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# **‘Authoritarian Resilience’ and Effective Policy Implementation in Contemporary China – A Local State Perspective**





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**‘Authoritarian Resilience’ and Effective Policy Implementation in Contemporary China – A Local State Perspective**

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**Abstract:**

The authors argue that China’s ‘authoritarian resilience’ cannot be fully grasped without adopting a local state perspective to examine the way that policy-making plays out at county level and below. Although local cadre bureaucracies have to obey upper levels, they still have substantial maneuvering space to shape the implementation of policies. Arguably, effective policy implementation is a manifestation and a result of systemic adaptiveness, effectiveness referring to the way that policies are adjusted according to local development blueprints, managed in terms of policy coordination across local government bureaux, experimentation and innovation, regular evaluation, and mobilization of public support.

This article is structured as follows: first, it highlights important policy changes and institutional reforms launched by the central government in the early 2000s, which impacted strongly on local state governance and laid the groundwork for effective policy implementation. The authors then focus on the ‘Construction of a New Socialist Countryside’ ‘macro-policy’ as a frame of reference to show how local governments at county and township levels ensure effective policy implementation. It is argued that local cadres act as developmental agents who are able to manoeuvre successfully between central state requirements and local needs to ensure that things are getting done ‘on the ground’. Subsequently, we show how local governments interact with and ‘guide’ private entrepreneurs as important stakeholders in implementing local development blueprints and strengthening public goods provision. In the conclusion, the main findings and arguments are summarized.

**Keywords:**

Effective policy implementation, local state governance, Constructing a New Socialist Countryside, interaction local cadres–private entrepreneurs

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## 1 Introduction<sup>1</sup>

The debate on ‘authoritarian resilience’ among China scholars has triggered much controversy during the last decade on the scope, or limits, of the Chinese political system’s ‘adaptiveness’ to its many challenges that stem from the economic, social and political pressures arising from ongoing systemic transformation. The relevant literature has produced ambivalent responses to this question. While scholars such as Nathan (2003), who coined the term ‘authoritarian resilience’, Yang (2004), Shambaugh (2008) and the authors in Heilmann and Perry (2011) found considerable evidence of enduring system adaptiveness, others, such as Pei (2006) were much more skeptical, if not downright pessimistic, on this issue. Interestingly enough, most, if not all of the studies in the ‘adaptiveness literature’ that focus on the processes, institutions, and outcomes of policy-making, take a top-down perspective: policies flow down from the central state and penetrate each administrative tier to be eventually implemented at the grassroots level. Although Heilmann (2008, 2009) and Wang (2009) have highlighted the importance of local input in terms of policy experimentation and pilots, it is still the central state that sets the incentives for local innovation efforts and eventually decides which pilots will become models for nationwide emulation. In other words, policy experimentation and innovation are primarily initiated and managed by the central state, which reinforces the impression of an adept but docile center.

However, what is missing from this picture, is a systematic link between overall system adaptiveness (or ‘resilience’) and the policy process in the local state. Since the launch of ‘reform and opening’ in the late 1970s, local governments have enjoyed increasing leeway in adapting central policies to local conditions and in steering local policy implementation. Since the early 2000s, several important reforms, most notably the tax-for-fee reforms and the ensuing expansion of a system of fiscal transfers, but also new state-funded programs to develop the countryside and to spur on rural-urban integration, have changed the nature of local policy-making considerably. Local state maneuvering in contemporary China is as much shaped by centrally designed policies and institutional control mechanisms (tax competition, cadre and performance evaluation, promotion) as by strategic agency on the part of local cadres who have to deliver to upper levels in order to ensure their future careers or, if promotion is not likely, at least to maintain their current rank and social status (Heberer and Schubert 2012; see below). This tension entails, as we argue, the increasingly successful reconciliation of local state agents’ collective interests with the central state’s overarching policy objectives, resulting in increasing degrees of overall state capacity and systemic adaptiveness. Policy-making in China is determined neither by top-down guidance nor by bottom-up collusion and muddling through, but by a delicate mixture of central state ‘signaling’, institutional constraints and strategic agency on the part of local cadres stretching across all administrative tiers that is of particular importance at the lower levels of government.

Against this background, we argue that China’s ‘authoritarian resilience’ cannot be fully grasped without adopting a local state perspective to examine the way that policy-making plays out at county level and below, where the state ‘meets the people’. Although these local cadre bureaucracies have to obey the upper levels – prefectures, provinces and the center – they still have substantial maneuvering space to shape the implementation of policies (Ahlers 2014) and to determine the political system’s capacity to deliver meaningful outcomes. Arguably, *effective* policy implementation is a manifestation and a result of systemic adaptiveness, and in this context, effectiveness refers to the way that policies are locally adjusted according to local development blueprints and managed in terms of policy coordination across local government bureaus, experimentation and innovation, regular evaluation, and mobilization of pub-

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<sup>1</sup> This paper is based on intensive joint fieldwork and data analysis conducted by Prof. Anna Ahlers (University of Oslo), Prof. Thomas Heberer (University of Duisburg-Essen) and Prof. Gunter Schubert (University of Tübingen) between 2012 and 2014 as part of a research project on the evolving relationship between local governments and private entrepreneurs. This project is part of a broader research agenda of the Competence Network Governance in China, sponsored by the German Federal Ministry of Education and Research (<http://www.regiereninchina.de/2/home/>). The paper will be simultaneously published in the Occasional Paper Series at the Chair of Greater China Studies at the University of Tübingen (<http://www.uni-tuebingen.de/fakultaeten/philosophische-fakultaet/fachbereiche/aoi/sinologie-koreanistik/sinologie/lehrstuehle/greater-china-studies-prof-schubert/forschung/publikationen-am-lehrstuhl/occasional-paper-series.html>).

lic support.<sup>2</sup> What can be seen in many parts of China today is the influential agency of a local developmental state that ensures effective policy implementation, with the result that important public needs and demands are met, overall state capacity is enhanced, and critical degrees of system stability and regime legitimacy are generated.<sup>3</sup>

To give flesh to these bold contentions, we have compiled a report on fieldwork carried out in some 15 counties spread all over China during the last six years, as part of an ongoing project on local policy implementation and the strategic agency of local cadres, first and foremost at county and township levels.<sup>4</sup> Without attempting to delve too deeply into different case studies, this article brings together a number of observations and findings drawn from different counties which suggest that effective policy implementation is being carried out in China's local state, arguably contributing significantly to the adaptiveness and resilience of the Chinese political system.

This article is structured as follows: first of all, we highlight some of the important policy changes and institutional reforms launched by the central government in the early 2000s, which impacted strongly on local state governance and laid the groundwork for effective policy implementation (Section II). We then provide a report on our fieldwork and focus on the 'Construction of a New Socialist Countryside' 'macro-policy' as a frame of reference to show how local governments at county and township levels ensure effective policy implementation. Although the terminology of this program, initiated by the central government in the mid-2000s, has meanwhile been disbanded in a broad variety of single policy fields according to the features of a given locality, it still has validity in terms of factual policy measures, given that local modernization and industrialization particularly by developing the private sector, decentralized urbanization ('townization') and better public goods provision remain the main objectives of the central state and local governments. We argue that local cadres act as developmental agents who are able to manoeuvre successfully between central state requirements and local needs to ensure that things are getting done 'on the ground' (Section III). Subsequently, we show how local governments interact with and 'guide' private entrepreneurs as important stakeholders in implementing local development blueprints and strengthening public goods provision (Section IV). In the conclusion, we summarize the main points of our argument.

