

# 3

## Vertical power structure and policy experimentation in Xi's China

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### Abstract

This chapter investigates the change of China's vertical power structure under the leadership of Xi Jinping and how it affects the recent practices of policy experimentation in China. Based on existing literature on intergovernmental relations and policy experimentation, this chapter points out that both central and local policymakers have the desire and incentive to initiate policy experiments to improve policies or their administrative effectiveness, including in response to international and domestic developments. This chapter then offers a novel framework predicting that the change of vertical power structure may have differing effects on central-led and local-led policy experimenters. Empirically, descriptive evidence drawn from multiple sources in various policy domains from 2013 to 2020 shows how changes in the fiscal, administrative and political power structures influence the central- and local-led policy experiments.

**Keywords:** vertical power structure; decentralisation; multilevel governments; policy experimentation.

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## Introduction

Policy experimentation has been viewed by scholars in economics, political science, public administration and public policy as an important driver of China's economic growth and social development in recent decades (Qian et al. 2006; Heilmann 2008b; Xu 2011; Teets and Hurst 2014). An increasing amount of literature suggests that Chinese policymakers use policy experiments to fine-tune or reform policy goals or instruments to adapt to changing environments (Heilmann 2008a; Wang 2009). A key institutional determinant of policy experimentation in China is the division of powers between the central and local-level governments—the vertical power structure that shapes the intergovernmental interactions in China's multilevel system. A common argument in previous research is that decentralisation benefits policy experimentation while centralisation hurts it. However, extant studies rarely distinguish between decentralisation's effects on central-led and local-led experiments (Kollman et al. 2000; Cai and Treisman 2009; Teets and Hasmath 2020). Policy experiments initiated by the central or local governments rely on different powers and resources. This begs the question, 'Do centralisation or decentralisation have differing effects on central-led or local-led experiments?' Answering this question can provide scholars and practitioners with important insights into the patterns of policy experimentation, the dynamics of intergovernmental interactions and the potential determinants of the performance of different levels of governments across jurisdictions or countries.

In this chapter, I provide theoretical and empirical analyses of the relationship between changes in the vertical power structure and policy experimentation in China under the leadership of Xi Jinping. In the theory section, I first show that policy experiments in China could be classified into two categories: central-led and local-led policy experiments. A central-led policy experiment refers to the top-down policy process in which the central government initiates and supports the experimentation of a new policy or project, while a local-led experiment refers to the bottom-up policy experimentation process initiated and supported by a local government. I then point out that both central and local policymakers have the desire and incentives to initiate policy experiments to improve policies or their administrative effectiveness, including in response to international and domestic developments. However, policymakers' experimental activities are also affected by the powers and resources they can directly control.

Therefore, I predict that although centralisation (decentralisation) might decrease (increase) local-led experiments as previous research suggests, it might increase (decrease) central-led experiments.

In the empirical section, I present a descriptive analysis of information collected from multiple sources, including thousands of central and local policy documents, finance yearbooks and archival records of the Innovations and Excellence in Chinese Local Governance (IECLG) Awards Program in 2015 and the Chinese Urban Governance Innovation (CUGI) Awards Program in 2018. The descriptive empirical evidence shows that the changes in the vertical power structure in Xi's era could be characterised as political centralisation, fiscal centralisation and administrative semi-decentralisation. While these changes were taking place, central-led and local-led policy experiments generally increased from 2013 to 2017 but decreased after 2018. The patterns of central-led and local-led policy experiments in various specific policy domains are also discussed.

The rest of this chapter is organised as follows. First, I briefly review the literature on policy experimentation and vertical power structures in China and discuss the theoretical and empirical limitations of the extant literature. Then, I theorise the relationship between the vertical power structure and the central-led and local-led policy experiments and put forward theoretical predictions. After describing this study's data and method, I report the empirical findings based on a series of descriptive analyses of evidence drawn from multiple sources. Finally, I conclude by highlighting this chapter's contribution to the literature and discussing potential directions for future research.

## Literature review

Policy experimentation refers to a policy process in which governments try out various policies to find solutions to predefined policy problems (Heilmann 2008b). In recent decades, regional policy experimentation has become a worldwide trend in public policy. It has been widely lauded by social scientists because it has the potential to induce reforms and innovations that could be conducive to socio-economic development (Hayek 1978; North 1990; Mukand and Rodrik 2005; Shipan and Volden 2006; Zhu and Zhang 2020). Extant research suggests that the attributes of policy domains, the characteristics of political and bureaucratic institutions, and

external pressures could significantly shape governments' choices regarding policy experimentation (Berry and Berry 1990; Shipan and Volden 2012; Zhang 2021).

Nevertheless, it was not until the 2000s that scholars attempted to systematically analyse why and how policy experimentation occurs in China and pointed out its important role in China's economic rise. For instance, borrowing the concepts of U-form (i.e. a unitary form with specialised units along functional lines) and M-form (i.e. a multidivisional form with semi-autonomous units that have their own self-contained structures) organisational structures in organisation theory (Williamson 1975; Chandler 1990), Qian, Roland and Xu (2006) suggest that, compared to the U-form government organisations in the former Soviet Union, China's M-Form government organisation provides local leaders with sufficient autonomy to engage in policy tasks with firsthand information, thus creating the institutional foundation for its flexible policy experimentation. Heilmann (2008b:1) and Xu (2011:1076) further highlight that China's policy experimentation has stimulated policy learning and economic expansion and that the pattern of 'experimentation under hierarchy' or 'regionally decentralized authoritarian regime' has been essential to China's reform and opening-up policies. Extensive empirical studies have quantitatively or qualitatively analysed various policy cases to explain the generation, development and diffusion of specific policy experiments in China (e.g. Ma 2013; Zhu 2014; Zhang and Zhu 2020).

One popular argument based on existing studies is that decentralisation promotes policy experimentation in China (Zhang and Zhu 2019). For instance, Xu (2011) and Yao (2018), drawing on a systematic review of political economy literature on China, argue that although China's government has a centralised personnel control system, its decentralised operation system has induced regional competition and regional experimentation among subnational governments since the 1980s through providing them with the necessary power, resources and motivations for adopting new policies and projects. In recent years, other scholars have further pointed out that President Xi's centralised policies since 2013 under the guise of 'top-level design' and anticorruption dramatically reduced subnational officials' discretion and incentives to innovate, thus considerably reducing the cases of policy experimentation in China (Chen and Göbel 2016; Teets and Hasmath 2020; Tsai and Zhou 2019).

