



**China Analysis 59**  
**April 2008**  
**[www.chinapolitik.de](http://www.chinapolitik.de)**

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*\*The full version can be found in print and online in  
Studies in Comparative International Development (SCID),  
Vol.43, No.1, March 2008, pp.1-26.*

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## Policy Experimentation in China's Economic Rise (abstract)

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<http://www.springerlink.com/content/4514xlq717298tj7/>

### *Abstract*

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

### **Introduction**

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

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

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

I argue that a distinctive policy cycle, experimentation under hierarchy, is the key to understanding the emergence of an unexpectedly adaptive authoritarianism in China. Though ambitious central state planning, grand technocratic modernization schemes, and megaprojects have never disappeared from the Chinese policy agenda, an entrenched process of experimentation that precedes the enactment of many national policies has served as a powerful correcting mechanism.

First, I propose a definition of transformative experimentation that helps to understand why this approach to reform differs fundamentally from conventional policymaking and is not confined to mere incremental change. Next, I examine the specific tools and processes that facilitated experimentalism in China. Then I turn to case studies of experimentation in crucial economic reform domains that, although sharing the same basic processual patterns, reveal very different political dynamics and innovative effects, due to a starkly varying constellation of actors, interests, and risks that promote or inhibit change in different policy subsystems.

The following section synthesizes the insights that China’s experience gives on the interrelation between policy learning and rent-seeking in experimentation. In the conclusion, I discuss the applicability of the experimental approach to reform-making in other political economies.

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## Conclusion

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

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

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

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

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

reform record, such as China, tend to display more confidence in the benefits that policy change may bring.

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