and private property did not enjoy full legal protection until 2004, when the state constitution eventually guaranteed them a credible legal and political status.

The ascent of China’s private sector is a remarkable example of how bottom-up experimentation could promote gradual, yet transformative change of policy parameters and priorities in a politically curbed subsystem over time. From the central government’s view, a problematic legacy of locally driven policy innovation lies in the entrenchment of collusive networks between local officials and entrepreneurs that continue to pose a challenge to unified national regulation and taxation of the private sector.

### **Policy Departures in a Cracked-Open Subsystem: Foreign Investment and Trade**

As opposed to the 1978–1991 period when foreign opening and in particular the SEZs had been the subject of major political controversy, the promotion of foreign trade and investment thereafter took place in a policy subsystem that was effectively cracked open by the vehement reformist initiative that Deng Xiaoping launched in early 1992. Consequently, China’s integration into the world economy became driven by a drastic policy departure consisting of redefinitions of the goals, instruments, and rules guiding foreign economic relations. Economic opening was officially extended from the coastal regions to all of China (Yang 1997, pp 54, 55), thereby accepting extensive risks inherent in downgrading central state control over the external economy and in inviting powerful foreign investors and companies. Ideological debate and factional rivalry that had accompanied market-oriented reforms in the 1980s were effectively silenced by Deng’s injunction to stop discussing economic reforms in rigid antagonistic (socialist vs. capitalist) categories. The shockwave of the Soviet Union’s disintegration contributed to elite consent as much as the fierce reformist determination displayed by Deng.

The ambitious central policy packages formulated in 1992–1993 called for “breakthroughs” in transforming the economic system into an internationally competitive “socialist market economy,” and amounted to a comprehensive overhaul of economic strategy. This forceful central policy push signaled a strategic opportunity for policy entrepreneurs and was immediately understood locally. The pushes in reform in 1992–1993 triggered runaway “policy grabs” and spontaneous experimentation by local officials who were eager to benefit from the new dynamism in transnational economic exchanges. Local policymakers started to lobby and

compete fiercely for establishing special trade and development zones and obtaining preferential conditions, which were extended selectively to such zones by the central government for boosting foreign trade and investment. In securing policy privileges, formal bureaucratic application procedures proved to be much less important than the support of individual national policymakers who could serve as advocates for the establishment of particular zones (Zweig 2002, pp 82–84). Since many local policymakers did not wait for proper approval to establish special zones, the central government undertook several retrenchments, forcing the closure of illicit zones that consumed huge public investment funds and offered generous tax breaks to investors without considering the effects on macroeconomic stability, which the central government struggled to maintain.

During the post-1992 policy rush, economic exchange with the outside world was transformed from a supportive measure of reform to a core pillar for China's modernization. The proliferation of special trade and development zones broadened support among local officials for market-oriented reform (Shirk 1994, p 42). Since the special zones provided foreign trade opportunities to countless domestic firms, which conducted their transactions through the zones, their function exceeded that of a local experimental site and became crucial to the rise of new foreign trade-oriented actors across China's domestic economy (Yang 1997, pp 48, 49).

The preferential policies, bestowed by the central government on trade and development zones, provided economic incentives. The policies also allowed much room for experimenting with novel administrative and business practices, as well as generating new policies and regulations (Chung 1999, pp 106, 111), while most other jurisdictions would still have to play by the established rules. This "segmented deregulation" created a policy regime in which central decisionmakers, not market forces, determined "which localities had a comparative advantage in foreign and domestic trade" (Zweig 2002, p 50). From an economic perspective, this approach created severe distortions and opportunities for rent-seeking. But viewed from the angle of policy reform, segmented deregulation was highly conducive to reorienting policymakers and administrators toward foreign trade and investment.