Despite the fruitful insights developed by existing studies on the relationship between the vertical power structure (i.e. centralisation or decentralisation) and policy experimentation, there has been little literature explicitly distinguishing the potentially different effects of the change of vertical power structure on central-led or local-led policy experiments. While the existing theoretical analysis might suggest that the change of vertical power structure would affect local-led policy experiments through shaping the allocation of powers and resources, how does such a change affect central-led policy experiments? Could there be an increase in central-led policy experiments simultaneously with a decrease in local-led policy experiments? Answering these questions could not only help us form a deeper understanding of the potential effects of changes of vertical power structure but also provide practitioners with useful knowledge regarding institutional design and resource allocation in policy experimentation.

Moreover, as Xu (2011) points out, most existing empirical research only collects information on the change of fiscal vertical power structure, presenting general conclusions regarding centralisation or decentralisation and their potential consequences (Montinola et al. 1995; Lin and Liu 2000; Cai and Treisman 2006; Ding et al. 2019). One major reason is that information on fiscal power is more readily available and measurable than information on political or administrative powers. Nevertheless, different aspects of the vertical power structures may change at different paces and in different directions during the same period. Therefore, the trends of policy experimentation may vary between policy domains and should be examined carefully.

## Framework

To address the above limitations, this chapter offers a novel and straightforward theoretical framework to predict the effects of a change in the vertical power structure on policy experimentation in China. Before I conduct the theoretical analysis, I need to conceptualise and distinguish the core concepts in the framework: policy experimentation (i.e. the outcome variable) and the vertical power structure (i.e. the explanatory variable). First, given that all subnational governments are viewed as local governments in China's unitary system, I divide the general concept of policy experimentation into two categories: central-led experimentation and local-led experimentation. Specifically, central-led experimentation refers

to the top-down policy process in which the central government initiates and supports the experimentation of a new policy or project. Local-led experimentation refers to the bottom-up policy process in which a local government initiates and supports the experimentation of a new policy or project. Notably, the central-led experimentation may be implemented by the central or local governments; by contrast, the local-led experimentation could only be implemented by local governments.

Second, based on extant literature (Schneider 2003), I analyse the change of vertical power structure in terms of the allocation of three types of powers between the national and subnational governments: political powers, fiscal powers and administrative powers. The political powers mainly include the political functions of governance, such as legislation, personnel mobility and political representation, etc. Notably, personnel mobility is included under political powers rather than administrative powers because, in China, there is no distinction between politics and administration and the civil service is subject to direct control by the Chinese Communist Party (CCP) and its Organization Department. The fiscal powers mainly refer to the management of government revenues, government expenditures and tax administration, etc. The administrative powers mainly include management autonomy regarding various administration functions, such as market regulation, education, transportation, healthcare and environment protection. All three types of powers could influence policy experimentation but financial and administrative powers may directly affect the design and implementation of experiments by providing the necessary resources and policy autonomy, while political powers might influence policy experiments in more indirect ways, such as cadre appointments and legislation changes.

I further distinguish two forms of vertical power structure change in a policy domain (Schneider 2003). Specifically, centralisation means powers and resources are shifted from subnational governments to the national government, which implies that subnational governments' discretion to voluntarily adopt a new policy or project decreases, while the national government's capability to directly design, coordinate or implement policy experimentation increases. By contrast, decentralisation means powers and resources are shifted from the national government to subnational governments. In this situation, subnational governments' discretion to voluntarily adopt a new policy or project increases, while the national government's capability to directly design, coordinate or implement policy experimentation decreases. Admittedly, centralisation and decentralisation can happen simultaneously under multiple dimensions. Therefore,

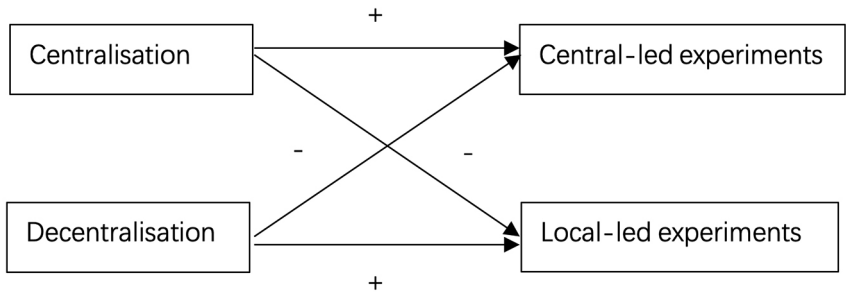
in this chapter, the centralisation or decentralisation of political, fiscal and administrative powers or resources will be analysed separately in the later sections.

On this basis, my theoretical framework predicts that the change of vertical power structure may have differing effects on central-led or local-led policy experimentation. Since China adopted its reforms and opening-up policy in the 1980s, its policy environment has been shaped by international and domestic social, political and economic developments and has been subject to more frequent changes and uncertainty (Zhu and Zhang 2019). Central-level policymakers are constrained by limited time, resources and information about local circumstances and regional disparities. Local policymakers, besides their limited time and resources, are further restricted by potential political, fiscal or administrative constraints from the central government.

Previous research suggests that policy experimentation could help overcome uncertainty associated with policymaking in at least two ways in China (Xu 2011). First, policy experimentation could help test the technical quality of proposed policy innovations in the real world (Wang 2009). In particular, policy experimentation could reveal the relative advantage or disadvantage of a new policy compared to an old policy while limiting the risks involved by restricting the scope of its practical effects to a small area without affecting the rest of the country or jurisdiction. Second, policy experimentation could improve the political legitimacy of a reform (Cai and Treisman 2006). In China's reform history, policy experimentation has been viewed as an important political strategy to promote reform because a successful policy experiment could directly increase political support and decrease political resistance (e.g. the household responsibility system in the rural land reform in the late 1970s and the special economic zone reform in the 1980s) (Ge 1999; Lin 1992).