## 2 The 'systemic logic' of effective policy implementation

Local state governance was strongly influenced by the political reorientation of the central government in the early 2000s, when significant reforms to the fiscal system were undertaken and a new comprehensive approach was adopted towards rural development (He 2007; Liu and Tao 2007; Lou and Wang 2008; Zhan 2009; Göbel 2010; Ahlers 2014). This was the result of a protracted learning process, after the party leadership realized, in the late 1990s, that the 'peasant burden', increasing social disparities, and the rural-urban divide was posing a threat to the survival of 'Chinese socialism'. The successive abolition of all taxes and fees since the early 2000s, including the highly symbolic agricultural tax in 2006, and the systematic expansion of the fiscal transfer system, which had been established in the mid-

2 *Effective* policy implementation should not be confused with *efficient* policy implementation. The former measures outcomes according to the objectives, or targets, defined by policy-makers at the outset of the implementation process, and focuses analytically on policy coordination, project management, internal evaluation and mobilization of the support of both cadres and the populace. *Efficient* policy implementation, for its part, is less concerned with the policy process, but rather focuses on outcomes in terms of Pareto efficiency and responsiveness to public demands (Ahlers and Schubert forthcoming).

3 We argue that the Chinese state can be classified at both central and local levels as a typical 'developmental state'. Such states are characterized by the will and consent of the political elites, and their ability to develop the economy in a predominantly top-down manner. Moreover, developmental states enjoy 'relative autonomy' from potentially competing political and social actors, such as trade unions, social movements, land aristocracies and powerful business interests (Evans 1995). Developmental states are "strong" states in the sense that they are 'learning states'; they display high degrees of state capacity, are stable, and enjoy (a certain level of) legitimacy. For 'classical' developmental states, see Evans 1995, Woo-Cumings 1999, Kohli 2004; for a different perspective, see Ong 2012. The authors of this article are currently working on another paper that systematically relates local policy implementation to the concept of the (local) developmental state.

4 More specifically, we draw from data on cadre agency and policy implementation at county level and below that was compiled during field work conducted annually between 2008 and 2011 in the provinces of Fujian, Guizhou, Jiangxi, Shaanxi, Shandong, Sichuan and Zhejiang, as well as data on the changing relationships between local governments and private entrepreneurs that was gathered during fieldwork conducted in Fujian, Hubei, Jiangsu and Zhejiang in 2012 and 2013.



1990s, were crucial measures needed to ‘turn the wheel’ in the Chinese countryside. The areas and localities which were experiencing difficulties in making ends meet were specifically targeted, and provided with fresh public money to invest in the local infrastructure and public goods provision. The central government then launched its initiative for ‘Building a New Socialist Countryside’ (BNSC) which was officially included in the 11th Five-Year Plan. A new phase of rural development was propagated that would soon link up with a strong push for rural-urban integration. In fact, the Hu-Wen administration embarked on a paradigmatic change in the government’s approach to ‘socialism with Chinese characteristics’ by using the tax system to discriminate against the wealthier provinces and redistribute this money, by means of fiscal transfers (including a wide array of earmarked funds), to the less developed parts of the county.<sup>5</sup>

At the same time, local cadre bureaucracies were forced to foster more balanced economic growth and to strengthen public goods provision – most notably, health care, education, and poverty alleviation – in their jurisdictions. Growing peasant unrest throughout the 1990s and the early 2000s had alerted the central government to the urgent need to deal with the combined dangers of illegal taxes and fees, the waste of (scarce) public money by local governments, and ‘land grabs’ that were implemented against farmers (who were not paid adequate compensation) to provide local governments with the new money required to make up for their many ‘underfunded mandates’. Concurrently, the cadre and performance evaluation regime became more pervasive in controlling the local cadre bureaucracies, even if this was a decentralized task and allowed for substantial collusion by local governments (see below). As a matter of fact, this developed into an influential incentive and communication system that encouraged cadres to ensure the sound implementation of upper level policy guidelines, policy innovation, and ‘social stability’. Only if they implemented policies reasonably well, could they expect promotion in the increasingly competitive environment where few positions and career opportunities were available. ‘Service-oriented government’ has become the order of the day in the local state, and even if the real picture is not quite so bright in many parts of China, sub-standard performance, incompetence and corruption have become increasingly unacceptable and are likely to be punished one way or another by the party-state at each administrative level.

We argue that the combined dynamics of recent policy change at the top, ongoing fiscal reform, administrative streamlining, and cadre and performance evaluation in combination with political entrepreneurialism have paved the way for effective policy implementation in the local state. An ideological and institutional environment has been built that reconciles central state objectives – first and foremost, balanced and sustainable development and urbanization – with those of local governments, most notably the safeguarding of political autonomy from upper levels and cadre promotion. This does not mean that effective policy implementation is guaranteed all over the country. However, local governments can hardly legitimize themselves in present-day China if they do not implement policies in such a way that positive outcomes, as defined by the central state and spelled out in the various development blueprints set up by each administrative level, are achieved, no matter how difficult this may be. Effective policy implementation in the local state is the consequence of systemic learning and an indicator of the political system’s adaptiveness, without the need for any changes to its basic operational logic.

### **3 Effective policy implementation in the local state: assessing the policy-making process**

The reforms pushed through by the Hu-Wen administration, which gave rise to important shifts in central-local relations and changed the ways in which local governments’ agency was framed within the overall policy process, have impacted strongly on local policy implementation. This can best be examined by taking a closer look at the policy process in the local state where upper level policies must be

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5 There is a much more negative account of this story. Christine Wong has been one of the fiercest critics of Chinese fiscal policy and has repeatedly contested the claim that it helps to equalize regional economic disparities and strengthen public goods provision in the Chinese countryside (Wong 2007, Wong and Bird 2008). For a more recent account of the ‘negative narrative’, see also, Liu (2012). These authors usually demand that the central government change the fiscal system to ensure that local governments do not have to face ‘underfunded mandates’ which force them to become ‘predators’ or debtors.

constantly adjusted and ultimately implemented, that is, at the county, township and village levels. As already mentioned, following the restructuring of the fiscal system in the early 2000s, the Chinese central government put forward a new strategy for rural development and urban transformation in the 11th Five-Year Plan (2006–2010), under the heading of 'Building a New Socialist Countryside' (BNSC).<sup>6</sup> A mixture of policy measures was prescribed to spur investments in the local infrastructure (roads and highways, providing villages with electrical power, broad band, etc.), agricultural modernization and specialization, the expansion of social welfare, with a focus on the new rural cooperative medical system (*hezuo yiliao*) and on the minimum living allowance (*dibao*) program, the renovation or relocation of villages, and accelerated *in situ* urbanization (Ahlers and Schubert 2009). Local government coffers were filled with new influxes of upper-level funding, and BNSC-related central government expenditure, according to official figures, rose from Yuan 339.7 billion in 2006 to Yuan 857.97 billion in 2010 (Ministry of Finance 2006–2011). Additionally, some 370 billion yuan of the 4 trillion yuan national economic-stimulus program launched in 2009 that was intended to cushion the impact of the global financial crisis on China's domestic economy, were supposed to be spent on 'improving rural living standards' (Wang and Zhang 2009; for more details see Ahlers 2014).