Joint central-local initiative achieved the post-1992 policy departure in China's foreign economic relations. Central policymaking determined the speed and extent of deregulation, but the keen competition for preferential policies from localities exerted new types of pressures on central policymakers. Remarkably, China's economic opening before WTO accession was "accomplished not by liberalization but by a series of administrative arrangements that achieved a bureaucratic consensus and accommodated the individual incentives of central and local political officials" (Shirk 1994, p 55). The post-1992 policy rush prepared the ground for the next, much more formalized, treaty- and law-based policy departure in 2001 when WTO accession deepened and liberalized China's participation in world trade and investment flows.

### **Policy Repertoire Extension in an Alien Subsystem: The Stock Market**

In the construction and regulation of stock exchanges in Shanghai and Shenzhen since 1990, we find rare constellations of a policy subsystem that represents a radically alien element in China's political economy. The stock market had to be

“squeezed into an economy still based on state planning and the absence of private ownership” (Walter and Howie 2006, p 4). Insiders from China’s newly emerging financial industry, using their excellent connections to top national policymakers, had launched the policy initiative to establish stock exchanges in a socialist economy on an experimental basis. Limited experiments with issuing and trading shares had already been approved by the central government and undertaken locally during the 1980s. Remarkably, giving stock exchanges a hand in financing and restructuring enterprises was judged as a low-risk initiative, and therefore supported even by otherwise staunch sceptics of capitalist methods since this experiment was designed to open new channels for SOE financing without relinquishing state control over the listed entities (Green 2004, pp 61, 62). Operating under this basic political constraint, financial reformists managed to insert a new set of policy instruments—stock exchanges with their accompanying institutions and organizations—into a political economy that lacked a credible legal definition and protection of private property and equity rights. The introduction of stock exchanges represents technocratic grand experimentation that produced an odd combination of state control over most listed assets with the volatile dynamics of equity trade and speculation.

While the Shanghai and Shenzhen stock exchanges were under the supervision of the respective municipal governments in the early to mid-1990s, national regulatory institutions were only gradually established from 1993 to 1997. After 1997, responding to a series of shocking domestic scandals and to the challenge of the Asian Financial Crisis, the central government brought the stock exchanges under its control, affirmed their legitimate role in a socialist market economy, and made them serve the purposes of national industrial policy and SOE restructuring.

Stock market history in China overall is marked by a series of experimental schemes. Most important are the repackaging of SOEs into listed shareholding companies (early 1990s), selected transfers of legal person shares to new owners (1992), Hong Kong listings of SOEs (1993), the creation of “national champions” (from the second half of the 1990s), and several attempts at reducing the holdings of state shares (1999, 2001, and 2005). The two stock exchanges were classified as “experimental points” from 1990 to 1997.

The novel set of policy instruments that was introduced through the stock market experiments has brought much less substantive change to the Chinese economy than might be expected. The stock market has remained dominated by government agencies and government-linked companies that are eager to raise capital by going public, but share a uniform interest in inhibiting the access and ascent of private corporate competitors. Politically well-connected companies continue to dominate the market, and since market growth has been given priority most of the time over strict regulation and supervision, the officially sought-after benefits of the shareholding experiment (better corporate governance, greater competitiveness, etc.) have largely remained unattainable (Walter and Howie 2006, pp 130, 166). Overall, the fundamental policy parameters guiding the stock market experiment from the beginning have not been transformed. The exchanges were not designed to become a vehicle of privatization but to raise capital for government-linked companies. Whether the institutions and practices of stock markets can be credibly adapted to China’s corporate world, which is dominated by state actors and shaped by constant political interference, remains an unresolved issue.

## Limits to Elite-Sponsored Experimentation: Social Goods and Societal Participation

In these case studies of major economic reform domains, initiatives from inside government played a predominant role in starting experimentation, as expected in an authoritarian polity. Yet outside initiation—that is, bringing policy issues to the national agenda through social demands and public criticism—has become more prevalent in China's recent reform experience.

