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INTRODUCTION

Local Government Entrepreneurship in China: A Public Policy Perspective

MEI Ciqi, CHEN Kang and WU Xun

While local government entrepreneurship has long been regarded as one of the main drivers of China's economic growth, it has increasingly been recognised as a potential source of a set of harmful policy consequences in recent years, such as rising government debt crises, pervasive corruption and environmental degradation. These criticisms have prompted questions about what types of entrepreneurship might be more desirable, and which incentive structures might be necessary to pave the way for the right kind of local government entrepreneurship. The articles in this special issue focus on new developments in local government entrepreneurship from a public policy perspective. Collectively, they explore the normative dimensions of local government entrepreneurship in China, with an emphasis on necessary policy changes to shape local government entrepreneurship in contributing to economic growth as well as other key policy objectives.

INTRODUCTION

In recent years, local government entrepreneurship has emerged as a central concern in the field of public administration worldwide.¹ In response to the imperatives of the “competition state” unleashed by globalisation, local governments are called upon to

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¹ Dean Bartlett and Pauline Dibben, “Public Sector Innovation and Entrepreneurship: Case Studies from Local Government”, *Local Government Studies* 28, no. 4 (2002): 107–21; Michael Harris and Rhonda Kinney, *Innovation and Entrepreneurship in State and Local Government* (Lanham, MD: Lexington Books, 2004); Stephania Zerbinati and Vangelis Souitaris, “Entrepreneurship in the Public Sector: A Framework of Analysis in European Local Governments”, *Entrepreneurship & Regional Development* 17, no. 1 (2005): 43–64.

play a broad and proactive role in fostering local economic development, in addition to carrying out traditional functions of delivering public services. To stay ahead of the game, they must constantly innovate to attract talent and investments while meeting the public service needs of the residents in their jurisdictions.²

Early works on local government entrepreneurship in China focused on the fiscal motivations that drove local governments to entrepreneurship following the decentralisation, which gave them immense policy responsibilities but few sources of revenue.³ Commentators drew on the understandings of market entrepreneurship to explain the behaviour of local governments in the face of fiscal scarcity. Local governments were believed to take on roles similar to private firms, viewing other local governments as competitors in a zero-sum game. Similar to market competition, this cross-jurisdictional competition, fuelled by constraints on resources or the desire to outperform career competitors,⁴ would then drive local officials to take innovative measures to promote local economic development. To succeed in these initiatives, they would create a variety of mutually beneficial relationships with businesses, including patronage, partnership, and in some cases, a venture capitalist role for the government.

While the focus on state–market relations continues to provide fertile ground for studying local government entrepreneurship in China, recent work on the subject has extended beyond forging relationships with business entrepreneurs to promote local economic development. For example, entrepreneurship may be demonstrated by how local officials find an innovative way to increase local revenues from a variety of sources, including land sales, taxation of local enterprises, fees for public services,

² Janet Newman, John Raine and Chris Skelcher, “Developments: Transforming Local Government: Innovation and Modernization”, *Public Money and Management* 21, no. 2 (2001): 61–8; Bartlett and Dibben, “Public Sector Innovation and Entrepreneurship”; and Richard M. Walker, “Innovation Type and Diffusion: An Empirical Analysis of Local Government”, *Public Administration* 84, no. 2 (2006): 311–35.

³ Jean C. Oi, “Fiscal Reform and the Economic Foundations of Local State Corporatism in China”, *World Politics* 45, no. 1 (1992): 99–126; Victor Nee, “Organizational Dynamics of Market Transition: Hybrid Forms, Property Rights, and Mixed Economy in China”, *Administrative Science Quarterly* (1992): 1–27; Andrew G. Walder, “Local Governments as Industrial Firms: An Organizational Analysis of China’s Transitional Economy”, *American Journal of Sociology* 101, no. 2 (September 1995): 263–301; Gabriella Montinola, Qian Yingyi and Barry R. Weingast, “Federalism, Chinese Style: The Political Basis for Economic Success in China”, *World Politics* 48, no. 1 (1995): 50–81; Qian Yingyi and Joseph Stiglitz, “Institutional Innovations and the Role of Local Government in Transition Economies: The Case of Guangdong Province of China”, *Reforming Asian Socialism: The Growth of Market Institutions*, ed. John McMillan and Barry Naughton (Ann Arbor, IL: University of Michigan Press, 1996), pp. 175–93.

