

Chapter 2: Local Governance in China's Political System

Explaining the critical role of local governance in China's authoritarian state\*

Anna L. Ahlers, University of Oslo, Norway

Thomas Heberer, University of Duisburg-Essen, Germany

Gunter Schubert, University of Tübingen, Germany

**Introduction**

Why and how do the tiers of local government, and the modes of governance evolving around them, occupy a critical role in China's authoritarian state structure? This chapter approaches this question by looking at one of the core functions embedded in local governance arrangements: policy implementation. The ability of continuously safeguarding a critical degree of output effectiveness amidst ever-increasing complexity and challenges is widely regarded as a pillar of state capacity and a symbol of regime adaptability in contemporary China.<sup>1</sup> In fact, governance research needs a local perspective to examine ultimate policy-making where the state 'meets the people' and where policy outcomes become immediately relevant. And it is at the local level that the political system seems most flexible and adaptive.

This chapter will show that local governance in the Chinese political system is more than a mere copy or extension of structures and mechanisms found at higher levels of the governmental hierarchy. Although China's local bureaucracies have to obey the upper levels – prefectures, provinces and the center – they still have substantial maneuvering space to shape the implementation of policies and to determine the political system's capacity to deliver meaningful outcomes (Ahlers 2014b).

We conceptualize local governance as procedural, along the lines of Capano, Howlett and Ramesh who recently pleaded for applying a contingent perspective and for

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\* This chapter is an abbreviated and slightly revised version of an article previously published as Ahlers, Heberer and Schubert 2016.

abandoning the typological tradition in governance research. Their analytical framework for the study of *governance arrangements* includes such aspects as (here in italics): “*dynamics*: due to the fact that they [government arrangements] change over time and very often are characterized by different policy mixes, (...) their *strategic nature*: since they are the products of the actions and interactions of policy actors driven by specific goals, and (...) their *capacity*: that is how likely governance arrangements can be effective in relation to certain important collective goals” (Capano et al. 2015: 8-9 [original parentheses deleted for this quote]).

Although we concentrate on the local tiers of China’s political hierarchy in our analysis, we depart from the usual focus on the apparent central-local state dichotomy and an exclusive concentration on one of these perspectives. Local governance research on China must take into account the ‘bigger picture’, or systemic context, in which such governance happens. 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 steering local policy implementation. In the early 2000s, several important reforms, particularly the tax-for-fee reforms, the ensuing expansion of a system of fiscal transfers, and new state-funded programs for developing the countryside and spurring rural-urban integration have changed the nature of local policy-making in China considerably. Local state maneuvering in contemporary China is shaped as much by centrally designed policies and institutional control mechanisms (tax competition, cadre and performance evaluation, promotion) as by strategic agency on the part of local party and government cadres which must deliver results to the upper levels in order to ensure their future careers or, if promotion is not likely, at least in order to maintain their current rank and social status (Heberer and Schubert 2012). This tension entails, as we argue, the successful reconciliation of local state agents’ collective interests with the central state’s overarching policy objectives and the maintenance of overall state capacity to master increasing challenges stemming from the political and social environment. Policy-making in China is determined neither exclusively by top-down guidance nor by bottom-up collusion and mere “muddling through”, but rather by a delicate mixture of central state ‘signaling’, institutional constraints, and strategic agency on the part of local cadre bureaucracies across all governmental tiers. In other words, current local governance arrangements and effective policy implementation are the product of central state claims to political steering *and* local responses to these claims, which are increasingly influenced by and

take into account relevant non-governmental stakeholders with specific relevance for policy implementation.

To give flesh to these contentions, we draw from years of fieldwork carried out in some 15 counties and cities spread all over China.<sup>2</sup> Without attempting to delve too deeply into different case studies we bring together a number of observations and key findings from different regions which suggest that certain reconfigurations of local state governance can be observed across China. The chapter is structured as follows: first of all, we highlight some of the important policy changes and institutional reforms which have been launched by the central government since the early 2000s. Subsequently, we explain how these reforms have impacted on local state governance, and thereby policy implementation, especially at the county and township levels. In the last part, we show how local governance has become more inclusive and increasingly tends to mobilize and selectively involve non-governmental actors and the general public in policy making. In conclusion, we summarize our conceptualization of current local governance in the Chinese political system.