The Chinese practice of elite-sponsored experimentation, geared toward opening new channels for profit-seeking *and* rent-seeking opportunities, does not work toward solving the problems of those segments of society that are left behind in economic growth, and do not have the economic status and means to influence administrative discretion in their favor. A systematic dilemma of providing social goods in developing political economies is that decentralization, due to collusive rent-seeking between local political and economic elites, may work to the detriments of weaker segments of the population (Duflo et al. 2006). Remarkable for an authoritarian polity and clearly influenced by international assistance, official experimental programs, aimed at improving the provision of social and public goods, have been complemented by more systematic societal consultation since the mid-1990s. Developments in the intensely disputed fields of rural health care and land management illustrate this phenomenon.

As a side-effect of rural decollectivization and marketization, the Maoist basic cooperative medical scheme, which had been effective in preventing epidemics and raising life expectancy in the countryside, had collapsed almost totally by the early 1990s. By 2003, about 80% of the rural population did not have health insurance anymore. Since the late 1980s, various local pilot programs in rural health care reform were endorsed by the central government and carried out with continuous involvement of international governmental and nongovernmental organizations. Yet none of the pilot efforts was scaled up to a national reform program (Liu et al. 1999; World Bank 2005). Rural health reform was only pushed to the top of the national policy agenda when the Severe acute respiratory syndrome (SARS) epidemic in 2003 triggered massive public criticism, which resulted in government statements that the official approach to privatize health care in the countryside had been a failure (Wang 2006, pp 92, 93). Public outrage over SARS led to a change of the policy paradigm. Central state co-funding of a “new cooperative medical scheme” became the basis of large-scale experimental programs that have been undertaken in 300 of China's more than 2,000 counties since 2003, and is supposed to be rolled out to all counties by 2010. An innovative feature of several pilot programs lies in making local health providers and administrators accountable and health expenses transparent by giving popular representatives seats in supervisory boards. Though all tested variants of the new medical scheme leave many expenses uncovered and therefore will only bring partial solutions, health care has been pushed so swiftly to the top of the policymaking agenda due to a new intensity of public involvement and societal pressure on policymakers.

Regarding land management, in the context of rapid industrial and real-estate development in formerly agricultural areas, abusive requisition of land and standards of compensation have become an intensely contested policy issue since the

end of the 1990s. This has led to local protests, petition movements and public debate about better regulation. After a new law on land management issued in 1998 had failed to resolve the massive ongoing conflicts in this domain, the central government sponsored and evaluated several rounds of local experimental programs (Ministry of Land and Resources 2004) and issued a series of trial regulations on transfer of tenure rights and fair compensation in 2005 and 2006. Continuing public protests were the driving force behind these extensive efforts to revise official policy.

The tensions, conflicts, and abuses inherent in the policy domains of rural health care and land management have not been settled. But popular voice and peasant interests have been legitimized as an integral part of policymaking by the new variant of consultation-based experimentation. Since 2004, new government guidelines for “administration in accordance with the law” institutionalized the role of public scrutiny as a regular element of drafting legislation (Horsley 2007). State-sponsored experimentation that seeks societal input has complemented policymaking but not transformed it. Societal input is still ad hoc and selective, and civil society organizations do not play a significant or even institutionalized role. While agenda-setting has become more open to public demands, the policy process overall is still controlled by government decisionmakers. Therefore, as officials and foreign advisors involved in years of experimental point work stated: In China, “efforts to effect change must focus on mobilizing powerful officials... to allow experimentation to proceed. A major challenge for scaling up program reform in China is to build innovation from within the government, which remains the main actor in service delivery and policy formulation” (Kaufman et al. 2006, p 18).

Herein is a core dilemma of policy experimentation in China’s current political system: experimental programs that do not immediately benefit the interest of local elites have a very slim chance of success. The negligence in dealing with rural health care before the SARS crisis makes this clear. Only when public outrage pushed health system reform to the top of the national agenda and societal consultation became an integral element of the policy process, experimentation started to generate reform schemes that promised to be more viable.