The new BNSC policy framework was based on a vague '20-character objective' meant to embody the 'BNSC spirit': advanced production (*shengchan fazhan*), rich life (*shenghuo kuanyu*), civilized (local) atmosphere (*xiangfeng wenming*), clean and tidy villages (*cunrong zhengjie*) and democratic management (*guanli minzhu*) (see State Council 2006). This was accompanied by a few rather general policy guidelines which provincial and city governments then spelled out more precisely, for instance, by determining the range of agricultural products to be cultivated under the given climatic and geographical conditions of the province or city, ordering the setting up of agricultural cooperatives, setting targets for the renovation and beautification of village houses, and asking local governments to promote the relocation of farmers to 'new villages' and invest in 'cultural construction' within their jurisdictions. However, many policy goals remained underspecified and the content ultimately had to be supplied by county governments in their five-year development plans and annual BNSC blueprints. County governments should, among other things, push rural development by promoting agricultural specialization, set up demonstration or model villages and project sites, and design rural-urban integration schemes. In this way, local leaders were encouraged to act as political entrepreneurs and to come up with policy innovations and their own development strategy or 'model' (*moshi*) which, if successful, could pave the way for successful cadre careers. In a nutshell, local governments, particularly their leading cadres, were supposed to become a new brand of 'development agents' for the central state, adapting upper level guidelines to local circumstances and promoting local best practice solutions to rural development (Ahlers 2014; Göbel 2012). We argue that local policy making in combination with a set of powerful institutions, most notably the introduction of a system of fiscal transfers and the cadre and performance evaluation regime, has resulted in (more) effective policy implementation at local level in many parts of China. How can this contention be substantiated by our research on the implementation of BNSC?

### **Strengthening internal policy coordination and rationalizing the allocation of public money**

Faced with the need to decide and realize coherent policy measures within a large and diverse policy framework such as BNSC or rural-urban integration, local governments have expanded on long established modes of internal policy coordination and organization. Although the usual implementation structure for upper level guidelines, such as setting up a 'small leading group' (*lingdao xiaozu*),<sup>7</sup> can still

6 Since the period of the 12th Five-Year Plan (2011–2015), terminological reference in official documents has more often been made to 'urban-rural integration/coordinated development' (*chengxiang yitihua/tongchou fazhan*) or to 'the three rural problems' (*sannong* or *sannong wenti*), which recalls the early 2000s, when attention shifted to the most important issues of rural life that needed to be targeted by government action: agriculture (*nongye*), villages (*nongcun*) and farmers (*nongmin*). However, BNSC (*xinnongcun jianshe*) is still mentioned in the 12th Five-Year Plan and most recently in the CCP's new monumental agenda for the "Comprehensive Deepening of Reforms" of November 2013 (CCP Central Committee 2013).

7 At the formal level of the local party and government structure, the General Offices of a county party committee or a county government also play a key role in internal policy coordination and organization. They prepare documents for policy implementation, coordinate and steer the implementation process. With the help of specific local research institutions, such as so-called Policy Research Bureaus (*zhengce yanjiushi*) and organizations for specific policy-related field research, they identify local problems and suggest problem-solving solutions.

be found in most places (Zhong 2003: 128–157), in the counties that we investigated, the internal coherence of policy-making was additionally enhanced by the holding of informal regular meetings among the most committed department heads involved in BNSC design and implementation. These meetings did not necessarily involve leading cadres, such as the Party Secretary. For example, in Qingyuan county, Zhejiang province, regular informal gatherings of concerned officials to discuss rural issues ensured that the final decisions taken were appropriate and friction between government bureaus and agencies (on issues such as budget and personnel allocation) could be kept at bay. In Dingnan county, Jiangxi province, the Bureau of Rural Work (*nonggongbu*), usually a party-affiliated unit, was vested with the highest authority in the county government to steer the process of BNSC implementation.<sup>8</sup> The bureau did not only make all the major decisions on BNSC projects and manage project-related coordination across bureaucratic boundaries, including the allocation of project funding, but was also given responsibility for ‘party construction’ work at grassroots level and almost complete autonomy to design and carry out BNSC performance evaluation (see below). In all counties, the informal coordination of BNSC was interwoven creatively into the formal policy making process to ensure that policy implementation was not obstructed by inter-bureau competition of any sort.<sup>9</sup>

Decisions on the scarce funding that was available were among the most critical issues in the process of BNSC implementation. In accordance with the above-mentioned reforms of the fiscal system, the allocation of public money was subjected to considerable change, making project coordination at county level and below more complex. Budgets for most of the policy measures related to BNSC were only allocated by higher levels after the completion of a complex process of project application that started in the villages, and these sums were never paid fully in advance but rather on a multi-step cash-on-delivery basis. Counties were forced to monitor the implementation of specific projects by setting up indicators for successive performance fulfillment and, accordingly, only provided partial funding (to contracted companies or township and village coffers). Allocating earmarked funds in this way may not deter local governments from diverting public money for other purposes targeted by local budgets nor necessarily do away with corruption and nepotism (Gong and Wu 2012; Liu, Wang, Tao and Murphy 2009). However, it is safe to say that such practices have become more difficult today than they were in the early 2000s. To begin with, in order to obtain project funding from above, all counties (except for nationally designated ‘poor counties’) must come up with substantial matching funds (*peitao jijin*), which may, however, be refunded if project implementation is swift and cost-effective. This gives county governments a strong incentive to secure effective policy implementation. Furthermore, county governments pass the pressure of the *peitao* system down to townships and villages in their jurisdictions, ensuring that they are run on tight budgets and do not have opportunities to waste money. The logic underlying this system is simple: all actors will strive harder for the successful completion of a project if their own financial resources are involved.

As a matter of fact, county governments are surprisingly inventive in implementing policies under conditions of scarce financial resources. The so-called “Five Changes” (*wuhua*) program<sup>10</sup> in Laixi (a county-level city in Shandong), initiated by Qingdao municipality (the superior-level prefectural city) to improve the rural infrastructure is a good example. In order to fulfil the *wuhua* targets and keep expenditures low, the local government started by selecting more developed and wealthier villages close to highways for the first year of policy implementation. In the second year (2009), the county requested additional funding from Qingdao city and expanded the program to villages that were at an average stage of development, economically, that were able to come up with matching funds or had good connections to local enterprises that guaranteed quick and proper implementation. Concurrently, the county leadership instructed local enterprises and government departments to take over responsibility for specific villages of the second cohort and to contribute to the program from their budgets. The county also diverted

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8 This was indicated by the fact that the bureau director served concurrently as a member of the county’s CCP Standing Committee and as county deputy mayor in charge of rural issues.

9 The dynamic of the internal policy coordination process is also strongly conditioned by the leadership style of the county party secretaries and their respective policy preferences.

10 The *wuhua* program encompassed the construction of more solid roads (*yinghua*), and the beautification (*meihua*), greening (*lühua*), illumination (*lianghua*) and cleanliness (*jinghua*) of villages.

money from various funds (e. g., for poverty alleviation) to the *wu hua* program. In the final year (2010), the Laixi government focused on villages with only marginal funding resources, knowing that poor and remote townships and villages would be unable to implement the *wuhua* program without substantial external support. Given the lack of adequate funding for 2010, Laixi entered again into negotiations with Qingdao in order to ensure program fulfilment.<sup>11</sup> This strategy, which was also found in other counties that we investigated, is clearly based on the logic of development by concentric circles: first, provide support for the cluster of better-off villages close to highways. This will probably lead to a positive evaluation by upper levels and open up bargaining space vis-à-vis the prefectural city for obtaining additional funding in order to proceed to the second circle. The most remote and poor villages are the last to be included in the program on hand, and if targets have been successfully met in the second cohort, there will be bargaining space to obtain supplementary funding for the poorest villages, too. Hence, the relationship between counties and municipalities is flexible enough to be exploited by adept county party secretaries to implement policies under 'financial stress' (see, also, Heberer and Senz 2011).