### **Major shifts in the national policy context since the 2000s**

Local governance arrangements were 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 towards rural development was adopted (He 2007; Liu and Tao 2007; Lou and Wang 2008; Zhan 2009; Göbel 2010; Ahlers 2014b). This was the result of a protracted learning process, after the party leadership realized in the late 1990s that the ‘peasant burden’, accompanied by increasing social disparities and a rural-urban divide, was posing a threat to the survival of ‘Chinese socialism’. Consequently, the successive elimination of all taxes and fees since the early 2000s was also accompanied by the abolition of the highly symbolic agricultural tax in 2006 and the systematic expansion of the fiscal transfer system, which had been established in the mid-1990s.<sup>3</sup> These were crucial measures that, together with enforced top-down monitoring, ‘turned the wheel’ in the Chinese countryside. The areas and localities which were experiencing difficulties in making ends meet were specifically targeted and were provided with fresh public funds in order to invest in the local infrastructure and public goods provision. 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 country.<sup>4</sup> At the same time, local cadre bureaucracies were forced to foster more balanced economic growth and to provide better access to public goods – 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' implemented without adequate compensation against farmers in order to provide local governments with the new money required to make up for their many 'underfunded mandates'.

These policy reforms were accompanied by a new official discourse that introduced the formula of "Building a Service-oriented Government" (*jianshe fuwuxing zhengfu*). It emphasized the need to enhance administrative efficiency, in particular the provision of public goods, and was also designed to improve the reputation of local officials (Ahlers 2014a).<sup>5</sup> In the official jargon,

"a service-oriented government represents a *governance mode* that places service in the center of government functions, which requires a fundamental transformation of government functions in Chinese public administration. The service-oriented government asks for a sufficient understanding of the needs of citizens and business that is critical to meet the goals of creating a favorable socio-economic environment and providing quality public services." (Wu et al. 2013: 2 [emphasis added])

This connotation can now be found in any national policy initiative as well as in guidelines targeting local governance reform (Xinhua 2006; Ahlers 2014a). Moreover, it summarizes the change in rhetoric which has been implicit in official policy speak since the Hu-Wen Administration years and now continuously calls upon local party and government cadres to become 'service providers' and 'explorers', for example in developing urbanization strategies (*zhongguo tese xinxing chengzhenhua*) (Ahlers 2015), building up and expanding social welfare security systems (Stepan and Müller

2012), and – generally speaking – implementing the CCP’s November 2013 reform agenda at the local level (CCP Central Committee 2013). The new discourse represents a stark contrast from the previous decades of decentralization after ‘reform and opening’, when local state agents were often easy scapegoats for state propaganda and the media and were basically held responsible for all policy failures at the grassroots level (Göbel 2010, 2011, 2012) – ultimately at the risk of alienating them from the political regime. Now, local cadres are expected more than ever before to foster cooperation with the private sector and, for example, to push for local bank reform in order to facilitate credit access for private enterprises. But local governments are called upon not only to treat citizens and ‘stakeholders’ affected by certain policies like clients but also to streamline their administrative apparatuses by contracting out a growing number of public services to the private sector (Ahlers 2014b; Ahlers and Schubert forthcoming).

Concurrently with the inflow of more resources and responsibilities, the cadre and performance evaluation regime (*kaohe, kaoping zhidu*) was reformed. Thus it not only became more pervasive in controlling local bureaucracies but also increasingly sophisticated and flexible in local adoption. 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’,<sup>6</sup> environmental protection and UN-defined “human development” indicators have been included to different degrees and have reshaped local governance arrangements.<sup>7</sup> Additionally, modern technologies such as digital surveillance methods and online platforms for assessing public concerns on specific issues, as well as telephone-based opinion surveys and even random interviews conducted with residents have been incorporated into cadre evaluation systems at all levels. Although these systems operate in roughly the same way in each and every locality, there is space for local adaptation and, as we argue, for strategic – sometimes informal – forms of application conducive to effective policy implementation (Ahlers 2015b; Ahlers and Schubert 2009, 2015, forthcoming; Delmann 2015; Heberer 2014; Heberer and Senz 2011; Heberer and Trappel 2013; Landry 2008; Schubert and Ahlers 2011, 2012).