The crucial importance of bottom-up initiative to policy experimentation is also manifest in economic reform. Experimentation resulted in transformative change only in those domains in which new social actors, in particular private entrepreneurs and transnational investors, were involved most actively and worked to redefine the entrenched rules of the game and power configurations. The emergence of new profit-seeking entrepreneurs was promoted by political-administrative actors who found many new opportunities for dividend-collecting (a variant of rent-seeking that is compatible with economic growth, see Wedeman 1997; Khan and Jomo 2000) in the rapidly growing private and transnational economic activities. The interplay between profit-seeking and dividend-collecting behavior made policy experimentation and institutional innovation in private business and foreign economic relations so forceful. In policy domains that remained under the control of vested state interests and in which state actors tended to lock in partial reforms, as in SOE management (from 1978 to mid-1990s) or stock market regulation (1990–2005), extensive experimentation produced incremental innovation at best.

## Policy Learning and Rent-Seeking

China's economic reforms and the policy processes that facilitated them clearly cannot be reduced to being policymakers' rational response to inefficiencies in the economic system (Shirk 1994, p 5). For policymakers who wanted to change how the economy was run, experimentation turned out to be a good way to deal with *uncertainty* (the inability to predict the precise impact of specific reforms in a rapidly changing economic context) and *ambiguity* (the ambivalence, vagueness or even confusion in policymakers' thinking about their policy priorities). From setting policy objectives to selecting model experiments and identifying generalizable policy options, experimentation has always been an intensely politicized process driven by tactical opportunism, personal rivalries, clashes of interests and ideologies, ad hoc crisis management, or strategic consensus-building.

In the political logic of economic reform, policy experimentation minimized beforehand political resistance and political risks. In cases of success, it maximized political support and political gains retrospectively (see Lau et al. 2000, pp 121, 122). Forceful policymakers such as Zhu Rongji (China's preeminent economic leader from 1992 to 2002) utilized experimental point programs for ultimately preparing radical policy shifts in the guise of incremental measures, thereby reducing reform risks while increasing the "controllability" of reforms (Liu et al. 2006, p 281). Zhu applied experimental schemes to smuggle changes into the system and to achieve objectives that would have been politically obstructed if revealed more explicitly beforehand (see Lindblom 1979). Policy experimentation thus reduced the frictions and delays characteristic of top-level consensus-building and interagency accommodation, and helped to avoid protracted policy deadlock.

Generally, 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. Locally produced policy innovations were taken up by reformist policymakers eager to bolster their political standing and keep rivals at bay by godfathering local models that could demonstrate the success and the superiority of their policy preferences. Local reform efforts that did not fulfil these highly contextual and tactical political exigencies did not reach the national policy agenda, as the example of experimental point work in rural health care up to 2003 illustrates. On the other hand, active godfathering of individual reform exemplars by central policymakers could produce fake models that yielded wasteful policies and were propagated for years until revealed to be unsustainable (see Steinfeld 1998, pp 165–224). Since local experimenters tend to do everything possible to overstate the positive results of pilot projects in their jurisdictions, ill-conceived and impracticable experiments often were detected only when they were being spread "from point to surface." Experiments that got stuck at this stage were rarely publicly terminated in a clear-cut way, but more often just abandoned silently after having already created considerable social or budgetary costs (e.g., experiments with transforming the structure and functions of local governments in the 1980s, with decentralized pension funds in the 1990s, or recently, with restructuring myriad public services institutions). Failing local experiments could be costly, but they were certainly much less costly than a failing national policy. Since 1978, "proceeding

from point to surface”—i.e., testing local experimental findings in more jurisdictions before entering into national policy formulation—has been effective as a practical litmus test for novel reform approaches and has prevented the national disasters that were characteristic of several major economic policy initiatives of the 1957–1978 period (see Heilmann 2008).

Significantly, reform-era experimentation did not stop at the search for individual models and policy solutions. In society at large and among policymakers in particular, the experiments with rural markets, private business, and foreign investment stimulated comprehensive collective learning processes that resulted in serial, and cumulatively radical, redefinitions of policy parameters for economic activity. Experimentation prepared the ground for major policy breakthroughs by unspectacularly furthering dispersed institutional and policy changes, initiating learning processes and ideological reorientation among policymakers, undermining entrenched interests, and providing test runs for innovative administrative and business practices. Experimentation over time fundamentally transformed the economic policy context for local and central decisionmakers. In combination with transnational push factors such as the Asian Financial Crisis and WTO negotiations, experimentation also provided the policy planks for reform departures in 1997 (SOE reform) and 2001 (foreign trade liberalization) that included drastic reorganizations of China’s economic administration. Protracted policy learning was helped immensely by the massive growth in private and transnational economic activity, which lessened the pressure for immediate structural reform in the public sector and thereby provided policymakers with an unusually opportune environment for long-term adaptation.