### Strategic modelling

Another important tool employed by local governments that contributes to the effective allocation of scarce funds is what Ahlers and Schubert (2013) have called 'strategic modelling'. Setting up demonstration or model villages of some kind (*shidiancun*, *shifancun*, *mofancun*, *yangbancun*) is a well-established practice in the Chinese policy process and has also been prominent in BNSC implementation.<sup>12</sup> At the rhetorical level, county governments follow the official credo that policies can only be successfully implemented and ultimately effective, if they have been adjusted to local conditions, are based on 'best practices' as identified by experimentation and testing on model sites in selected villages, and are then emulated by other localities in the same township and county.<sup>13</sup> Our empirical findings, however, showed that modelling was first of all a spatial strategy for distributing tightly funded projects and that the 'emulation' factor played a role in only a few individual cases (Ahlers 2014). In practical terms, local governments either concentrated on a few villages in order to promote their full-fledged development in all possible aspects<sup>14</sup> or they tried to cover as many villages as possible with resources earmarked for specific measures (for example, village renovation or specialization in agriculture) in order to spread multiple 'project sites' across their jurisdictions. It is difficult to judge which variant is the most effective (or efficient, for that matter) in terms of outcome, since the local concentration and spatial dissemination of development projects have both pros and cons.<sup>15</sup> Comprehensive modelling on one site is more 'complete' and visually appealing, but more villages can profit from scarce resources if these are evenly spread across a larger territory. In our context, both strategies were applied by county governments to stimulate 'competitive activism' among townships and villages, arguably entailing effective policy implementation in terms of spending scarce money where it was most needed and emulation effects were most probable.

### County-township relations

Effective policy implementation in contemporary China is also positively linked to the specific relationship between counties and townships. Although there is plenty of competition and friction between these tiers (Hsing 2006; Smith 2010; Wu 2007; Zhao 2006a, 2006c), counties and townships are not fierce antagonists. On the contrary, they are well aware of their interdependence when it comes to being able

11 As a leading official on Laixi's Agricultural Commission stated, Qingdao was under an obligation to increase the funding for the program because the poorer villages were either unwilling or unable to pay for it. Thus, if Qingdao wanted to have the program implemented, more money would have to be provided. Interview, Agricultural Commission of Qingdao, 8 September 2008.

12 China scholars usually denounce 'models' as part of the CCP's propaganda tool box or the precursor of wasteful and – at best – 'senseless' political image-building; see, for example, Cai 2004; Smith 2009.

13 This contention may be challenged by those who claim that local governments use models merely as showcases for their performance records to impress their superiors, without much concern for their significance in achieving effective policy implementation. Although this is certainly the case in many localities, we argue that there are at least as many counties where modelling features as an important strategy for ensuring that the most efficient use is made of scarce resources.

14 This was mainly the case in the less developed and politically more conservative inland provinces that we visited.

15 This debate has surfaced now and again in publications such as, the *Journal of Agrarian Change* (Wiley), *Journal of Development Economics* (Elsevier), *Journal of Development Studies* (Taylor and Francis), *Journal of Peasant Studies* (Taylor and Francis), *Journal of Sustainable Development and Planning* (WITPress Journal).

to fulfill upper level requirements, realize local developmental goals and secure the good performance records that are critical for maintaining their political autonomy (avoiding upper level interference) and securing individual cadre promotion. While county governments and their leading cadres clearly have the upper hand over the townships in their jurisdictions, they also need them to implement policies ‘on the ground’. Townships and counties must and do cooperate in order to deal successfully with the pressure emanating from above and below. Townships actually assume a nexus function (*chengshang qixia*) between the county and village levels, by preparing, overseeing (*jiandu*) and assessing (*yanshou*) project implementation on behalf of the counties. In our fieldwork on the implementation of BNSC, counties and townships ‘encouraged’ villages to decide on and apply for the projects they wanted to see implemented. Quite naturally, the township government exerted a crucial influence on the eventual preference order of villages. In practice, the townships selected the villages they deemed most eligible to apply for funding, taking into account the overall economic situation in a village, the performance of village leaders in the past, and the degree of township control over them.<sup>16</sup> The final choice of township governments on the villages that would qualify for specific policy measures was then forwarded to the county, where the final decisions were made on project applications and the allocation of funds. These decisions were oriented at the overall development strategy of a county government, the quality of the applications from subordinate levels, the scope of available financial resources (often coming down from upper levels as earmarked funds), and, inevitably, informal factors, such as, the personal access of township leaders to county officials.

In most cases, the compliance of townships and villages was enforced by linking decisions on the provision of project funds to the capabilities of their respective cadres to manage village affairs well and maintain social stability and cohesion among the local populace. There was little evidence of conflict between townships and villages in the localities that we visited. With villages and townships financially dependent on the county government, they had strong incentives not to risk falling out with their superiors and, as a consequence, see much needed money flow in other directions. Moreover, the fact that villages did not all receive the same amount of project funding was viewed positively by county and township cadres, as being conducive to inter-village competition and resulting in more effective policy implementation. Also, county cadres claimed that they took care to distribute scarce funds evenly across their jurisdictions over time in order to achieve the balanced development of villages and townships – something that their superiors could not and would not ignore in the regular evaluation of county government performance. Respondents at all levels – county, township, and village – reported that the process for applying for projects had become more transparent, that funding had visibly increased each year, and that public goods provision had strengthened since the promulgation of BNSC (Ahlers 2014; Schubert and Ahlers 2012).

### **Mobilization of public support**

A further aspect of effective policy implementation in the case of BNSC has been the mobilization of public support. Public support for village development blueprints and bottom-up initiatives to gain project approval and funding were regarded as necessary by most actors involved in the policy process, as villagers had to come up with part of the matching funds that were needed for the realization of many projects. Villager resistance does not only endanger sound policy implementation but also blackens the performance records of local cadres and threatens the maintenance of ‘social stability’, a ‘one-veto item’ in the annual cadre evaluation process.<sup>17</sup> Apart from efforts to ensure majority approval for BNSC projects by the established institutions of villager self-government, i. e., villagers’ assemblies (*cunmin dahui*) and village committees (*cunmin weiyuanhui*), county and township cadres often targeted villager small groups (*cunmin xiaozu*) and made use of social networks within the village communities to mobilize

16 According to many of our respondents at county and township levels, decisions on project applications were often based on the authority of village leaders and their willingness to cooperate with the township and county governments. The more a village displayed ‘solidarity’ (*tuanjie*) with upper level development goals, the greater were their chances of attracting funds for road construction, village electrification, installation of pipes for drinking water, the renovation of houses, etc.