Finally, as local governments are now largely relieved of strained cadre-peasant relations caused by the highly contested exaction of taxes and fees, the expansion of formal and informal public participation has gained more importance in local

governance (He and Warren 2011; Manion 2014; Mertha 2009; Schubert and Ahlers 2012; Thøgersen 2009). Public demands and responses are now increasingly taken into account in the process of designing and carrying out local policies, with the overall objective of ensuring ‘social stability’. Furthermore, a rising number of new policies and regulations, such as the “Action Plan on Prevention and Control of Air Pollution” (*daqi wuran fangzhi xingdong jihua*) (State Council 2013) or the “National New-Type Urbanization Plan” (*guojia xinxing chengzhenhua guihua*) (State Council 2014), explicitly call for more public engagement in local policy implementation, thus making local governance ever more complex (Ahlers and Schubert forthcoming). The effects of these shifts in policy mixes will briefly be portrayed in the following two sections.

### **Adjustments in the organization of local policy implementation**

The reforms pushed through since the early 2000s gave rise to important shifts in central-local relations and changed the ways in which the agency of local governments was framed within the overall policy process; they also included incentives for shifts in governance arrangements. This can best be examined by taking a closer look at the policy process in the local state (that is, at the county, township and village levels), where upper-level policies must be constantly adjusted and ultimately implemented. Following the restructuring of the fiscal system, 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>8</sup> A mixture of policy measures was prescribed to spur investment in local infrastructures (roads and highways, electrical power in villages, broadband access, etc.). Along with it came agricultural modernization and specialization, the expansion of social welfare (with a focus on the new rural cooperative medical system and on the minimum living allowance program), the renovation or relocation of villages, and accelerated *in situ* urbanization (State Council 2006; Ahlers and Schubert 2009). Since we have analyzed the BSNC policy process in great detail elsewhere, we will only highlight here what we see as significant shifts in the governance arrangements that have accompanied this new policy mix, which has arguable been the single most comprehensive and momentous development initiative in recent decades.<sup>9</sup>

The new BNSC policy framework was based on rather vague slogans meant to embody the policy's "spirit" and accompanied by a few rather general policy guidelines, which provincial and city governments then spelled out more precisely. 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. This obligation to adapt upper level guidelines to local circumstances and to promote local best-practice solutions for rural development offered generous leeway for finding new implementation strategies and governance arrangements (Ahlers 2014b; Ahlers and Schubert 2015, forthcoming; Göbel 2012; Schubert and Heberer 2015). 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. Beyond the formal implementation structure for upper level guidelines in the counties that we investigated, the internal coherence of policy-making was additionally enhanced by informal regular meetings among the most committed department heads involved in BNSC design and implementation. 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 while keeping friction between government bureaus and agencies (on issues such as budget and personnel allocation) at bay. In general, the dynamics of the internal policy coordination process were strongly conditioned by the leadership style of the county party secretaries and their respective policy preferences. 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.

In particular, and in accordance with the above-mentioned reforms of the fiscal system, the allocation of public funds was subjected to considerable change. Budgets for most of the policy measures related to BNSC were only allocated by higher levels after completion of a complex project application process that started in the villages, and this money was 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 to other projects targeted by local budgets nor necessarily do away with corruption and nepotism (Gong and Wu 2012; Liu et al. 2009). However, it is safe to say that such undesirable practices have become more difficult today than they were in the early 2000s. Since counties must come up with substantial matching funds (*peitao jijin*) (which may, however, be refunded if project implementation is swift and cost-effective), they have 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 the latter run on tight budgets and have fewer opportunities to waste money. The logic underlying this system is simple: all actors will strive harder for successful completion of a project if their own financial resources are involved (Ahlers 2014b; Ahlers and Schubert 2015).