One of the most controversial aspects of policy experimentation is how much it promotes rent-seeking. Beyond a doubt, generating new sources of income for local elites has been a key driving force behind experimentation. However, this cannot be simply equated with wasteful or predatory rent-seeking since the material and career interests of local officials became an effective catalyst for entrepreneurship and innovation in many policy areas. In accordance with the logic of dividend-collecting, experimental programs that were seen as conducive to economic growth and generating income within a particular jurisdiction were vigorously pursued by local officials. This incentive structure facilitated the emergence of new profit-seeking entrepreneurship, new administrative practices, and new types of economic organization that frequently turned out to be highly productive in the rapidly changing context of China’s political economy. From this perspective, experiments in economic policy generated diffuse benefits that unleashed the energies of local-level institutional and policy entrepreneurs, and facilitated a broad realignment of interests among China’s administrators in accordance with the economic growth imperative set by the national leadership.

China’s record of policy experimentation is a key to understand how it was possible to create a series of transitional institutions that were mostly not optimal by market-economy standards but often had efficiency-enhancing and Pareto-improving effects (predominantly in the 1978–1994 period of reforms) or Kaldor-improving effects (predominantly since about 1994 and particularly in the state sector), and were therefore politically acceptable, even to initial reform opponents (Lin et al. 2003, p 327). Neoclassically oriented Chinese economists tend to reject the use of

experimental points in generating policy as an anachronistic instrument of an administrative state, which is incompatible with creating the “level playing field” for competition in a market economy and which blocks the market-driven creation of reform solutions (Pan 1995; Li 1997). Such a critique appears to be detached from the realities of China’s political economy. The omnipresence of state agencies in the economy cannot be theorized away, but renders the administrative involvement, guidance, and accommodation inevitable during economic restructuring. For China’s policymakers, the economic inefficiencies that are seen as inherent in experimentation by neoclassical economic theory, in practice, constitute a “necessary transaction cost” (Oi and Han 2006, p 21) to maintain political control and social stability under conditions of rapid economic change.

## Conclusion

Compared to the standards of legal consistency and political and administrative accountability, which are part of policy implementation and which constrain open-ended experimentation under democratic rule of law, the Chinese practice of experimentation must be seen as arbitrary and volatile. Yet the unexpected capacity of the Chinese party-state to find innovative solutions to long-standing or newly emerging challenges in economic development rests on the broad-based entrepreneurship, adaptation, and learning facilitated by experimentation under hierarchy. The combination of decentralized experimentation with ad hoc central interference, which results in selective integration of local experiences into national policy-making, is a key to understanding how a distinctive policy process has contributed to China’s economic rise.

Limitations of experimentation are obvious in improving the provision of social and public goods, such as access to basic health care and credible protection of land tenure rights in rural areas or environmental protection. Providing these goods requires a combination of societal interest articulation and imposition of national policy priorities that goes against the short-term interests of most local elites, and is therefore not easily reconciled with the entrenched mode of economic experimentation.

Can China’s experiment-based policy process provide lessons for other political economies in overcoming impediments to institutional change? China’s experience strongly points to the potency of tapping local knowledge, mobilizing bottom-up initiative, and embracing decentralized policy generation as a contrasting approach to the imposition of international “best practices” regularly proposed by foreign economic advisors (e.g., Meyer 2007). Moreover, it demonstrates that applying static standards of legislative consistency to the utterly fluid context of transitional economies can be detrimental to policy learning and institutional adaptation. It is questionable whether, in a context of rapid economic change, “deftly tailored regulations” really increase certainty for market participants and encourage rational market behavior (Corne 2002, p 375). On the contrary, by conducting extensive experimentation in advance of formal legislation, it may be possible to avoid many of the leaps in the dark that are inherent risks in rash national legislation (Jevons 1904, p 9).