Given enough resources and powers, it is reasonable to expect that the central government would be willing to initiate policy experimentation to deal with uncertainty and support socio-economic development (Wang 2009). Similarly, according to the existing observations, it is reasonable to expect that subnational governments with enough resources would be willing to initiate policy experimentation to improve their performance and outperform their competitors (Zhu and Zhang 2016, 2019). Therefore, other things being equal, when the vertical power structure in a specific policy domain is centralised (decentralised), a motivated central (local)

government has more (fewer) resources and powers to initiate policy experimentation, and therefore, the likelihood of central-led (local-led) experimentation increases (decreases). Figure 3.1 shows the main theoretical predictions.



**Figure 3.1: A theoretical framework for the effect of vertical power structure change on policy experimentation.**

Source: Author's summary.

## Methodology

Despite the theoretical analysis in the previous section, it is difficult to measure empirically the causal impact of a vertical power structure change on central- or local-led policy experimentation. Ideally, to identify the theorised causal effects, I need to compare the number of policy experiments in a centralised policy domain with the number of policy experiments in a decentralised policy domain or calculate the change in the number of policy experiments before or after centralisation (decentralisation) within the same policy domain, assuming other things being equal. However, other things are not equal, and policy experiments across policy domains and years tend to be heterogeneous and therefore not directly comparable.

Accordingly, this chapter presents an exploratory empirical analysis to provide first-order suggestive evidence that supports the theoretical predictions and provides a scholarly basis for future theoretical or empirical research on the same topic. Specifically, this chapter focuses on Xi's era because Xi has led a series of structural changes in China's bureaucratic system and policy process since he became the president of China in 2013. Investigating Xi's era not only helps us explore the applicability of my theoretical framework, but also provides useful guidance for predicting policy practices in China in the future.



Specifically, I collect data from multiple sources to capture both changes in the vertical power structure and trends in policy experimentation in China between 2013 and 2020; I pay particular attention to the major organisational reforms led by the central government in 2013 and 2018. First, thousands of official policy documents on the variables of interest were collected from the website of PKULaw because it has nearly complete coverage of laws, regulations and policy documents promulgated by the Chinese central and local governments. Second, I collected socio-economic information from the *Finance Yearbook of China* and the website of the National Bureau of Statistics. Third, I collected the archival reports of local innovation cases from the websites of IECLG<sup>2</sup> and CUGI<sup>3</sup> and coded the cases following the practices of previous research on a similar topic (Wu et al. 2013). In the following sections, I first present the empirical analysis of the changes in the vertical power structure and then report the trends among cases of central-led and local-led policy experiments.

## The change of vertical power structure in Xi's era

I collected the information on the changes in the vertical power structure mainly by systematically searching, reading and analysing policy documents relevant to the allocation of power and resources between the central and local governments under the leadership of Xi Jinping from 2013 to 2020. To ensure the comprehensiveness of data collection, I first read the work report of every national congress and every plenary session of the 18th and 19th Central Committee of CCP and the annual reports on the work of the government, and identified the potentially centralising or decentralising reforms in each policy domain. I further looked through specific institutional reforms and functional transformation plans to finally determine whether centralisation or decentralisation has occurred in a policy domain.

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2 Research Center for Chinese Politics, Peking University. Accessed 30 January 2022. Available at: [www.rccp.pku.edu.cn/zxyj/zfcxj/index.htm](http://www.rccp.pku.edu.cn/zxyj/zfcxj/index.htm).

3 Institute of Urban Governance, Peking University. Accessed 30 January 2022. Available at: [www.iug.pku.edu.cn/index.htm](http://www.iug.pku.edu.cn/index.htm).

## Political centralisation

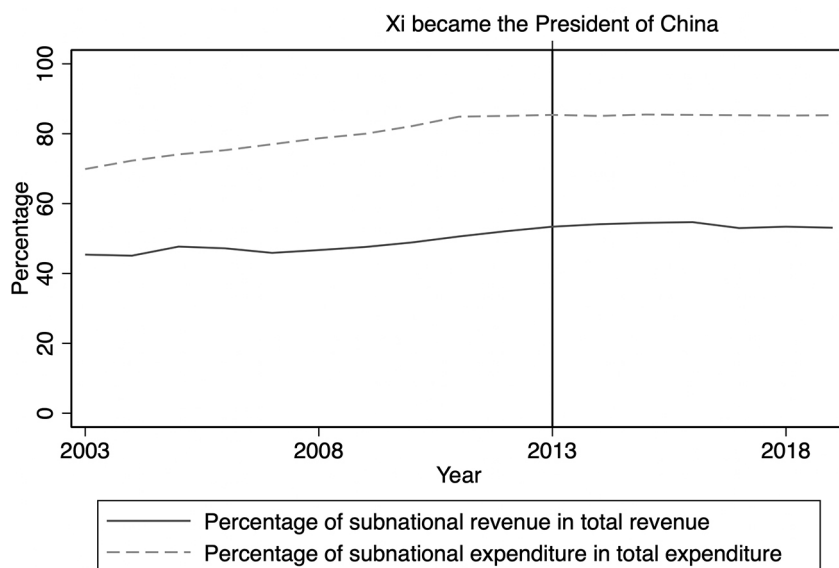
Based on these data, I find that the change in the vertical power structure in Xi's era can be characterised as political centralisation, fiscal centralisation and administrative decentralisation. Xi, as the general secretary of CCP, has significantly centralised political powers in two main ways. First, CCP has directly increased its control over the government. For instance, in 2018, according to the *Decision of the CCP Central Committee on Deepening the Reform of the Party and State Institutions (2018)*, the Central Organization Department of CCP started to uniformly manage all civil servants in China; the superior-level party committee and organisation department increased their voice and responsibility in selecting lower-level leaders; various informal leading small groups in the central committee of CCP have been institutionalised to be formal commissions, for example, the Central Cybersecurity and Informatization Small Leading Group was transformed into the Central Cybersecurity and Informatization Commission, and the National Supervisory Committee was created to lead long-term anti-corruption campaigns, which have become an important political constraint for subnational governments (Yang 2020).

Second, the CCP has increased control over its members. In recent years, Xi has repeatedly highlighted the importance of maintaining and strengthening the centralised and unified organisational system of CCP. In 2019, the central government promulgated the *CCP Regulations on Requesting Instructions and Reporting on Major Matters (2019)*, which aimed to reduce the discretion of lower-level party organisations and improve the implementation of major decisions of the CCP Central Committee. According to the annual report published by the Organization Department of CCP, CCP has 91.91 million members and 4.68 million grassroots organisations as at 31 December 2019 (Organization Department of CCP 2019). These CCP members and grassroots organisations work across industries and public, private and non-profit organisations. In other words, when the CCP central committee increased its control of party members, they not only increased the party's control of the government but also increased the party's control of society.