17 This means that the evaluation of a cadre will be negative if he/she has been responsible for the erosion of ‘social stability’ – no matter how good his/her performance may have been in other areas (see also more on one-item vetoes’ below).

support or neutralize obstruction by a few (or more) recalcitrant households. In the case of Dingnan county, Jiangxi province, special 'Village Administration Councils' (*cunmin lishihui*) were created for the sole purpose of building consensus among villagers on BNCS-projects and helping to ensure their smooth implementation – mostly by 'doing work' among those who would not fall in line immediately.<sup>18</sup> Mobilizing support by informal communication within villages has obviously been a more effective way of ensuring villager support for BNCS projects in Dingnan than working through the official bodies of village administration. Obviously, local governments today try to work more systematically through the closely-knit village community by employing new strategies for the goal-oriented mobilization of support, thus enhancing the chances of effective policy implementation.<sup>19</sup> If this strategy does not bear fruit and villager support and compliance cannot be ensured, local governments are forced into negotiations, have to make compromises, increase project funding, hand out more compensation, reconsider their development agenda and even give up on specific projects, at least for the time being. 'Authoritarian bargaining' (Lee and Zhang 2014) or the 'bureaucratic absorption' of potential or real protest (Chang forthcoming), not suppression, is typical for everyday policy making in the local state, as the fallout resulting from suppression impacts very negatively on local cadres' performance records and would not help the sustainability of projects after their implementation in any case. Public demands are thus increasingly being accommodated by local governments, which enhances the legitimacy of policies and makes a meaningful contribution to effective policy implementation (Ahlers and Schubert 2009, forthcoming; Schubert and Ahlers 2012).<sup>20</sup>

### Cadre and performance evaluation

The most powerful institutional tool for securing effective policy implementation is the cadre and performance evaluation (*kaohe, kaoping*) regime.<sup>21</sup> All Party and government units and cadres are subject to a complex set of monitoring and assessment procedures which are applied both horizontally, by evaluation at the same administrative level, and vertically by superior levels (Ahlers 2014; Heberer 2014; Heberer and Trappel 2013; Schubert and Ahlers 2011, 2012; Heberer and Senz 2011; Ahlers and Schubert 2009). The evaluation regime is by no means a monolithic or static institution; it is rather flexible and becoming increasingly sophisticated. While major developmental issues, such as GDP growth or birth planning have retained their crucial status over the years, other major targets, such as 'social stability' and environmental protection have been included as 'one veto items' and have reshaped local cadres' political strategies (Liu, Hou and Tao forthcoming). Additionally, modern technologies such as GPS-based surveillance methods and online platforms for assessing public concern on specific issues, as well as telephone-based opinion surveys and even random interviews conducted with villagers have been incorporated into cadre evaluation systems at all levels. Although these systems operate in roughly the same way in each and every locality (Landry 2008), there is space for local adaptation and, as we argue, for strategic application conducive to effective policy implementation. In all the localities that we investigated, the county governments adjusted the evaluation sheets for subordinate levels according to their development strategies. They tailored catalogues of target indicators passed down by city governments to match their specific policy preferences, as was the case in Dingnan county, where it was decided that 'civilized road building' (a program promoted by superior Ganzhou city) could be discarded for the purpose of converting the evaluation points originally allocated for performance in this category to the

18 The members of these ad hoc bodies were villagers with a high reputation, and most of them were quite outspoken. Village officials were intentionally not included in VACs.

19 While the lack of meaningful 'democratic participation', most notably via village elections, has been identified as a crucial problem for local policy implementation by many scholars (Ye 2006; Guo and Han 2007), others have a more positive view of the newly emerging types of limited, goal-oriented inclusion – such as the VACs in Jiangxi (He 2010).

20 Another form of 'goal-oriented' inclusion to achieve BNCS implementation has been the 'invitation' issued to private entrepreneurs and business elites, which seeks to persuade them to contribute to the funding of public goods provision by means of donations (Ahlers 2014) (see below).

21 Contrary to our understanding of the regime, cadre and performance evaluation is often referred to by China scholars as one of the main reasons for goal displacement and selective, i. e., non-effective, policy implementation. The argument follows the line that cadre evaluation produces intense pressure to achieve quantifiable results, resulting in overambitious benchmarks and serious policy distortions (Cai 2004; O'Brien and Li 1999; Smith 2009; Zhao 2006b).

urban development section (an important element of Dingnan's BNSC blueprint).<sup>22</sup> Also, county governments accentuated certain policy requirements they deemed important by upgrading, for instance, performance in financial management (Yulin city, Shaanxi province) or environmental protection (Qingyuan county and Deqing county, Zhejiang province; Nanfeng county, Jiangxi province; Shouguang county, Shandong province; Meigu county, Sichuan province) to 'one veto item' status.<sup>23</sup>

Collusion could and did occur between government bureaus and across administrative tiers (Zhou 2010; Zhou, Ai and Lian 2012) in order to 'streamline' the measurement of outcomes, but this did not seriously hamper the soundness of the evaluation process as such, on our fieldwork sites. Although local governments will always try to cover up dismal policy implementation and try to hide unsatisfactory outcomes from their superiors, the evaluation system cannot be fully sabotaged or manipulated. The reason for this is simple: local governments need performance evaluation to ensure the compliance of their subordinates because this is critical for the implementation of policies which have to be delivered to avoid pressure from upper levels.<sup>24</sup> At the end of the day, no administrative tier can escape this pressure to perform because evaluation procedures inevitably produce rankings within the cadre bureaucracy at each level, with those at the bottom being in an obvious predicament. Evaluation sheets and performance rankings reflect the extent to which announced policy measures have produced results, and thus serve as both a means of measurement and as a tool to sanction those who have failed in their duties. No matter whether sanctions are finally employed or not, cadre evaluation entails the stigmatization of non-performers, which impacts on their future careers. At the same time, the evaluation regime serves as a feedback mechanism for local governments regarding public responses to policy outcomes – even if this influence is (still) minor. We argue that the evaluation regime helps effective policy implementation in the sense that local governments are forced to make good on what they have promised to achieve, even if the measurement of outcomes is open to negotiation and compromise (Ahlers and Schubert forthcoming, Heberer and Trappel 2013).

To summarize, our analysis of BNSC implementation in different counties all over China suggests that the policy process in the local state is far more beneficial than it is detrimental to effective policy implementation. Policy coordination has been strengthened. The same holds true for the supervision and legitimation of policy implementation. The mutual dependence of county and township governments enforces the compliance of all relevant cadre bureaucracies.<sup>25</sup> And the cadre and performance evaluation regime ensures that developmental goals are translated in outcomes that can be measured, generating a feedback loop within the political system that ensures critical responsiveness to public demands. Since policy formulation is mainly state-led, policy outcomes may not fully reflect public demands, but empirical evidence tells us that the provision of public goods has improved considerably over the last decade in the local state, highlighting the fact that local policy implementers are increasingly taking public demands into account. This is certainly beneficial to the legitimacy of policies and, arguably, regime stability. In the following section we take the interaction between local governments and private sector development as a case study to demonstrate how single policy fields of BNSC (in our case these interaction) have developed into separate developing trajectories contributing not only to effective policy implementation but also spawning coherent local development.

22 The adaptation of evaluation sheets and the supervision of performance evaluation at county level is in the hands of the County CP Organization Department, and is often managed by a special 'Evaluation Office' (*kaohewan*), an agency extending across party and government hierarchies which, in close communication with relevant government bureaus, determines the assessment criteria and performance benchmarks to be applied to county and township bureaus (Ahlers 2014; Ahlers and Schubert 2009). The evaluation of leading cadres at county and township levels, however, is usually in the hands of the Organization Department.

23 'One-item veto' (*yi piao fou jue*) status in cadre and performance evaluation refers to political requirements of the highest priority, such as birth control, 'social stability', the management of land transfer, etc. Violation of these requirements or failure in fulfilling them nullify all other achievements in the annual evaluation process.

24 Many of our respondents emphasized that policy implementation is impossible without regular evaluation. Lower level cadres would simply not comply without this kind of pressure.

25 Elsewhere we have shown that strategic agency and the behavior of leading local cadres as "strategic groups" contribute significantly to this compliance, see Heberer and Schubert 2012.