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> initiated by Qingdao municipality (a sub-provincial city) to improve the rural infrastructure in Laixi (a county-level city in Shandong) 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, were able to come up with matching funds, or whose good connections with local enterprises guaranteed quick and proper project 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 money from various funds (e.g., for poverty alleviation) to the *wuhua* 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 more bargaining space for obtaining 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’ (Heberer and Senz 2011).<sup>12</sup>

### **Multilevel governance in the local state**

The above example alone indicates that altered governance arrangements stretch across different levels of government. In fact, effective policy implementation in contemporary China is also positively linked to specific downwards relationships, that is, between counties and townships. Although there is plenty of competition and friction between these tiers (Hsing 2006; Smith 2010; Wu 2007; Zhao 2006a, 2006b), counties and townships are not fierce antagonists. On the contrary, they are well aware of their interdependence when it comes to being able to fulfill upper level requirements, realize local developmental goals and secure the good performance records that are critical for avoiding upper level interference and securing individual cadre promotion.

While county governments clearly have the upper hand over the townships in their jurisdictions, they also need them to ultimately implement policies at the grassroots. Townships prepare, oversee and assess the villages’ project implementation on behalf of the counties. Quite naturally, the township government exerts a crucial influence on the eventual preference order of villages. In practice, the townships have usually selected the villages they deemed most suitable to apply for funding, taking into account the overall economic situation in a village, the past performance of village leaders (particularly their ability to manage village affairs and project implementation) and the degree of township control over them. The name of the group of 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 to the overall development strategy of a county government, the quality of 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 personal access of township leaders to county officials.

At the same time, there was little evidence of conflict between townships and villages in the localities that we visited. Since villages and townships are 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 of 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 2014b; Ahlers and Schubert 2009, 2015; Schubert and Ahlers 2012).<sup>13</sup>

In addition, special BSNC project-related bodies were created in many counties that we visited, mostly at the village level, in order to enhance application cohesiveness and public legitimation, implementation oversight, and communication between different administrative tiers and between authorities and residents (see below). For instance, village group heads, as in Dingnan County (Jiangxi), were made special envoys of their village (group)'s cause (*liancun*) and thus had direct access to the relevant departments within the county government, bypassing the more intermediate township level authorities. At the same time, in most of the localities studied, leading party and bureau cadres at the county and township level were assigned “tutorship” for individual villages (*baocun zhidu*) in their jurisdictions and were given the task of providing guidance and mediation in village affairs and project implementation. All these crisscrossing institutions, which had often started out informally before being formally put in place, both served the purpose of implementation enforcement and acted as a double-check mechanism (Ahlers 2014b; Ahlers and Schubert 2015).

## **Internal evaluation of local policy implementation**

Our empirical analyses in the field of BNSC show that the cadre and performance evaluation system has developed into an influential incentive and communication system that has encouraged local cadres to ensure the sound implementation of upper level policy guidelines, policy innovation, and ‘social stability’ (*shehui wending*). 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 earlier by city governments to match their specific policy preferences. In Dingnan County, for instance, 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 urban development section (an important element of Dingnan’s BNSC blueprint). Also, county governments accentuated certain policy requirements they deemed important, for instance by upgrading, performance in financial management to ‘one veto item’ status (*yi piao fou jue*)— a status reserved for political requirements of the highest priority, with the implication that violation of or failure to fulfill these requirements nullifies all other achievements in the annual evaluation process (Ahlers and Schubert 2015). This took place in the case of financial management, for example, in Yulin City, Shaanxi Province and regarding environmental protection in Qingyuan County and Deqing County, Zhejiang Province; Nanfeng County, Jiangxi Province; Shouguang County, Shandong Province; and in Meigu County, Sichuan Province.

Collusion doubtlessly could and did occur between government bureaus and across administrative tiers in order to ‘streamline’ the measurement of outcomes,<sup>14</sup> but this apparently did not seriously hamper the soundness of the evaluation process as such in our field 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 implementing policies which have to be delivered and avoiding pressure from upper levels. Evaluation sheets and performance rankings reflect the extent to which announced policy measures have produced results and thus serve both as a means of measurement and as a tool for sanctioning 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 makes for more 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 2015; Heberer and Schubert 2012; Heberer and Trappel 2013).

Overall, policy shifts since the early 2000s have entailed an ideological and institutional environment 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. As a result, local governments often turn to innovative arrangements to internally communicate across functional bureaucracies and solve problems of policy implementation. But they also redefine their relationship with other crucial *external* policy stakeholders in their domain, as the following section will explain.