## Fiscal centralisation

China implemented its tax-sharing system in 1994, with a value-added consumption tax collected by the central government, and local business tax and income tax collected by the local governments, and with the value-

added tax shared between the central (75 per cent) and local (25 per cent) governments (Niu 2013). Central and local tax bureaus were separately created for the collection of central and local taxes. As Figure 3.2 shows, a direct consequence of this tax-sharing system is that the percentage of local revenue in total revenue is now much lower than the percentage of local expenditure in total expenditure and, therefore, an intergovernmental transfer payment system had to be created for the central government to transfer resources to local governments (Podger and Chan 2021).



**Figure 3.2: The percentage of subnational revenue (expenditure) in total revenue (expenditure).**

Source: *Finance yearbook of China* (2020).

Nevertheless, although the percentage of local revenue (expenditure) in total revenue (expenditure) has remained stable in Xi's era compared to his predecessor Hu Jintao's era (2003–2012), the tax-sharing system has been further revised under the leadership of Xi to improve the central government's control of tax sources. In 2016, according to *Notice of the State Council on Issuing the Transitional Plan on Adjusting the Distribution of the Value-Added Tax Revenue between the Central Government and the Local Governments after the Comprehensive Promotion of the Pilot Program of Replacing Business Tax with Value-Added Tax (2016)*, the central government replaced the originally locally owned business tax with increases in value-added tax and adjusted the distribution of the value-added tax revenue between the central and

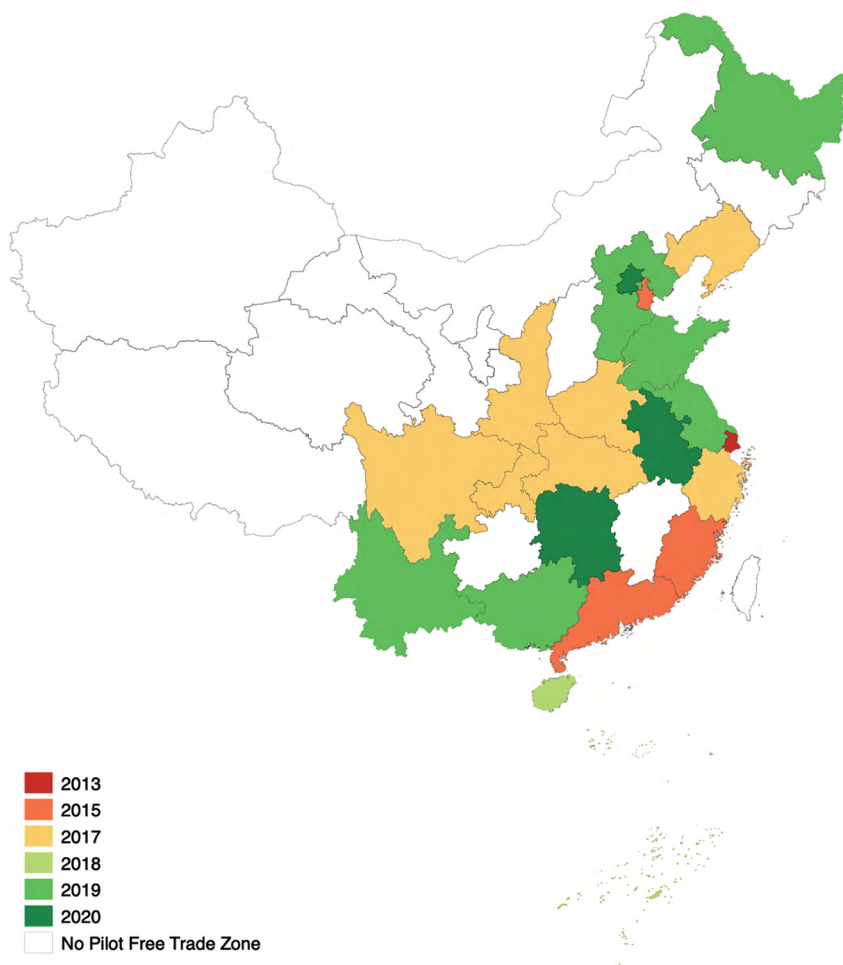
local governments from 75:25 to 50:50. The central and local tax agencies at and below the provincial level were merged in 2018. Since then, the State Administration of Taxation, directly controlled by the central government, has had primary responsibility for taxation affairs. Thus, while the central share of revenue has not changed significantly in the Xi era, it remains very high and the central government has increased its role in collection and control, thus constraining the future fiscal flexibility of local governments.

## Administrative semi-decentralisation

In general, the distribution of administrative powers between the central and local governments is mixed (Yu and Gao 2013). China's local governments' administrative autonomy in economic areas has been expanded in Xi's era. I illustrate this observation with two highly salient economic reform cases. According to *Notice of the State Council on Issuing the Framework Plan for China Pilot Free Trade Zone (2013–2020)*, since 2013, the national government has initiated a major trade policy reform to successively designate 21 provincial regions to build the Pilot Free Trade Zone to improve their policy autonomy in developing international trade, including Shanghai (2013), Guangdong (2015), Tianjin (2015), Fujian (2015), Liaoning (2017), Zhejiang (2017), Henan (2017), Hubei (2017), Chongqing (2017), Sichuan (2017), Shaanxi (2017), Hainan (2018), Shandong (2019), Jiangsu (2019), Guangxi (2019), Hebei (2019), Yunnan (2019), Heilongjiang (2019), Beijing (2020), Hunan (2020) and Anhui (2020). The geographic distribution of the Pilot Free Trade Zones is reported in Figure 3.3. Moreover, according to the *Budget Law of the People's Republic of China (2015)*, since 2015, the provincial governments have had the power to issue certain local government bonds to facilitate infrastructure development in exchange for increased transparency over borrowings and land financing by local governments (Xu and Yang 2015).