## 4 Effective policy implementation and private entrepreneurship

### Local government agency and private sector development

Apart from reforms concerning the policy making process at local level, the interaction and cooperation between local governments and private entrepreneurs has also become crucial for effective policy implementation in contemporary China. The private sector is a pivotal component of local economic policies, even more so since, today, only a few sectors are the exclusive domain of state-owned enterprises (such as, energy, tobacco, crude oil, etc.) and private investment is urgently needed to develop a locality. Moreover, quantitative economic development is still the most important indicator for assessing the performance of leading cadres and deciding on their individual career trajectories. New field research conducted by the authors in four county-level jurisdictions in 2012 and 2013 suggests that the local state strategically targets entrepreneurs to ensure smooth private sector development and thus facilitates effective policy implementation on the ground.<sup>26</sup> Particularly in the aftermath of the global financial crisis in 2008/09, with its negative impact on the Chinese export economy, local governments have tightened their private sector policies to bring about structural change in the local economy, a precondition for more taxes and better public goods provision. But how exactly do local governments deal with private entrepreneurs, and how does this relate to effective policy implementation?

To begin with, city and county governments constantly try to identify promising industries and businesses in their respective jurisdictions. As a general rule, private sector development strategies on our field-work sites aimed, as a first step, at developing 'dragonhead enterprises' (*longtou qiye*). In a second step, larger scale enterprises (*guimo qiye*), characterized by an annual production value of roughly 10 million yuan, were to be developed into *longtou qiye*, and in a third step, promising small and medium-sized enterprises were to be transformed into *guimo qiye*. The steady upgrading of production technologies plays a salient role in this approach to local economic development. Enterprises of specific industries, offering advantageous tax treatment and other financial incentives, are often concentrated in development zones (*yuanqu*). In Wenzhou, for instance, almost every sub-district (*jiedao*)<sup>27</sup> has at least one development zone of its own. Companies there are requested to set up specific development plans which are adjusted to and reconciled with the development priorities of local governments. Local governments offer and sponsor training programs for private enterprises, support or maintain service centers for small and medium-sized enterprises and help to establish links with universities and research institutes in order to push ahead R&D and product marketing. They also try hard to attract external skilled labor to work in more advanced local firms, encourage the merging of enterprises and identify (and attract) partners who are willing to invest in local businesses.

The entire range of measures undertaken by local governments strongly impacts on private entrepreneurship in their respective jurisdictions: they grant subsidies and earmarked funding, allocate land and land use rights, act as intermediaries in negotiating bank loans for private enterprises, provide the infrastructure for a sound business environment (e. g., access to major transportation routes, well-equipped development zones, etc.), and attract private investment (*zhaoshang yinzi*) to expand existing local businesses or set up new undertakings. Small and medium-sized enterprises, in particular, are dependent on the strategic resources of local governments to become 'big and strong' (*zuo da zuo qiang*). Large enterprises which have developed into regional, national or even global economic actors are much less focused at local level, but even they have to deal with local governments in order to obtain access to land and personnel. As a matter of fact, local governments and private entrepreneurs are mutually dependent and have formed a symbiotic relationship. This symbiosis, however, is asymmetric, since local governments dominate the private sector economy by virtue of their exclusive access to the resources that are urgently needed by private entrepreneurs to survive in highly competitive domestic markets. We argue that both mutual dependency and the asymmetry in local state-business relations are beneficial to effective policy implementation in contemporary China.

26 In 2012 and 2013, we did field research in the county-level cities of Jiangyin (Jiangsu province), Jinjiang (Fujian province), Enshi (Enshi autonomous prefecture), and Wenzhou prefectural city (Zhejiang province), conducting interviews with local officials and some 30 private entrepreneurs.

27 Subdistricts, or 'street offices', are the smallest political division under the level of urban districts.



Since the early Hu-Wen administration, the Chinese state has invested heavily in rural development, and the fostering of private entrepreneurship has become an important component in the overall approach to the rural-urban integration of local governments. They shape the local economy by setting priorities in the conversion of scarce land to commercial use, encouraging the development of new product brands and trademarks, providing access to market information and pushing forward the implementation of environmental standards.<sup>28</sup> Local governments invest continuously in the development of the local infrastructure, communications, and public goods crucial for private enterprise development, such as local development zones, special service centers for small and medium-sized enterprises and schemes to attract skilled labor and professionals. They also organize vocational training for enterprise personnel, provide information on marketing strategies and new models of business administration, and set up communication channels between private enterprises and government bureaus to help them resolve all the diverse technical and financial problems they may face. Moreover, local governments provide financial support for firms in economic difficulties, most notably by adjusting their tax burden. Although local tax refunds are illegal, city and county governments can reward the performance of enterprises, for instance, by granting money for ‘product innovation’. Such bonus payments are a hidden form of subsidy that operates to prevent the collapse or out-movement of firms. Concurrently, promising industries (in sectors such as logistics, biotechnology, chemical engineering, packaging, etc.) are often directly sponsored. In addition, local governments pay close attention to the restructuring of existing industries in order to enable them to respond more effectively to the needs of the changing domestic market. They also dispatch experts or specialized cadres to enterprises in order to tackle technical and other problems and set up close relationships with government bureau personnel.<sup>29</sup> Local governments even make contact with private entrepreneurs who have moved their companies and now operate in other localities to persuade them to invest in their native places.<sup>30</sup>

### The interaction of local governments and private entrepreneurs

The primary goal of local governments is to improve the capacity of enterprises to compete on domestic and global markets and to help them set up more effective business models. At the same time, entrepreneurs (whether party members or not) bind themselves closely to the party-state from which they expect political protection and support in return. Private entrepreneurs constitute a rather heterogeneous, even ‘atomized’ social group, whose members interact with local governments primarily at an individual and informal level. This ‘atomization’ of private entrepreneurs is certainly, to a great extent, due to the absence of autonomous business associations. Of course, regional differences and development trajectories produce different state-business relations, and the more important the private sector for a given locality has become, the greater the bargaining power of private entrepreneurs vis-à-vis local governments, both at individual and collective levels.<sup>31</sup> Nevertheless, our research has revealed that private entrepreneurs operate in close symbiosis with local governments. Not surprisingly, in localities such as Jiangyin, in Southern Jiangsu province, where market transformation took place mainly through the privatizing of former collective-owned enterprises (TVEs) and where the interrelationship between the local party-state and private entrepreneurs has been characterized by ‘local state corporatism’ (Oi

28 On all our fieldwork sites, local governments attempted to attract or develop *longtou* companies (‘dragonhead enterprises’), advocated and subsidized the development of brand-name products, and claimed that they were closing down labour-intensive and polluting industries.

29 In Wenzhou, we heard about a program that would send ‘10,000 cadres’ to local enterprises, either as technical advisors or as intermediaries to smooth out and strengthen relations between private enterprises and government units. Interview, Wenzhou, 27 September 2013.

30 Private entrepreneurs often move to economically more prosperous regions where they establish native place chambers of commerce (*shanghui*). The local governments in their hometowns frequently approach these associations and ask them to mobilize local entrepreneurs to help to finance development projects and public goods provision back home. Compare the following articles published in the journal, *Yue En Shang* (Enshi Entrepreneurs in Guangdong) which was established in 2012, for instance, issues 4/2012: 2–3, 9–10; 12/2012: 23–24, 36–37; 4/2013: 5, 12–15, 20; 6/2013: 27–28; 39. *Yue En Shang*, 4/2012: 2–3, 23–24; 4/2013: 20.

31 In Wenzhou, for instance, high-tech enterprises were granted benefits by local governments, such as tax reductions or tax remissions, easier access to land, etc., in order to prevent the out-migration of enterprises. In Enshi, on the contrary, private sector development is still rather weak, with the result that local entrepreneurs are much more dependent on the development policies of local governments.