### **Inclusion of external actors**

As mentioned above, a further reason for changing governance arrangements in China's local state has been the increasing need to mobilize public support for policy implementation. The official “public participation imperative”, inherent in contemporary national policy terminology in China, was met affirmatively in most localities we studied, but clearly was not the driving factor behind policy innovation. Rather, practical issues connected with the implementation process, such as lack of funding or public contribution and support, encouraged the inclusion of local public actors in the policy process.

In the case of the BNSC policy, local governments employed new strategies in informal communication with villages and in working more systematically through the closely-knit village community in order to neutralize opposition and mobilize support. Public consent to village development blueprints and bottom-up initiatives to gain project approval and funding were regarded as necessary, as villagers had to come up with part of the matching funds that were needed for the realization of many projects. In many localities we investigated, this often seemed more promising for effective policy implementation than an inclusion via the established formal institutions of village self-administration, i.e., villagers' assemblies (*cunmin dahui*) and village committees (*cunmin weiyuanhui*).<sup>15</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 2013) or the "bureaucratic absorption" (Chuang 2014) of potential or real protest, not suppression, is typical for everyday policy-making in the local state, since 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, especially those by the addressees of policies, are thus increasingly being accommodated by local governments; this enhances the legitimacy of policies and makes a meaningful contribution to effective policy implementation (Ahlers 2014b; Ahlers and Schubert 2015; Schubert and Ahlers 2011, 2012).

Local governments in China also increasingly rely on development of the private sector and public-private partnerships – a distinct shift in local governance modes over those in the recent past. Since the early Hu-Wen administration, the fostering of private entrepreneurship has become an important component in the overall approach to the rural-urban integration of local governments. It shapes 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>16</sup> Consequently, government interaction and cooperation with private entrepreneurs has also become a crucial feature of local governance and effective policy implementation in contemporary China.

The private sector is a pivotal component of local economic policies, even more so today, as 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. Recently, the central leadership emphasized that without developing the private sector the “Chinese Dream” could not be realized,<sup>17</sup> and that this sector is the most crucial force of innovation (State Council 2017). Moreover, quantitative economic development is still the most important indicator for assessing the performance of leading cadres and deciding on their individual career trajectories. 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. Local governments invest continuously in the development of the local infrastructure, communications, and the public goods crucial for private enterprise, such as local development zones, special service centers for small and medium-sized enterprises, and schemes calculated 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, grant money for ‘product innovation’, and set up communication channels between private enterprises and government bureaus to help them resolve all sorts of technical and financial problems. Moreover, local governments provide financial support for firms with economic difficulties, most notably by adjusting their tax burden.

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 skilled labor and private investment (*zhaoshang yinzi*) to expand existing local businesses or set up new enterprises. At the same time, local governments can – and do – force private entrepreneurs to (‘voluntarily’) support specific policies or projects with money. Our respondents have spelled out unmistakably that local governments expect them to ‘donate’ money to important local initiatives, often in the fields of poverty alleviation and public goods provision, e.g., the building of new schools or health care facilities.<sup>18</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. For their part, entrepreneurs (whether party members or not<sup>19</sup>) cannot but bind themselves closely to the Party State, from which they expect political protection and support. Of course, regional differences and development trajectories produce different state-business relations,<sup>20</sup> and the more important the private sector economy has become for a given locality, the greater the bargaining power of private entrepreneurs vis-à-vis local governments, possibly even culminating in government capture.

In addition to steering the political agency of private entrepreneurs by controlling their much-needed economic resources, local governments also dominate local trade and industrial branch associations (*shanghui, hangye xiehui*). None of these are autonomous interest organizations that represent private enterprises or entrepreneurs. On the one hand they function as transmission belts to help the Party State so as to maintain its political supremacy over the private sector, on the other hand they act as mediators between private entrepreneurs and local governments, for example when labor issues are at stake. Their principle task is to provide for a steady flow of communication between local governments and private entrepreneurs in order to ensure continuous economic development and market expansion to the benefit of the local economy. At the same time, however, entrepreneurs often prefer to communicate informally with the relevant government bureaus and local officials, whom they know personally,<sup>21</sup> to solve their problems and rarely rely on business associations to assist them. Associational autonomy, it seems, is not possible in an authoritarian 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. Yet private entrepreneurs pursue strategies of their own for influencing policies, mostly by means of lobbying, networking through chat groups, joining entrepreneurial clubs, setting up informal chambers of commerce, or working as delegates of formal organizations (e.g. local People's Congresses and Political Consultative Conferences) (Schubert and Heberer 2017).