⁴ Qian and Stiglitz, “Institutional Innovations and the Role of Local Government in Transition Economies”; Zhou Li-an, “The Incentive and Cooperation of Government Officials in the Political Tournaments: An Interpretation of the Prolonged Local Protectionism and Duplicative Investments in China”, *Economic Research Journal*, no. 6 (2004): 33–40; Li Hongbin and Zhou Li-an, “Political Turnover and Economic Performance: The Incentive Role of Personnel Control in China”, *Journal of Public Economics* 89, no. 9 (2005): 1743–62.

and remarkably, profits from operating businesses of their own. The new sources of revenues that became available to governments from these endeavours in turn formed conditions conducive to galvanising local governments into generating further revenues through entrepreneurial activities. That professional advancement and personal enrichment were tied to their governments' success at economic development only further reinforced the entrepreneurial drive of local government officials.

Scholars have also attributed China's strong tradition in local government entrepreneurship to the country's cycles of decentralisation and recentralisation.⁵ Given the country's vast geographical size, leaders need to deal with heterogeneous conditions in different regions and localities, and the central government has to rely on local governments to implement its policies by fitting them to local conditions. As such, local leaders are allowed to organise resources in different ways and milieus, and sometimes even risk venturing beyond policy boundaries set by the national government. However, if Beijing perceives that local leaders are accumulating too much discretionary power or are in danger of developing centrifugal initiatives, national authorities will recentralise by enforcing strict control over local leaders and ensuring their absolute conformity with the centre. Recentralisation of this nature helps to guarantee policy coordination and consistency, but at the same time stifles local initiatives and creates rigidities in the system. But before long, central leaders may find themselves in dire need of a new round of decentralisation, in a drive to overcome bureaucratic gridlock at central ministries and seek innovative solutions to systemic problems at local levels.

Local leaders in China are nevertheless familiar with this operating environment and know how to shift gears during the decentralisation–recentralisation cycles. Under centralisation, they strictly obey all the directives from the centre even if these directives do not fit well to local conditions; when decentralisation kicks in, they seize the opportunity to innovate and outshine their competitors so as to achieve local and personal objectives.

Local government entrepreneurship has also been observed in areas not directly related to economic development, such as active engagement with policy experimentation to address pressing public problems. Over time, such innovative activities might be emulated and refined by other local governments. Policy diffusion from such catch-up efforts and “learning by doing” should be viewed as a result of entrepreneurship too.⁶

⁵ Chen Yizi, “A Realistic Alternative for China's Development and Reform Strategy: Formalized Decentralization”, *Journal of Contemporary China* 10 (1995): 81–92; Woo Wing Thy, “Why China Grew”, in *Emerging from Communism: Lessons from Russia, China and Eastern Europe*, ed. Peter Boone, Stanislaw Gomulka and Peter Layard (Cambridge, MA: MIT Press, 1998).

⁶ Charles R. Shipan and Craig Volden, “Bottom-Up Federalism: The Diffusion of Antismoking Policies from US Cities to States”, *American Journal of Political Science* 50, no. 4 (2006): 825–43; Manuel P. Teodoro, “Bureaucratic Job Mobility and the Diffusion of Innovations”, *American Journal of Political Science* 53, no. 1 (2009): 175–89.

However, and perhaps more importantly, local government entrepreneurship has increasingly been recognised as the potential source of a set of harmful policy consequences, such as rising government debt crises, pervasive corruption and environmental degradation. These criticisms have prompted questions about what types of entrepreneurship might be more desirable, and which incentive structures might be necessary to pave the way for the right kind of local government entrepreneurship that can help to achieve sustainable economic development while avoiding many potential pitfalls.

This special issue aims to bring together a collection of research reports on new developments in local government entrepreneurship in China from a public policy perspective. It intends not only to enlighten theoretical issues but also to provide policy-makers with insights into a range of practical questions. What are the key motivational factors for local government entrepreneurship? What are the different forms of local government entrepreneurship in China? What are the impacts of local entrepreneurship on the achievement of social goals such as poverty reduction and social security? How can central and local policymakers work to mitigate the potential negative risks of local government entrepreneurship?