1995), the local government has dominated the private sector from the very beginning of the market transformation process. The same is true as well, however, for regions without a noteworthy TVE background. In Jinjiang, for instance, where local entrepreneurship only developed in the early 1990s and has remained confined to local markets since then, the city government is clearly steering private sector development. As was the case in Jiangyin, private companies initially evolved under the 'red hat' of collectively-owned enterprises in Jinjiang and were therefore closely connected to local governments. In Wenzhou and many other places in the Yangzi delta, private entrepreneurship started to emerge in the 1980s, although the local governments at that time put up considerable resistance. Arguably, this has made Wenzhou entrepreneurs more self-confident and more autonomous in the early period of *gaige yu kaifang* (Yu et al. 2012), but as is the case in other places, they can hardly do without the support and 'guidance' of local governments since the latter maintains control of land, finance, and information.

In addition to steering the political agency of private entrepreneurs by their control of much needed economic resources, such as land and credit, local governments also dominate local trade and business (branch) associations (*shanghui, hangye xiehui*). As a rule, these organizations are subordinated to the local office of the All-China Federation of Industry and Commerce (*Gongshanglian*), a key organization that is, in turn, subordinated to the United Front Department of the CCP. The director or deputy director of the United Front's local chapter also heads the local branch of the AFIC. The staff are funded by the local government at county or city levels, and its major task is to ensure the corporatist control of private entrepreneurs in its jurisdiction. There are also many other business associations, e.g., Associations of Individual and Private Enterprises (*Geti siying qiye xiehui*) under the Bureau of Industry and Commerce (*Gongshangju*) and Associations of Private Entrepreneurs (*Siyang qiyejia xiehui*) under the Bureau of Economy and Informatization (*Jingxinwei*). None of these, however, are autonomous interest organizations that represent private enterprises or entrepreneurs, rather, they function as transmission belts that help the party state to maintain its political supremacy over the private sector.<sup>32</sup> Their principle task is to provide for the steady flow of communication between local governments and private entrepreneurs to ensure continuous economic development and market expansion, to the benefit of the local economy.

Strikingly enough, entrepreneurs often state that the practical significance of these organizations for enterprise development is rather minor. Larger companies resolve problems by activating their private networks and directly approaching the authorities at an individual level. Smaller companies often find that local governments are not interested in resolving their problems at all. They also prefer to communicate informally with the relevant government bureaus and local officials, whom they know personally, to solve their problems and rarely rely on business associations to assist them. But even if private entrepreneurs were interested in autonomous interest organizations, these would be strongly dependent on the local state with regard to subsidies, land, information on government-sponsored projects and business training, and would therefore be forced to closely cooperate with local governments, as many of our respondents confirmed. After more than three decades of market reform and transformation, trade and business associations in China have remained functional vehicles of the Party state. Autonomy, it seems, is not possible in a system where the factors of production – labor, capital and land – are closely monitored by the state and private entrepreneurship is perpetually coopted by governments at each and every administrative tier. It is therefore not surprising that most of the entrepreneurs interviewed noted that they do not entertain close contacts to the various associations in their locality. If at all, interviewees acknowledged a certain beneficial effect in terms of policy information, training (*peixun*), social networking and the organization of business trips to gather information on domestic and foreign markets.

In most of the larger private enterprises, we came across party organizations which were often headed by the founder and boss of the company or a leading manager. This was particularly the case in southern Jiangsu's Jiangyin county, where private entrepreneurs had often worked as managers or technicians

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32 There may be more autonomy on the part of the Wenzhou *shanghui* structure which extends all over China. According to the information we were given during interviews, Wenzhou entrepreneurs have established more than 200 associations outside Wenzhou. These feature as traditional hometown associations (*tongxianghui*) that provide support for people from Wenzhou in a given area.

in former state-owned companies or collectively-owned TVEs, or had held positions in local government bureaus in the early stages of ‘reform and opening’. When privatization began in the 1990s, these people used their party connections to jump-start a private business, so their affiliations to the local party apparatus have always been close.<sup>33</sup> Among party members, there were many university graduates ‘classified’ by our respondents as more committed to party work and more able to take on the role of arbitrators in case of labor conflicts. Entrepreneurs responded to questions on the role and significance of a company’s party organization in a rather general and abstract manner. Party members were said to figure as role models and were considered particularly competent and capable. In general, entrepreneurs contended that party organizations would have a positive impact on the workforce. However, many of our respondents gave either evasive or downright ironic responses when asked about the specific work and actual significance of party cells in their companies.

For local governments, establishing party organizations in private enterprises has three primary objectives: (a) recruiting new members for the local party apparatus, particularly since privatization processes and labor migration have impacted negatively on such recruitment; (b) recruiting younger and better educated party members over time; (c) establishing close links between local government and enterprise management. In our opinion, the success of this policy is ambivalent at best: where entrepreneurs became party members early in their professional careers (Jiangyin, Enshi), new member recruitment in a company seemed to run quite smoothly. In Wenzhou and Jinjiang, however, ‘party construction’ in private companies was labeled by some local cadres as ‘fake’ (*xujiade*). For example, in Jinjiang, party organizations might be ‘highjacked’ by the family of a private entrepreneur: the father may serve as the secretary of the party committee, the younger brother as chairman of the trade union chapter within the enterprise, and the boss himself may head the Communist Youth League chapter. Local officials insisted that this ‘clanization’ of enterprise party organizational structure should not happen, but apparently it seemed better than having no organization at all. Private entrepreneurs often seemed reluctant to talk about the party organizations in their companies. Since the local CCP Organization Departments regularly evaluate the activities of company party organizations and their secretaries, the party state control of private enterprises is quite tight. Also, as we found in Enshi and Wenzhou, local party officials were dispatched to private enterprises (*guazhi*) in order to strengthen the ‘communication links’ between companies and local governments.

From an outside perspective, party organizations in private enterprise do not seem very functional and mainly engage in cultural activities for company staff. However, it is obvious that they serve as one more transmission belt for linking a private enterprise to the local party state. They are directly subordinated to superior party committees, e. g., in development zones, to the party committee of that zone. This arguably facilitates the communication of local development policies at company level. It is difficult to discern precisely how these processes work out because, as is so often observed in the Chinese political system, they are highly informal and lack transparency. But it is a reasonable assumption that party organizations within private enterprises are useful tools for controlling leading company staff and implementing official policies related to private sector development.

### **Recent challenges for private entrepreneurs and the role of the local state**

Apart from the scarcity of land available for commercial use in many parts of China, access to loans for small and medium-sized companies is the most critical problem facing enterprise development. Since the global financial meltdown of 2008/09 and the economic crisis that has persisted since then, hitting, in particular, the export sector, the demands made by private enterprises for credit to enable them to make ends meet have been critical. Banks are no longer subordinated to local governments, and the influence of the latter on local bank branches has considerably decreased over recent years. As a rule, banks do not accept land as collateral, since land is not part of an enterprise’s property, and other company assets are hardly sufficient to meet the collateral requirements of banks for credit. Moreover, since the global financial crisis of 2008/09, many banks provide loans only on a one-year basis. This renders long-term

<sup>33</sup> Most of the private entrepreneurs we interviewed in Jinjiang und Wenzhou were not CCP members, although party organizations had been established in most of the companies we visited.

company development impossible. Against this background, local governments support the setting up of so-called 'guarantor companies' (*danbao gongsi*)<sup>34</sup> or micro-credit companies (*xiao daikuan gongsi*).<sup>35</sup> They also provide low-interest or interest-free 'bridge funds' for private enterprises, or they purchase goods in order to prevent the meltdown of companies.