But Party State control also becomes increasingly organized within the private sector itself. 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. The success of this policy is ambivalent at best. Party cells may arguably facilitate the communication of local development policies at the company level, although it is

difficult to discern precisely how these processes work out, because 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.

No matter how local private entrepreneurship initially emerged, local governments in all the places that we investigated provided effective leadership and guidance for the private sector, resulting in a rather hierarchic mode of governance. This, as we argue, contributes positively to effective policy implementation within the existing context in contemporary China: 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 – into line with its specific goals to develop the local economy.<sup>22</sup> At the same time, local state supremacy helps to mobilize private capital, making up for insufficient financial resources (due to the discriminatory tax system), helping local governments to provide public goods, and funding poverty alleviation programs, which has now once again become a priority national policy area (Schubert and Heberer 2015, 2017).

## **Conclusions**

In this chapter, we have discussed the critical role of local governance in China's state structure. Even though we are talking about an authoritarian one-party state with a high degree of top-down political control and initiative, we have argued that the local tiers of the Chinese party and government bureaucracy have (and have always had) plenty of opportunities to shape, steer or hinder the ultimate implementation of policies, and thus to strongly influence the political system's capacity to deliver meaningful outcomes. Since the early 2000s, China's political leadership has focused increasingly on improving and expanding public goods provision in the country's vast rural areas. This has led to new policy initiatives and the introduction (or refurbishment) of powerful institutions to ensure the compliance of local cadre bureaucracies in implementing upper level guidelines. At the same time, local governments must come up with policy innovations and find alternative ways to make up for insufficient upper-level funding in order to implement policies effectively and demonstrate their strong



‘service orientation’ to both their superiors and important stakeholders in the society. 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.

This dynamic, we argue, has led to reconfigurations of governance arrangements in China’s local state, which we have highlighted here using as examples the rural development and rural-urban integration policies launched in the early 2000s. In the localities we visited, local governments largely succeeded in finding new ways to promote, legitimate, coordinate, and evaluate policies under conditions of continuous institutional change, and to increasingly integrate external stakeholders and their demands. These developments clearly represent a shift from pure vertical *government* to a more horizontal and problem-focused *governance* in China’s local state.

Still, the governance *re*-arrangements we described, also reflect the Party State’s claim to extensive steering by recentralizing and standardizing policy goals and by enforcing the principle of organizational hierarchy. State actors dominate the policy implementation process by virtue of their almost exclusive access to resources, information and problem-solving authority, and by not having to accommodate fully autonomous interest organizations. However, the limited but increasing inclusion of non-governmental actors arguably helps to better adapt public policy to local needs and preferences. We hypothesize that these reconfigurations in Chinese local governance arrangements will continue to shape local politics. Taking into account recent developments, the tension between indispensable local discretion to implement upper level policies on the one hand and reinforced central steering in Chinese governance under Xi Jinping will even become more pronounced in the foreseeable future (Ahlers and Yu 2016; Chen 2017).<sup>23</sup>

Finally, although we highlighted the high degree of adaptability and the consequential shifts in Chinese local governance, this is not meant to downplay local governments' shortcomings in ensuring that public policies reflect all public demands, entail an efficient allocation of public money, or provide meaningful cadre accountability and democratic participation. It shows, however, that the Chinese political system is undergoing a dynamic learning process and succeeds fairly well in safeguarding and even improving arrangements for the effective implementation of policies that reconcile central state objectives with local state strategic agency and generates outcomes that maintain critical degrees of state capacity and regime stability – at least for the time being.

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<sup>1</sup> We have defined effective policy implementation elsewhere as measuring outcomes according to the objectives, or targets, defined by policy-makers at the outset of the implementation process, while also ensuring that important public needs and demands are met, overall state capacity is enhanced, and critical degrees of system stability and regime legitimacy are generated. *Effective* policy implementation should not be confused with *efficient* policy implementation, as the latter is less concerned with the policy process, but rather focuses on outcomes in terms of Pareto efficiency and high responsiveness to public demands (Ahlers and Schubert 2015: 377-379).