Moreover, the most salient administrative reforms in Xi's era are the so-called *Fangguanfu* reforms or the reforms to delegate power, streamline administration and optimise government services. In 2015, the *Fangguanfu* reforms were first publicly mentioned by Premier Li Keqiang in the annual government work report. Specifically, '*fang*' means delegating administrative powers to the lower-level governments; '*guan*' means improving regulation efficiency and effectiveness through introducing technical and management reforms; '*fu*' means reducing government interventions in markets and improving public services. In 2018, the State Council further created

a coordination group to promote the transformation of government functions and the *Fangguanfu* reforms. The main goal of the *Fangguanfu* reforms is to create a better business environment to facilitate business development and attract foreign investment. Since 2013, hundreds of government licensing powers have been delegated to the local governments, and hundreds of licensing items (e.g. business registration, food safety, production safety, market order, labour rights or environmental protection, etc.) have been streamlined to reduce the direct government interventions in the market and to improve the business environment.



**Figure 3.3: The geographic distribution of Pilot Free Trade Zones in China (2013–20).**

Source: Created by the author.

Despite the delegation of administrative powers in economic areas, many administrative powers in non-economic areas have been centralised. For instance, in 2018, the central government created the Ministry of Emergency Management to directly manage (*Chuzhiguanli*) local affairs regarding emergency responses; the central government created the ecological environmental protection inspection system and increased its responsibility in cross-country, cross-region and key-area environment protection (Meng et al. 2020); the central government created the National Health Commission to integrate healthcare services and also increased its responsibility in healthcare expenditure and major public health services, such as in the prevention and control of major infectious diseases; the Ministry of Science and Technology was reorganised to support the national innovation-driven development strategy and coordinate national scientific and technological system reforms; the central government also created the Ministry of Veterans Affairs to integrate the traditionally distributed functions relevant to veterans' affairs.

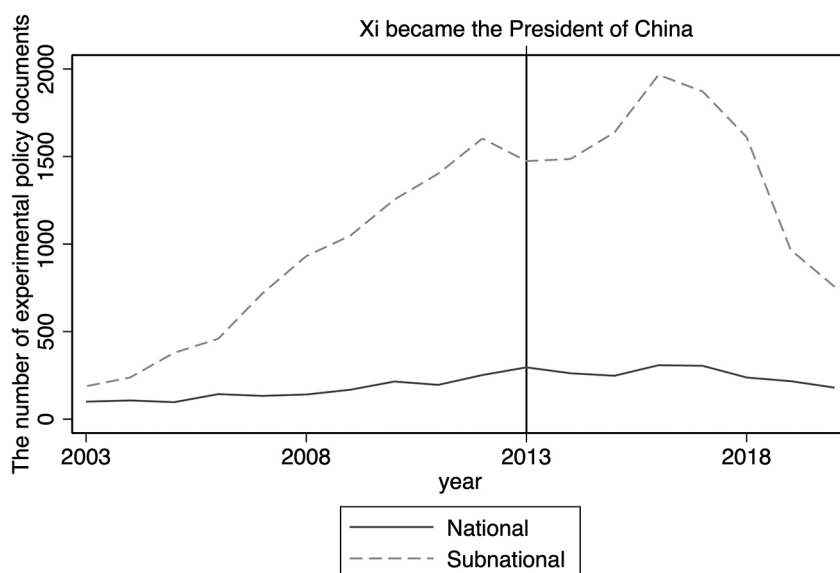
## The trend of national experimentation

Given the political centralisation, fiscal centralisation and administrative semi-decentralisation under Xi's leadership, how have central-led and local-led policy experiments developed in recent years? To answer this question, I first provide a general review of the experimental policies and then examine central-led and local-led policy experiments in specific policy domains. I choose 'experimental point (*Shidian*)' as the keyword for searching experimental policy documents in the PKULaw database because it refers to the 'model demonstrations and pilot projects in a specific policy domain' and is the most commonly used terminology by Chinese government practitioners when discussing policy experimentation (Heilmann 2008a).

Figure 3.4 reports the annual number of central and local policy documents on 'experimental points' from Hu's era to Xi's era (2003–2020). Overall, the total numbers of both central and local experimental policy documents have increased in Xi's era compared to Hu's era. Specifically, there were 2,054 central-level experimental policy documents from 2013 to 2020, whereas there were only 1,552 central-level experimental policy documents from 2003 to 2012; there were 11,771 local-level experimental policy documents from 2013 to 2020, whereas there were only 8,220 local-level experimental policy documents from 2003 to 2012. Nevertheless, I find

that after 2018 (the starting year of the second term of Xi), both central and local experimental policy documents have decreased. In other words, Xi's governance in his first term actually boosted central and local policy experimentation, but his governance in his second term significantly reduced local policy experiments and slightly reduced central policy experiments.

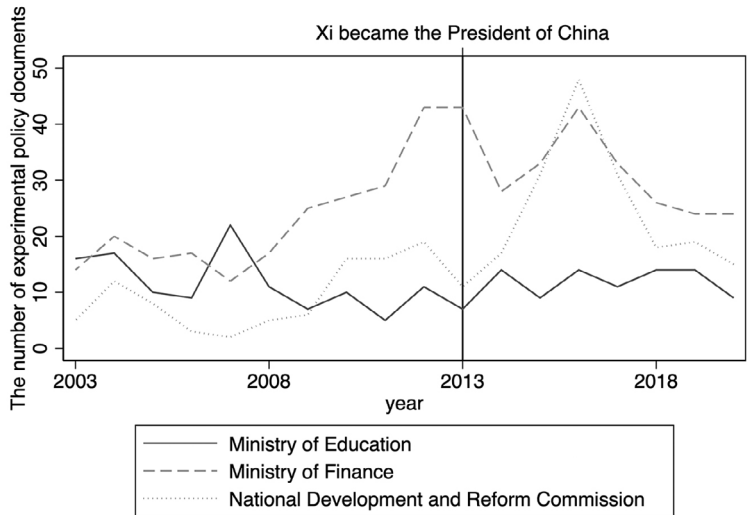
This finding might be explained by the systematic reform of the party and state institutions which Xi initiated in 2018, which greatly increased the central government's institutional control over local governments. Local governments almost always have administrative autonomy given their information advantage in a multilevel system (Anderson et al. 2019), while the central government generally has the advantages of political and fiscal resources. Therefore, local-led policy experiments might be particularly affected by the political and fiscal centralisation reforms in 2018, which greatly reduced local governments' autonomy to adopt innovative policy practices. By contrast, the central-led policy experiments might be adversely affected by administrative decentralisation reforms, generally cancelling out the positive effects of political and fiscal centralisation.