CONCEPTUALISING LOCAL GOVERNMENT ENTREPRENEURSHIP

To apply the word “entrepreneurship” to local governments in any political system is not as straightforward as it seems. For countries with a developed Weberian bureaucratic system, local governments, who like their counterparts at various levels “developed in a slower-paced society”, are seen as inefficient and moribund “in an era of breath-taking change”.⁷ From this standpoint, for countries like China, where a Weberian bureaucratic system is absent and top-down mandates dominate the policy process, local governments have been seen by some outside observers simply as antennae for receiving mandates and as merely an extension of the superior government, gathering information and resources from the bottom while implementing policies mandated from the top.

But change has happened. Some local governments elsewhere, entrenched in the traditional Weberian system, started its transformation after hitting the wall. Causes for change, however, are different in China. After reforms initiated in the late 1970s embarked China on a course of major shifts in governance style, local governments began to face new tasks, as well as new opportunities. In the immense literature that has arisen to capture the entrepreneurial behaviours of China’s local governments during the reform era, the concept of entrepreneurship has come to refer to various things.

Observers focusing on China’s political institutions have tended to view entrepreneurship for local governments as a means for these governments to seize the

⁷ David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming Government* (Reading, MA: Addison-Wesley, 1992), p. 15.

emergent opportunities during the reform era to advance their own policy agendas in bargaining with the central government, or as a rise in entrepreneurial spirit among bureaucrats dealing with the system. According to the influential “fragmented authoritarianism” model, the Chinese political system has become more fragmented and disjointed because of reform policies that have called for devolution of power and reduction of coercion or ideological mobilisation. Fissures in the fragmenting authority open opportunities for “bureaucratic units to work vigorously to promote and protect their own interests in the policy making process”.⁸ In this view, being entrepreneurial often means that the local governments find ways to obtain more resources from above, to avoid central regulations and to meet goals mandated from above with less cost incurred, all of which has brought advantages to local government leaders that enable them to survive and to outperform other colleagues in the system.

Other observers have also recognised another type of entrepreneurship common in China’s local governments, namely local officials’ pursuit of revenue maximisation by emulating the profit maximisation behaviours of market entrepreneurs. During the marketisation reform, local governments were encouraged to become self-supporting, as the central government increasingly devolved economic decision-making power downwards. While this self-supporting requirement would seem to increase fiscal pressures on local governments, the right to claim and dispose of fiscal residual, if any, creates a positive incentive for local governments to pursue economic development in their own jurisdictions. As a result, during the reform era in China, local governments have expanded beyond their conventional role as typical pro-business institutions—which can also be observed in other countries—to function like economic organisations. Some scholars have explicitly drawn an analogy with business practices: “Each level (of government) is an approximate equivalent to what is termed a ‘profit center’ in decentralized management schemes used in business firms”.⁹

These two types of entrepreneurship—entrepreneurial spirit and entrepreneurial behaviours—largely cover prevailing conceptions of local government entrepreneurship, the object of our research. The former aspect focuses on how local governments deal with actors inside the bureaucratic system, while the latter concerns how local governments develop new relations with the state and with the market.

Before going any further, we want to distinguish local government entrepreneurship as discussed here from “policy entrepreneurship”, another conception that is popular now. As defined by John Kingdon,¹⁰ a policy entrepreneur is someone “willing to invest [his or her] resources—time, energy, reputation, and sometimes money—in the hope of a future return”, that is, the advancement of any certain proposed policy

⁸ Kenneth G. Lieberthal, “Introduction: The ‘Fragmented Authoritarianism’ Model and Its Limitations”, in *Bureaucracy, Politics, and Decision Making in Post-Mao China*, ed. Kenneth G. Lieberthal and David M. Lampton (Berkeley, CA: University of California Press, 1992), pp. 1–30, esp. p. 9.

⁹ Oi, “The Role of the Local State in China’s Transitional Economy”, p. 1139.

¹⁰ John W. Kingdon and James A. Thurber, *Agendas, Alternatives, and Public Policies* (Vol. 45) (Boston: MA: Little, Brown and Co, 1984).

changes. Policy entrepreneurs may be politicians, interest groups, intellectuals, and others who participate in the policy process. While Chinese local government officials might serve as policy entrepreneurs in some cases,¹¹ the major difference lies in the goals of policy entrepreneurs and entrepreneurial local governments. For the former, the primary goal is to promote a policy change, whereas for the latter, entrepreneurship serves as a tool for diverse ends—such as local leaders' promotion or local revenue maximisation.