In addition, China’s case explains how complex the relationship between policy entrepreneurship and rent-seeking can be. Policy experimentation was shown to provide

effective incentives for administrative and economic actors to embrace new types of both profit-seeking and rent-seeking behavior. Since changing the basic incentives for policymakers and administrators is the precondition for motivating reforms, it appears indispensable to let local officials derive dividends from entrepreneurial activities and growth in their jurisdictions. However, a symbiotic relationship between officials and entrepreneurs that is conducive to economic growth is likely only in a stable political environment in which actors can afford to take a longer-term perspective, not a grab-and-run view, of their interests in the local economy.

The effectiveness of experimentation in China has rested on special institutional prerequisites (the Communist Party's unitary, hierarchical organization and the Maoist legacy of a cellular economic administration), narrowly defined policy imperatives (growth by any means), particular actor constellations (policymakers who are not subject to electoral cycles or democratic competition and who are unified in their commitment to economic modernization, yet argue over the priorities, parameters, and methods of reform) and particular actor expectations. Whereas most policymakers, administrators, interest groups and citizens in advanced political economies tend to view experimental policy departures as risky, destabilizing and threatening to their stakes in the status quo, political actors in a less advanced, yet rapidly growing economy with a successful reform record, such as China, tend to display more confidence in the benefits that policy change may bring.

Experimentation can innovate policy only as long as the dynamism of growth expectations is intact and newly emerging interest groups feel comfortable in a fluid policy environment. As soon as expectations and interests begin to shift in defense of the status quo or in favor of redistribution, experimentation becomes subject to increasing limitations from both the demand and the supply side: interest groups and citizens come to ask for universal and irreversible regulation; domestic and transnational economic actors come to demand equal legal protection; and policymakers come to see experiments as a political risk that can be avoided by legislative incrementalism. A hardening of political and legal constraints on policy experiments is the result. In most political economies, this mechanism works against extensive experimentation, despite the many obvious advantages it would entail for institutional adaptation. China's party-state, which has demonstrated for almost three decades the potency of experiment-based economic governance—but has begun to narrow the range of experimental activity in recent years—will hardly escape this logic.

## References

- Adam S, and Kriesi H. The network approach. In: Sabatier PA, editor. *Theories of the policy process*. 2nd ed. Westview: Boulder; 2007. p. 129–54.
- Bunce V. *Subversive institutions: the design and the destruction of socialism and the state*. New York: Cambridge University Press; 1999.
- Cai H, and Treisman D. Did government decentralization cause China's economic miracle. *World Polit* 2006;58:505–35(July).
- Cao Y, Qian Y, and Weingast B. From federalism, Chinese style to privatization, Chinese style. *Econ Transit* 1999;7(1):103–31.
- Chung JH. Preferential policies, municipal leadership, and development strategies. In: Chung J, editor. *Cities in China: recipes for economic development in the reform era*. London: Routledge; 1999. p. 105–40.