**Figure 3.4: The annual number of national and subnational policy documents on 'experimental point (*Shidian*)' (2003–20).**

Source: [www.pkulaw.com](http://www.pkulaw.com).

The effects of the changes in the vertical power structure on policy experimentation may vary across policy domains. Because the Ministry of Education (ME), Ministry of Finance (MF), and the National Development and Reform Commission (NDRC) produced the most experimental policy documents among the subordinate organisations of the State Council, I examine the trends in policy experimentation in these three organisations (Figure 3.5) to explore the specific dynamics of central-led policy experimentation in the economic and non-economic areas. In terms of the ME, there were 92 experimental policy documents from 2013 to 2020, fewer than the 118 experimental policy documents from 2003 to 2012. The number of experimental policy documents released by the ME only slightly increased after 2013 and did not significantly change after 2018. MF released 254 experimental policy documents from 2013 to 2020, compared to only 220 experimental policy documents from 2003 to 2012. The number of experimental policy documents released by the MF increased after 2013 but significantly decreased just before and after 2018. NDRC released 190 experimental policy documents from 2013 to 2020, much more than the 92 experimental policy documents released from 2003 to 2012. The number of experimental policy documents released by the NDRC, like that of MF, increased after 2013 while significantly decreasing just before and after 2018. These trends might be explained by Xi pre-empting the 2018 reforms he was to pursue in his second term.



**Figure 3.5: The annual number of policy documents on 'experimental point (Shidian)' promulgated by three subordinate organisations of the State Council (2003–20).**

Source: [www.pkulaw.com](http://www.pkulaw.com).

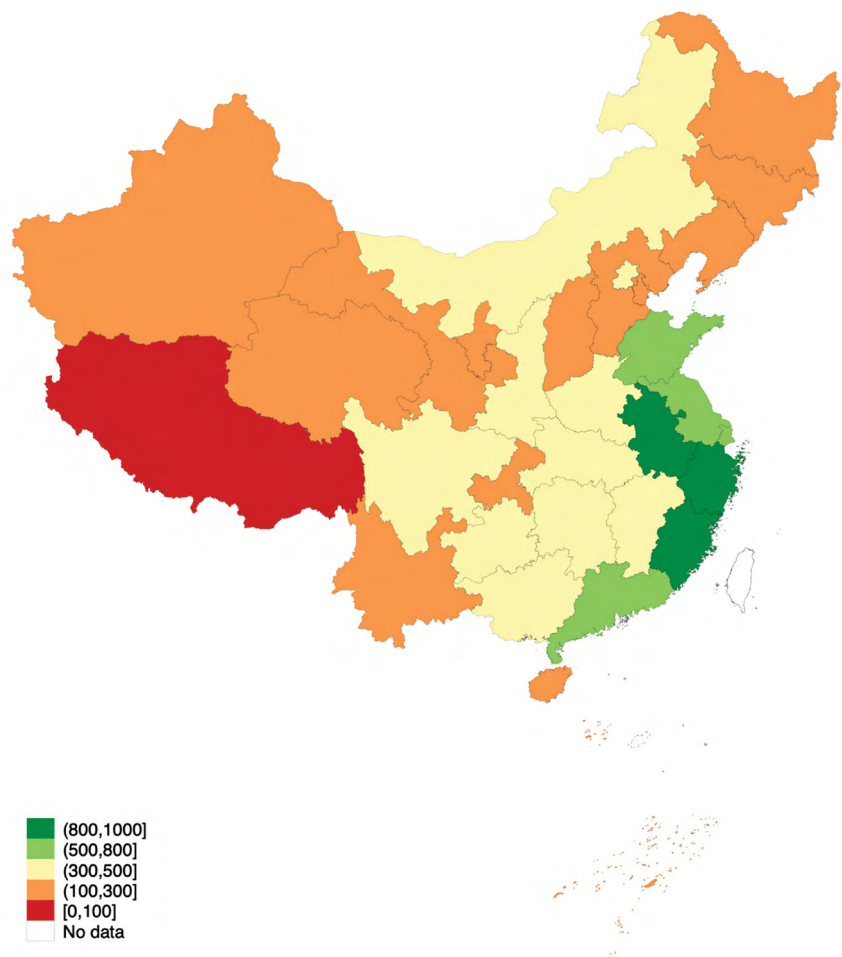


Generally, the number of experimental policy documents in the education area is more stable than in the finance and economic development areas. According to my previous analysis, this finding might be explained by the fact that administrative powers in the economic areas were significantly delegated to local governments and therefore the central government does not have the administrative autonomy to design and implement its own policy experiments.

## The trend of local experimentation

Although Figure 3.4 shows the temporal trend of experimental policy documents released by all local governments, it does not tell us which provinces have had more policy experiments than others and why. To further show the geographical distribution of the frequency of policy experimentation, I report the total number of subnational policy documents with ‘experimental point’ in each province from 2013 to 2020 in Figure 3.6. As illustrated in Figure 3.6, the eastern economically developed provinces, including Zhejiang, Fujian, Guangdong, Jiangsu and Shandong, each released at least 500 experimental policy documents. Anhui is the only non-coastal province that released more than 500 experimental policy documents. By contrast, the other less developed provinces in middle China only released 300 to 500 experimental policy documents. The north-eastern, north-western and south-western provinces each released less than 300 experimental policy documents; Tibet only released 31 experimental policy documents between 2013 and 2020.

Given the geographical distribution reported in Figure 3.6, the economy size, a common indicator of the complexity and quantity of public service demands (Zhu and Zhang 2016), might be the most intuitive predictor of the experimental policy documents in each province. I collected the gross domestic product (GDP) information of each province in 2019 from the website of the National Bureau of Statistics ([www.data.stats.gov.cn](http://www.data.stats.gov.cn)). Figure 3.7 shows the correlational relationship between the total number of local policy documents on ‘experimental point’ (2013–2020) and the GDP (2019) in each province. In general, I find that richer provinces tend to promulgate more experimental policy documents. This might be explained by previous policy diffusion research findings that economic resources encourage citizens and firms to demand better public services (Berry and Berry 1990; Zhu and Zhang 2016). Moreover, governments in economically developed regions might have more resources to invest in policy experimentation.