<sup>2</sup> More specifically, we conducted fieldwork annually between 2008 and 2015 in the provinces of Fujian, Hubei, Guizhou, Guangdong, Jiangsu, Jiangxi, Jilin, Shaanxi, Shandong, Sichuan and Zhejiang, working mostly at the county and township/district level.

<sup>3</sup> 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*) (CCP Central Committee 2013; Li 2014).

<sup>4</sup> 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.

<sup>5</sup> The notion was later integrated into the “Building a Harmonious Society” concept and further promoted by the party propaganda (Wei 2006; CCP Central Committee 2011).

<sup>6</sup> Most prominent of all, ‘social stability’ as an evaluation indicator means that any occurrence of social unrest, even legal petitions submitted to whatever government level, will seriously diminish the performance record of an official or a government bureau. The ‘social stability imperative’ severely constrains the behavior of local bureaucracies. For instance, while until recently protests were often crushed by violent means, county and township cadres are now more cautious and try to anticipate and avoid contention, resulting in attempts at more deliberation of policy adjustment and intensified responsiveness to public demands (Ahlers 2014b; Ahlers and Schubert 2015).

<sup>7</sup> Most recently, the national austerity and anti-corruption campaign under Xi Jinping’s central leadership seems to be placing serious constraints on local governments (Wedeman 2014). Although

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there are indications of positive effects on cadres' behavior with regard to the use of public money, its measurable effects on policy implementation and outcomes have yet to be studied in detail.

<sup>8</sup> For example, BNSC is still mentioned in the 12th Five-Year-Plan and in the CCP's new monumental agenda for the "Comprehensive Deepening of Reforms" of November 2013 (CCP Central Committee 2013).

<sup>9</sup> Although the terminology of the BNSC program is used with less frequency than in the early years after its promulgation, these arrangements can be found in basically all crucial policy initiatives launched ever since, e.g., agricultural modernization and industrialization, (decentralized) urbanization, private sector development, better public goods provision and environmental preservation remain the main objectives of the central state and local governments.

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

<sup>11</sup> 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.

<sup>12</sup> A similar, but slightly more formalized tool, employed by local governments that contributes to the effective allocation of scarce funds, is what Ahlers and Schubert (2013) have called 'strategic modelling'.

<sup>13</sup> This assessment is corroborated by other research on the topic (Stepan et al. 2016).

<sup>14</sup> On this topic see also the studies by Hillman 2014; Smith 2009; Zhou 2010; Zhou et al. 2012.

<sup>15</sup> For many scholars the lack of more meaningful 'democratic participation' in local policy implementation is a crucial problem (for example, Guo and Han 2007; Ye 2006), while others see quite some positive potential in these newly emerging types of limited, goal-oriented inclusion (for example, He 2010; Tang 2015).

<sup>16</sup> 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 labor-intensive and polluting industries.

<sup>17</sup> *Minying qiyejia yu Zhongguo meng* (Private entrepreneurs and the Chinese Dream), <http://finance.people.com.cn/GB/8215/356561/370131/> (accessed 10 November 2017).

<sup>18</sup> Other scholars have pointed at such mandatory payments as well (Sun et al. 2014). Ahlers (2014b) described this with regard to private entrepreneurs at the village level.

<sup>19</sup> Most of the private entrepreneurs we interviewed were not CCP members themselves, although party organizations had been established in most of the companies we visited.

<sup>20</sup> For a more detailed description, see Schubert and Heberer 2015.

<sup>21</sup> 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. Sometimes local governments even pay bonuses to banks for providing credit for enterprises. And they may request larger and healthier private companies to act as guarantors for smaller companies that are in need of credit. This is where business associations then have a role to play, since they often serve as platforms to communicate these requests by local governments to the wealthier enterprises in the locality.

<sup>22</sup> 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.

<sup>23</sup> For instance, hierarchical control was recently reinforced in processes of local policy experimentation, piloting and modelling. That means, policy experiments, as an implementation mechanism, persist, but they now have to be authorized by higher level governments, limiting local discretion in this realm.