Local government units, such as the Bureaus of Industry and Commerce (*gongshangju*), assist smaller private enterprises in gaining access to micro-credits by organizing special 'dialogue platforms' to bring together entrepreneurs and local financing institutions, thus facilitating credit negotiations.<sup>36</sup> Local governments may, illegally, take over partial guarantees for private companies or attempt to influence local bank managers who are accountable to their superiors in the 'banking system' (*yinghang xitong*) but have been shifted to their position by the Organization Department of the local party committee. Sometimes, local governments even pay bonuses to banks for providing credit for enterprises.<sup>37</sup> And they may request larger and healthier private companies to act as guarantors for smaller companies that are in need of credit. Local governments may also reduce taxes or make local companies the beneficiaries of government procurement contracts, although this is not necessarily related to special assistance for those private enterprises under financial stress and, in any case, primarily concerns enterprises and businesses which are of economic importance to local governments.

In Wenzhou, even 'shadow banking' has been legalized, and the city has been declared an experimental site for 'people credits' (*minjian daikuan*), where unofficial loans provided by private 'shadow banks' are now officially accepted. These banks are rampant across China, but particularly in Wenzhou. Small and medium-sized enterprises frequently seek loans on this grey market for which they pay very high interest rates (*gaolidai*) (Dongfang Zaobao 2012).<sup>38</sup> To counterbalance the worst aspects of Wenzhou's notorious shadow banking sector, the local government has established the 'Wenzhou Private Lending Center' which is intended to regulate this murky sector to some extent (Schmitz 2013). A program that allows the development of private banks in four pilot provinces has recently been approved by the central government (Reuters 2014). This step will enable local governments to intervene more effectively in the credit business since they will have the authority to approve the establishment of private bank chapters in their respective jurisdictions. Private banks would bring more competition to the banking sector and render the credit business more flexible, as many of our respondents emphasized.

No matter how local private entrepreneurship initially emerged, in all the places that we investigated, local governments provided effective leadership and guidance for the private sector, suggesting the existence of a strong developmental state. This, as we argue, contributes positively to effective policy implementation. The local state enjoys sufficient autonomy from the private sector, exclusively controls the access to land, funding, public projects, information and, although more circumspectly, credit, and therefore can and does bring entrepreneurial interests – most notably, profit increase and company expansion – in line with its specific goals to develop the local economy.<sup>39</sup> At the same time, local state

34 Private enterprises may apply to a *danbao gongsi* to support their loan application at a bank. The *danbao gongsi* then screens the financial soundness of the company and acts as a guarantor vis-à-vis a local bank. The enterprise has to pay a fee to the *danbao gongsi*. Interestingly enough, there may be local government money in the capital pool of the *danbao gongsi*, which is taken as an indication, by the local banks, that a loan request is 'safe'. However, this is not always the case. In Enshi, we talked to the president of a *danbao gongsi* that was obviously funded by the local government and by very few private investors. As a matter of fact, the financial structure of these institutions is opaque, which seems to be a matter of intent, at least to the external observer.

35 In Jinjiang, for instance, there were 14 private *danbao gongsi* and four micro-credit companies (*xiao daikuan gongsi*) in 2012. Local officials often distinguish between fully private *danbao gongsi* and those institutions with public money invested in them. As already mentioned, this is a murky area, since the use of public money for credit is prohibited by law, even in this indirect form.

36 Respondents from larger enterprises made it clear that they negotiate directly with banks, are not reliant on guarantors and rarely face problems in gaining access to bank loans. This differs strongly from the situation of smaller companies.

37 This is where business associations have a role to play, since they often serve as platforms to communicate the requests made by local governments to the wealthier enterprises in the locality.

38 An official in Wenzhou argued that even high interest loans are acceptable if 'both sides agree' (!). Interview, Wenzhou City Department of Finance, 22 September 2013.

39 Naturally, the vertical interrelationships between local governments and private entrepreneurs may also lead to ineffective or non-sustainable policy implementation. The persistent focusing on GDP development and the related career advancement opportunities of local cadres on the one hand, and 'promotion mobility' that favors short-term development strategies on the other, are obstacles to effective development planning and implementation.

supremacy helps to mobilize private capital, making up for insufficient financial resources (due to the discriminating tax system), helping local governments to provide public goods, and funding poverty alleviation programs.

## 5 Conclusions

In this article, we have argued that ‘authoritarian resilience’ and systemic ‘adaptiveness’ in contemporary China are closely linked to what we call effective policy implementation in the local state. Effective (not efficient) policy implementation is the result of systemic learning.<sup>40</sup> Central state objectives, in response to urgent challenges to the political system arising from its environment, are translated into new policy initiatives and into the introduction (or refurbishment) of powerful institutions to ensure the compliance of local cadre bureaucracies in implementing upper level guidelines. Local governments, for their part, must comply in order to preserve their political autonomy from upper level interference and safeguard cadre promotion opportunities. Effective policy implementation in the local state – highlighted, in this article, by the focus on the ‘Building a New Socialist Countryside’ program launched in the mid-2000s and the interaction between local governments and private entrepreneurs resulting from it – has been the result of the new approach employed by the central state to promote rural development and rural-urban integration, buffered by rising fiscal transfers and supported by the cadre and performance evaluation regime that has become more demanding in terms of policy implementation and the provision of public goods. At the same time, local governments must come up with policy innovation and find alternative ways to make up for insufficient upper level funding in order to implement policies and prove their strong ‘service orientation’ to their superiors.<sup>41</sup> Private entrepreneurs are therefore systematically targeted to co-finance public policies, a strategy that is facilitated by the local state’s continuous supremacy over the private sector economy. This is certainly not (yet) possible everywhere in China, with the result that many local governments are forced to continue to rely on the commodification of agricultural land as the only way to supplement fiscal transfers that are inadequate to cope with ‘underfunded mandates’ – although this does not necessarily jeopardize effective policy implementation according to our definition (see above).

Looking at ‘authoritarian resilience’ through the lens of effective policy implementation does not disregard the shortcomings of the current political system with respect to fiscal policy, the efficient allocation of public money, cadre accountability and democratic participation to ensure that public policies fully reflect public demands. It helps to show, however, that the Chinese political system is undergoing a dynamic learning process and succeeds fairly well in implementing policies that reconcile central state objectives with local state strategic agency, is responsive to public demands and generates outcomes that maintain critical degrees of system support and regime stability – at least for the time being.

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40 By ‘systemic learning’, we mean that leading local cadres develop the capacity – by processing gained experience, advocating experimentation, and pushing for innovation – to constantly modify and adjust their development strategies.

41 Although the intergovernmental transfer system has been expanded over the years, most local governments still face ‘financial stress’, because the central government has not decentralized the fiscal system since 1994. As a matter of fact, the fiscal dependence of local governments helps the central state to enforce its policies, since the former must compete for scarce funding by proving that they can bring about effective policy implementation. The CCP Central Committee’s new reform agenda of November 2013 as well as the central government work plan presented during the National People’s Congress in March 2014 announced another circle of thorough reforms in the intergovernmental financial system. According to the new plans, earmarked funds (*zhuangxiang zhuan yi zhifu*) and matching requirements (*peitao zijin*) for local governments will gradually be replaced by general financial transfers (*yibanxing zhuan yi zhifu*) (CPC Central Committee 2013; Li 2014).

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