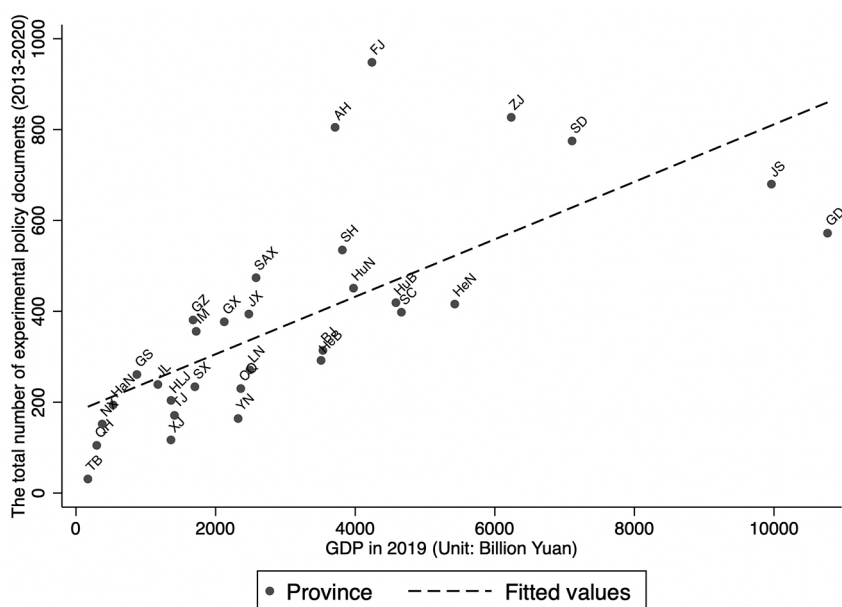


**Figure 3.6: The total number of subnational policy documents on ‘experimental point (*Shidian*)’ in each province (2013–20).**

Source: Created by the author.

What kinds of policy experiments have been adopted by local governments? To answer this question, I examined the winners and finalists of the IECLG Awards Program in 2015 and the CUGI Awards Program in 2018. I focused on the IECLG program because it was the most influential and widely recognised program on local government innovation in China in recent decades. The IECLG program has been held biennially for eight waves from 2001 to 2016. Since the competitors’ projects must be implemented for at least one year to qualify for review by the IECLG experts, only the 10 winners and 11 finalists selected out of more than 100 applicants in

the eighth wave (2015) could be viewed as locally initiated innovations in Xi's era. The IECLG was terminated in 2016 and replaced by CUGI in 2018. With similar review procedures, the first CUGI Award Program was held in 2018 and there were 10 winners and 12 finalists selected from more than 300 applicants. Unfortunately, the full list of applicants for the IECLG and CUGI awards is not available (my requests for the information from the organisers were not agreed to). Some caution therefore needs to be exercised in interpreting the following findings, which focus on the winners and finalists rather than on the applicants because, while all applicants involve locally initiated experiments, the winners and finalists chosen may reflect in part the central government's or the experts' policy interests rather than the local governments' actual organisational innovativeness.



**Figure 3.7: The correlational relationship between the total number of subnational policy documents on 'experimental point (*Shidian*)' (2013–20) and the GDP (2019) in each province.**

Note: BJ = Beijing, TJ = Tianjin, HeB = Hebei, SX = Shanxi, IM = Inner Mongolia, LN = Liaoning, JL = Jilin, HLJ = Heilongjiang, SH = Shanghai, JS = Jiangsu, ZJ = Zhejiang, AH = Anhui, FJ = Fujian, JX = Jiangxi, SD = Shandong, HeN = Henan, HuB = Hubei, HuN = Hunan, GD = Guangdong, GX = Guangxi, HaN = Hainan, CQ = Chongqing, SC = Sichuan, GZ = Guizhou, YN = Yunnan, TB = Tibet, SAX = Shaanxi, GS = Gansu, QH = Qinghai, NX = Ningxia, XJ = Xinjiang.

Source: Created by the author.

To facilitate the understanding of the typology of those local policy experiments, I also classified the IECLG and CUGI winners and finalists following Wu, Ma and Yang (2013), including service innovation, technological innovation, management innovation, collaborative innovation and governance innovation. Specifically, according to Wu and colleagues, service innovation refers to ‘the supply of new services to new users, the delivery of existing services to new users or the supply of new services to existing users’ (2013:350); technological innovation refers to ‘a change in service delivery technologies or arrangements’ (351); management innovation refers to ‘the restructuring of organisational structures and management processes and practices’ (351); collaborative innovation refers to ‘boundary-spanning activities in the process of service delivery and management (for example, alliances, partnerships, collaborations, and networking)’ (352); and governance innovation refers to ‘new approaches and practices that aim to manage democratic institutions, trigger citizen participation and fight corruption’ (352). Many IECLG and CUGI winners and finalists might be viewed as multiple types of innovation simultaneously. Nevertheless, I classified each IECLG or CUGI winner or finalist into only one innovation category because the purpose of my classification was only to capture the main characteristic of each IECLG or CUGI winner or finalist to show the general trend of local-led policy experimentation in Xi’s era.

Table 3.1 shows a list of the number of IECLG (2015) and CUGI (2018) winners and finalists by province and innovation type. In terms of innovation typology, I find that various types of innovations in different policy domains have been trialled by varying levels of governments in Xi’s era. Generally, governance innovation and management innovation are more common than technological innovation, service innovation or collaborative innovation. Specifically, governance innovations include grassroots deliberative democracy (e.g. Pengzhou city in Sichuan province) and a fully responsive grid-based social service system (e.g. Xicheng district in Beijing municipality). Management innovations include the experiment of ‘Multiple Plan Integration’ (e.g. Kaihua county in Zhejiang province) and the creation of an Alternative Restoration Model of Compensation for Ecological Environment Damage (e.g. Diankou town of Zhuji city in Zhejiang province). Technological innovations include the ‘Smart Urban Governance’ (e.g. Beijing municipality) and the ‘Big Data Governance’ (e.g. Qixia district of Nanjing city in Jiangsu province). Service innovations include the creation of a children-friendly city (e.g. Shenzhen city in

Guangdong province) and the reform of a grassroots healthcare service (e.g. Changting county in Fujian province). Collaborative innovations include the Shanghai–Zhejiang Cross-Border Cooperative Governance System and the invitation of social forces to participate in social governance (e.g. Ya'an city in Sichuan province).