KEY APPROACHES IN STUDYING LOCAL GOVERNMENT ENTREPRENEURSHIP IN CHINA

In keeping with the aforementioned different conceptions, different theoretical approaches have evolved to analyse local government entrepreneurship, including the structuralist approach, the rational choice/public choice approach and the institutionalist approach, each with its own perspective on the guiding concepts, as well as causes and effects, of local government entrepreneurship. While each approach has found for itself *some* supporting evidence, a veritable paradigm shift has yet to occur, and several key issues remain in dispute.

The Structuralist Approach

Several studies have recorded the structural changes in central–local relations in China during the reform era. While some have correctly traced efforts from the centre to recentralise authority since the early 2000s,¹² others maintain that the structural changes of the reform era have tilted the central–local balance towards the local side.¹³

These structural changes in central–local relations have opened windows for local governments to bargain with the central government in both policymaking and

¹¹ Zhu Yapeng, "Policy Entrepreneur, Civic Engagement and Local Policy Innovation in China: Housing Monetisation Reform in Guizhou Province", *The Australian Journal of Public Administration* 71, no. 2 (2012): 191–200. Others tend to believe that government officials are less likely to be policy entrepreneurs; see Zhu Xufeng, "Strategy of Chinese Policy Entrepreneurs in the Third Sector: Challenges of 'Technical Infeasibility'", *Policy Sciences* 41, no. 4 (2008): 315–34; there are still others who find that some officials in peripheral departments serve as policy entrepreneurs; see Andrew Mertha, "Fragmented Authoritarianism 2.0: Political Pluralization in the Chinese Policy Process", *The China Quarterly*, no. 200 (2009): 995–1012.

¹² Barry J. Naughton and Yang Dali, *Holding China Together: Diversity and National Integration in the Post-Deng Era* (Cambridge: Cambridge University Press, 2004); and Yang Dali, *Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China* (Stanford, CA: Stanford University Press, 2004).

¹³ Lieberthal, "Introduction: The 'Fragmented Authoritarianism' Model and Its Limitations"; Susan L. Shirk, *The Political Logic of Economic Reform in China* (Vol. 24) (Berkeley, CA: University of California Press, 1993); Andrew Mertha, "China's 'Soft' Centralization: Shifting Tiao/Kuai Authority Relations", *The China Quarterly*, no. 184 (2005): 791–810.

policy implementation. For policymaking, local governments are known for their active engagement in seeking money and preferential policies¹⁴ from different ministries, a sort of lobbying activity. However, due to the opaqueness of the Chinese policymaking process, few studies have closely documented such entrepreneurial behaviours and how they may affect policymaking, despite plenty of anecdotal evidence. In contrast, there are prolific records of many different kinds of entrepreneurial behaviours in local officials' approaches to policy implementation in literature. Strategies to work within the strengths and weakness of the central–local structure have included local officials' use of discretionary and informational advantages to selectively implement some mandates at the cost of others,¹⁵ the building of “image projects”,¹⁶ bundling different policy mandates to fit local convenience,¹⁷ and colluding or forming strategic groups to sidestep regulations from above.¹⁸

The Rational Choice/Public Choice Approach

In tracing and reviewing the literature on local government entrepreneurship in China, we noticed a shift in focus that began in the early 1990s, from the interest in bureaucrats' entrepreneurial spirit to their entrepreneurial behaviours. Intrigued by the sudden speed-up in economic reform after 1992, whereby local officials changed from being the most dangerous adversary of any “remnant of capitalism” to become the closest ally of businesses, scholars began to believe that some particular mechanisms must have helped align local officials' interests with businesses in their jurisdictions. From this viewpoint, entrepreneurial behaviours were expected to be the consequences of local bureaucrats' rational calculations based on self-interest.

One of such mechanisms cited to account for the incentive alignment between local bureaucrats and local businesses was a new fiscal decentralisation arrangement that granted local governments the right as residual claimant under the so-called “big contract” arrangement. Unlike previous fiscal decentralisation arrangements during

¹⁴ A recent target for “lobbying” is to compete for local inclusion in the high-speed rail network. See “Game behind the Competition for High Speed Rail” (Gaotie zhengduozhan beihou de liyi boyi), at <<http://news.sina.com.cn/c/zg/jpm/2015-05-17/20511047.html>> [1 July 2016].

¹⁵ Kevin J. O'Brien and Li Lianjiang, “Selective Policy Implementation in Rural China”, *Comparative Politics* 31, no. 2 (January 1999): 167–86.