- Corne PH. Creation and application of law in the PRC. *Am J Comp Law* 2002;50:369–443.
- Duflo E, Fischer G, and Chattopadhyay R. Efficiency and rent-seeking in local government: evidence from randomized policy experiments in India. Paper presented at the Harvard Institute of Quantitative Social Science; December 2006.
- Evans P. Development as institutional change: the pitfalls of monocropping and the potentials of deliberation. *Stud Comp Int Dev* 2004;38(4):30–52. (Winter).
- Evans P. The challenges of the ‘institutional turn’: interdisciplinary opportunities in development theory. In: Nee V, Swedberg R, editors. *Sociology of capitalist institutions*. Princeton: Princeton University Press; 2005. p. 90–116.
- Green S. The development of China’s stock market, 1984–2002: equity politics and market institutions. London: RoutledgeCurzon; 2004.
- Greenberg DH, Links D, and Mandell M. *Social experimentation and public policymaking*. Washington, DC: Urban Institute; 2003.
- Hayek FA. *The constitution of liberty*. Chicago: University of Chicago Press; 1978.
- Heilmann S. From local experiments to national policy: the origins of China’s distinctive policy process. *China J* 2008;59. (January 2008).
- Horsley JP. The rule of law in China: incremental progress. In: *China: the balance sheet in 2007 and beyond*. Washington, DC: Center for Strategic and International Studies; 2007. p. 93–108.
- Hummel K. *Recht der behördlichen Regelungsexperimente [Law of experiments in administrative regulation]*. Berlin: Duncker and Humblot; 2003.
- Jevons WS. [1880]. *Experimental Legislation*. Hitchin: Garden City; 1904.
- Jowell R. *Trying it out: the role of ‘pilots’ in policy-making*. London: Government Chief Social Researcher’s Office; 2003.
- Kaufman J, Zhang E, and Xie Z. Quality of care in China: scaling up a pilot project into a national reform program. *Stud Fam Plann* 2006;37(1):17–28.
- Khan MH and Jomo KS, editors. *Rents, rent-seeking and economic development*. Cambridge: Cambridge University Press; 2000.
- Lau LJ, Qian Y, and Roland G. Reform without losers: an interpretation of China’s dual-track approach to transition. *J Polit Econ* 2000;108(1):120–43.
- Li S. Li Shuguang jianyi quxiao gaige shidian [Li Shuguang proposes to abolish experimental points of reform]. *Jinrong xinxi cankao* 1997;5:32.
- Lin JY, Fang C, and Zhou L. *The China miracle: development strategy and economic reform*. Hong Kong: Chinese University Press; 2003.
- Lindblom CE. The science of muddling through. *Pub Admin Rev* 1959;19(2):79–88. (Spring).
- Lindblom CE. Still muddling, not yet through. *Pub Admin Rev* 1979;39(6):517–26. (November–December).
- Liu Y, Hsiao WC, and Eggleston K. Equity in health and health care: the Chinese experience. *Soc Sci Med* 1999;49(10):1349–56. (November).
- Liu Z, Wang S, and Huang Z. Lun gonggong guanli shijian zhong de ‘shidian’ fangfa [On the piloting method in public management practice]. *Dongbei daxue xuebao* 2006;8(4):280–83. (July).
- Meyer, MW. Notes on China’s second economic transition. Paper presented at the China Institute for Policy Studies, Beijing, January 27; 2007.
- Ministry of Land and Resources. 2004. “Wenbu tuijin zhengdi gaige” [Advance the reform of [compensation for] land expropriations with steady steps]. June 25, 2004. At [http://www.mlr.gov.cn/pub/gtzyb/gtzygl/tdzy/gdbh/t20040625\\_13553.htm](http://www.mlr.gov.cn/pub/gtzyb/gtzygl/tdzy/gdbh/t20040625_13553.htm). Accessed March 15, 2006).
- Montinola G, Yingyi Q, and Weingast B. Federalism, Chinese style: the political basis for economic success in China. *World Politics* 1995;48:50–81. (October).
- Morand CA, editor. *Évaluation législative et lois expérimentales [Legislative evaluation and experimental laws]*. Aix-en-Provence: Presse Universitaires d’Aix-Marseille; 1993.
- Mosteller F. *Selected papers of Frederick Mosteller*. New York: Springer; 2006.
- Mukand SW, and Rodrik D. In search of the Holy Grail: policy convergence, experimentation, and economic performance. *Am Econ Rev* 2005;95(1):374–83.
- Naughton B. *The Chinese economy: transitions and growth*. Cambridge: MIT; 2007.
- North DC. *Institutions, institutional change and economic performance*. Cambridge: Cambridge University Press; 1990.
- North DC. *Understanding the process of economic change*. Princeton: Princeton University Press; 2005.
- Oi JC and Han C. *Political and institutional complementarities: the evolution of corporate restructuring in China*, unpublished manuscript, Stanford University; 2006.
- Pan X. Gaige shidian cheng bai bian” [Discussing success and failure of experimental points for reform]. *Fazhan* 1995. (2):26–9.