In terms of the geographic distribution of IECLG (2015) and CUGI (2018) winners and finalists, I find that the economically developed eastern provinces tend to have more successful innovations than the less developed middle or western provinces. Specifically, the local governments of Zhejiang (11), Guangdong (6) and Shanghai (5) are the most innovative and were more than half of all IECLG (2015) and CUGI (2018) winners or finalists. Notably, Xi served as the party chief of Zhejiang and Shanghai previously, and this involvement might provide extra political legitimacy for government innovations adopted in these regions. The winners and finalists involve innovations by a range of public organisations across all levels of local government, for example a provincial-level Office of Organization and Personnel (*Bianzhi*) Committee (e.g. Zhejiang province), a city-level Human Resources and Social Insurance Bureau (e.g. Qingdao city of Shandong province), a district-level procuratorate (e.g. Dadukou district of Chongqing municipality), a county-level government (e.g. Kaihua county of Quzhou city in Zhejiang province) and a town-level government (e.g. Diankou town of Zhuji city in Zhejiang province).

By contrast, the less developed provinces, such as Xinjiang, Tibet or Yunnan have no IECLG (2015) or CUGI (2018) winners or finalists. While this may reflect their economic disadvantage, the lack of policy experiments in these regions may also be caused by the firmer political control imposed on these regions due to ethnic and border conflicts.

The differing extent of policy experimentation may be contributing to the heterogeneous government performance and governance quality across China exacerbating political, economic, and social inequity within and across jurisdictions (Wu et al. 2020). Therefore, the findings in Table 3.1 may suggest the need for government interventions to promote wider local policy experimentation across China.

Table 3.1: Number of IECLG (2015) and CUGI (2018) winners and finalists by province and innovation type.

Province	Governance innovation	Collaborative innovation	Management innovation	Technological innovation	Service innovation	Subtotal
Anhui	1	0	0	0	0	1
Beijing	1	0	0	1	0	2
Chongqing	0	0	0	0	1	1
Fujian	0	0	0	0	2	2
Gansu	0	0	1	0	0	1
Guangdong	1	0	1	1	3	6
Guangxi	0	0	0	0	0	0
Guizhou	0	0	0	0	0	0
Hainan	0	0	0	0	0	0
Hebei	0	0	0	0	0	0
Heilongjiang	0	0	0	0	0	0
Henan	0	0	0	0	0	0
Hubei	1	0	0	0	0	1
Hunan	1	0	0	0	0	1
Inner Mongolia	1	0	0	0	0	1
Jiangsu	0	0	1	2	0	3
Jiangxi	0	0	1	0	0	1
Jilin	0	0	0	0	0	0
Liaoning	0	0	1	0	0	1

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Province	Governance innovation	Collaborative innovation	Management innovation	Technological innovation	Service innovation	Subtotal
Ningxia	0	0	1	0	0	1
Qinghai	0	0	0	0	0	0
Shaanxi	0	0	0	0	0	0
Shandong	0	0	1	0	0	1
Shanghai	0	2	1	0	2	5
Shanxi	0	0	0	1	0	1
Sichuan	2	1	0	0	0	3
Tianjin	0	0	0	0	0	0
Tibet	0	0	0	0	0	0
Xinjiang	0	0	0	0	0	0
Yunnan	0	0	0	0	0	0
Zhejiang	6	0	3	2	0	11
Subtotal	14	3	11	7	8	43

Source: Author's summary, based on lists of winners and finalists from IECLG (2015) and CUGI (2018).

## Conclusion

This work contributes to the existing literature by pointing out the potentially different effects of vertical power structures on policy experimentation and empirically providing descriptive evidence drawn from multiple sources to show the change of vertical power structure and policy experiments in Xi's era. Recent research suggests that China's vertical power structure has been centralised and there has been a reduction in policy experimentation (Teets and Hasmath 2020). However, this work shows that the change of vertical power structure in Xi's era is mixed, and despite an overall decline since 2017, experimentation in China remains significant, particularly but not exclusively central-led experimentation. In fact, during the recent COVID-19 pandemic, Zhejiang province was the first adopter of multiple emergency management innovations, such as using the strengths of community-based organisations in multiple stages of COVID-19 responses and creating digital tracking platforms (Cheng et al. 2020).

There are several potential directions for future research. First, our primary measure of subnational policy experimentation, the experimental policy documents released by subnational governments, could be noisy and should be further refined in future research. For instance, subnational experimental documents might also result from some central policy initiatives and cannot precisely reflect subnational policy discretion. Therefore, the validity of the empirical findings might be limited and can only provide suggestive evidence on the relationship between the vertical power structure and policy experiments.

Second, the change of vertical power structure may have stronger effects on policy experimentation in some policy domains than in others. This is because the importance of government functions tends to vary across policy issues and across time, and policymakers have to revise their priorities in policy experimentation given their resource, time and attention limits (Zhang and Zhu 2020). Third, future research could pay more attention to the potentially reversed causal direction between the vertical power structure and policy experimentation. A centralised or decentralised power structure might be achieved by policy experimentation. For instance, the replacement of the locally owned business tax with shared value-added tax (i.e. the centralisation of tax sources) was first piloted in Shanghai in 2012. In other words, the centralisation in Xi's era might be the outcome of policy experimentation. Since both centralisation and experimentation could be the



goal or tool of the policymakers, future researchers should pay more attention to the differences between centralisation (goal) through experimentation (tool) and experimentation (goal) through centralisation (tool).

Fourth, future research could further build on this work to more rigorously identify the mechanisms underlying the relationships between various types of specific power structures and policy experiments in different policy domains in China. For instance, scholars could further explore the potential effects of administrative centralisation on subnational governments' experimental choices or behaviours in the health area during the COVID-19 pandemic, given their practical relevance. Fifth, the below-provincial vertical power structure also deserves more attention in future research (Yu et al. 2016). Finally, as shown previously, more developed provinces tend to have many more innovative policy experiments than less developed ones. The great geographical divergence in policy experiments across China could be the consequence of administrative decentralisation and implies the potential polarisation of governance quality between the more and less developed regions. Therefore, central interventions should be designed to help improve the innovativeness of local governments in less developed regions.

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