¹⁶ Cai Yongshun, “Irresponsible State: Local Cadres and Image-Building in China”, *Journal of Communist Studies and Transition Politics* 20, no. 4 (2004): 20–41.

¹⁷ Genia Kostka and William Hobbs, “Local Energy Efficiency Policy Implementation in China: Bridging the Gap between National Priorities and Local Interests”, *The China Quarterly*, no. 211 (2012): 765–85.

¹⁸ Zhou Xueguang, “The Institutional Logic of Collusion among Local Governments in China”, *Modern China* 36, no. 1 (2010): 47–78; Gunter Schubert and Anna L. Ahlers, “County and Township Cadres as a Strategic Group: ‘Building a New Socialist Countryside’ in Three Provinces”, *The China Journal*, no. 67 (2012): 67–86.

the Great Leap Forward era, decentralisation during the reform era began to include some administrative decentralisation in economic decision-making power.¹⁹ As the top-down planning authority loosened their control, local governments were necessarily incentivised to pursue economic development with all means at hand, in order to fill local coffers.²⁰

There is a missing cog in this supposedly rational mechanism. Economic incentive in itself does not translate immediately to pro-business behaviour. Some studies have documented clear evidence of local officials' "grabbing hands" rather than helping hands.²¹ Inspired by the public choice literature on "voting with the feet" and federalism, another large branch of the literature has cited "inter-jurisdictional competition" as a possible mechanism to account for local governments' entrepreneurial behaviours, specifically in head-to-head competition.²² The consequences of such competition are complex, much as we observed for market competition, as is discussed below.

The Institutional Approach

The rational choice/public choice model has correctly captured the active engagement of local governments in entrepreneurial behaviours. An apparent challenge, however, is that it has confused local leaders' personal gains and the revenues of their local governments. While there is no lack of evidence that local officials have obtained illegal benefits from helping local businesses, these rent-seeking behaviours are quite different from the growth-pursuing behaviours also observed. More importantly, local leaders in China are not usually elected locally, and their assigned positions are rotated quite frequently.²³ The argument that local officials always work for the best interests of the local government's coffers is therefore specious.

Others have pointed to an institution originating in strictly communist times that has been kept largely intact during China's reform era: the cadre organisation. This institution in itself could provide incentives for local officials who aspire to

¹⁹ Chung Jae Ho, *Central Control and Local Discretion in China: Leadership and Implementation during Post-Mao Decollectivization* (New York: Oxford University Press, 2000).

²⁰ Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley, CA: University of California Press, 1999); Justin Yifu Lin and Liu Zhiqiang, "Fiscal Decentralization and Economic Growth in China", *Economic Development and Cultural Change* 49, no. 1 (2000): 1–21.

²¹ Sally Sargeson and Zhang Jian, "Reassessing the Role of the Local State: A Case Study of Local Government Interventions in Property Rights Reform in a Hangzhou District", *The China Journal*, no. 42 (1999): 77–99.

²² Montinola, Qian and Weingast, "Federalism, Chinese Style"; Cai Hongbin and Daniel Treisman, "State Corroding Federalism", *Journal of Public Economics* 88, no. 3 (2004): 819–43.

²³ Li Cheng and David Bachman, "Localism, Elitism, and Immobilism: Elite Formation and Social Change in Post-Mao China", *World Politics* 42, no. 1 (1989): 64–94; Pierre F. Landry, "The Political Management of Mayors in Post-Deng China", *The Copenhagen Journal of Asian Studies*, no. 17 (2003): 31–58; Zhang Jun and Gao Yuan, "Term Limits and Rotation of Chinese Governors: Do They Matter to Economic Growth?", *Journal of the Asia Pacific Economy* 13, no. 3 (2008): 274–97.

“get ahead” on the bureaucratic ladder to devote their energies to entrepreneurial concerns.²⁴

In contrast to cross-jurisdictional economic competition, Zhou²⁵ has raised a political tournament model to depict competition among local governments that otherwise could not be fully explained by economic reasoning. According to this approach, competition among local governments on all fronts, including but not exclusively economic development, is not driven primarily by local officials’ incentives to maximise local government revenues but by their aspirations to excel within their cohort and gain career promotions.