- Parris KD. Local society and the state: the Wenzhou model and the making of the private sector in China [unpublished dissertation]. Indiana University; 1991.
- Pyle DF. From pilot project to operational program in India: The problems of transition. In: Grindle MS, editor. Politics and policy implementation in the third world. Princeton: Princeton University Press; 1980. p. 123–44.
- Qian Y. How reform worked in China. In: Rodrik D, editor. In search of prosperity: analytic narratives on economic growth. Princeton: Princeton University Press; 2003. p. 297–333.
- Rawski TG. Implications of China's reform experience. *Chin Q* 1995. (144):1150–73.
- Roland G. Transition and economics: politics, markets, and firms. Cambridge: MIT; 2000.
- Shirk SL. How China opened its door. Washington, DC: Brookings; 1994.
- Shue V. Peasant China in transition: the dynamics of development toward socialism, 1949–1956. Berkeley: University of California Press; 1980.
- State Council General Office, editor. *Zhongguo jingji gaige kaifang shiyanqu* [China's experimental zones for economic reform and opening]. Beijing: China Youth; 1992.
- Steinfeld ES. Forging reform in China: the fate of state-owned industry. NY: Cambridge University Press; 1998.
- Tanner MS. The politics of lawmaking in post-Mao China. Oxford: Clarendon; 1999.
- Walter CE, and Howie FJT. Privatizing China: inside China's stock markets. Singapore: Wiley; 2006.
- Wank DL. Bureaucratic patronage and private business: changing networks of power in urban China. In: Walder AG, editor. The waning of the communist state: economic origins of political decline in China and Hungary. Berkeley: University of California Press; 1995. p. 153–83.
- Wang S. Zhongguo gonggong zhengce yicheng shezhi de moshi [Patterns of public policy agenda-setting in China]. *Zhongguo shehui kexue* [Social Science in China] 2006;5:86–99.
- Wazir R, and van Oudenhoven N. Increasing the coverage of social programmes. *International Soc Sci J* 1998. 145–54. (UNESCO) (155) (March).
- Wedeman A. Looters, rent-scrapers, and dividend-collectors: the political economy of corruption in Zaire, South Korea, and the Philippines. *J Dev Areas* 1997;31(4):457–78.
- Woo WT. The real reasons for China's Growth. *Chin J* 1999;41:115–37. (January).
- World Bank. 2005. "Rural Health in China." China Rural Health Analytical and Advisory Activities, *Briefing Note 6* (May).
- Wu J. Understanding and interpreting chinese economic reform. Mason: Thomson; 2005.
- Wu X. Chuangxin: Jingji tequ lifa de guihun [Innovation: the heart and soul of legislation in the Special Economic Zone]. *Hainan renda* 2004;1:30–1. (Hainan People's Congress).
- Yang D. Beyond Beijing: liberalization and the regions in China. London: Routledge; 1997.
- Yearbook of Economic Structural Reform in China (Zhongguo jingji tizhi gaige nianjian). Beijing: Financial and economics. 1988ff.
- Young S. Private business and economic reform in China. Armonk: Sharpe; 1995.
- Zhang J. Bianfa moshi yu zhengzhi wendingxing [The mode of legal reform and political stability]. *Zhongguo shehui kexue* 2003;1:137–50.
- Zhongyang zhengfu jigou [Organs of the central government]. Beijing: Reform Press, 1998.
- Zweig D. Internationalizing China: domestic interests and global linkages. Ithaca: Cornell University Press; 2002.

**Sebastian Heilmann** is professor of comparative government and the political economy of China at Trier University, Germany. He is the author (in German) of *The Politics of Economic Reform in China and Russia* (2000), *The Political System of the PRC* (2002, updated editions 2004 and 2008), and co-editor of *The Politics of Financial Market Regulation* (forthcoming).