Disputes arising from the different interpretations of local government entrepreneurship in China have not ended thus far. The institutionalist approach is correct in the sense that it brings back the bureaucratic essence of local government to the discussion. No matter how local governments may work like entrepreneurs, they are *not* entrepreneurs. And it is not likely that revenue maximisation in one jurisdiction becomes the ultimate goal for local officials whose postings rotate frequently. Moreover, for those contending the bureaucratic entrepreneurship argument, it is challenging to prove that cadre organisation has indeed incentivised local officials to adopt entrepreneurial behaviours and rewarded those who do so, an argument which is almost impossible to verify given the opacity of the cadre promotion process in China. While some scholars have empirically deduced that a positive relationship exists between local officials’ performance in promoting local economic growth and their career advancement,²⁶ others have found that the correlation is rather weak²⁷ or even doubtful.²⁸ Other recent studies suggest that local leaders’ factional attributes, rather than

²⁴ Olivier Blanchard and Andrei Shleifer, “Federalism With and Without Political Centralization: China versus Russia”, National Bureau of Economic Research, 2000; Li and Zhou, “Political Turnover and Economic Performance”; Tsui Kai-yuen and Wang Youqiang, “Between Separate Stoves and a Single Menu: Fiscal Decentralization in China”, *The China Quarterly*, no. 177 (2004): 71–90; Zhou, “The Incentive and Cooperation of Government Officials in the Political Tournaments”; Zhou Li-an, “Governing China’s Local Officials: An Analysis of Promotion Tournament Model”, *Economic Research Journal* 7 (2007): 36–50.

²⁵ Zhou, “The Incentive and Cooperation of Government Officials in the Political Tournaments”; Zhou, “Governing China’s Local Officials: An Analysis of Promotion Tournament Model”.

²⁶ Li and Zhou, “Political Turnover and Economic Performance”; Guo Gang, “Retrospective Economic Accountability under Authoritarianism Evidence from China”, *Political Research Quarterly* 60, no. 3 (2007): 378–90; Jia Ruixue, Masayuki Kudamatsu and David Seim, “Political Selection in China: The Complementary Roles of Connections and Performance”, *Journal of the European Economic Association* 13, no. 4 (August 2015): 631–68.

²⁷ Landry, “The Political Management of Mayors in Post-Deng China”; Yang Q. and Zheng N., “Is Promotion Competition a Game of Yardstick Competition, Championship or Qualification?” (Difang lingdao jinsheng shi biaochoisai, jinbiaosai, haishi zigesai?), *Journal of World Economy (Shijie jingji)* 12 (2013): 130–56.

²⁸ Su Fubing, Tao Ran, Xi Lu and Li Ming, “Local Officials’ Incentives and China’s Economic Growth: Tournament Thesis Reexamined and Alternative Explanatory Framework”, *China & World Economy* 20, no. 4 (2012): 1–18.

their performance, are the most important factor in determining their career advancement.²⁹ As a result, one cannot safely infer that entrepreneurial behaviours as well as other bureaucratic behaviours are the outcomes of a political tournament scenario.

New Horizons

Several recent studies have proposed new ways to discuss the issues in dispute. First, instead of testing for the existence of performance-based rewarding systems in order to infer the existence of cross-jurisdictional competition, Lü and Pierre³⁰ present direct evidence that revenue-maximising efforts, which are a type of local government entrepreneurial behaviour, are the most aggressive if competition for personal promotion is mildly fierce. Conducting the research along this line, i.e. taking entrepreneurial behaviours directly as the dependent variable, might help identify the causes of local government entrepreneurship without having to touch upon the impenetrable mystery of promotions.

Second, some studies have already broadened the concept of entrepreneurial behaviours in local governments to include policy innovation and policy diffusion, as we mentioned earlier in this introductory essay. For example, Zhu and Zhang³¹ have shown that local leaders' frequent turnover could significantly influence the adoption of certain policy innovations.

Last but not least, still others have suggested looking beyond the incentive–action model to explain local government entrepreneurship. For example, Rothstein³² has proposed that cadre organisation might have cultivated devotion to entrepreneurial tasks and professional development through indoctrination.

IN THIS SPECIAL ISSUE

The articles in this special issue focus on new developments in local government entrepreneurship from a public policy perspective. Collectively, they explore the normative dimensions of local government entrepreneurship, with an emphasis on necessary policy changes to shape local government entrepreneurship in contributing to economic growth as well as other key policy objectives.

²⁹ Victor Shih, Christopher Adolph and Liu Mingxing, "Getting Ahead in the Communist Party: Explaining the Advancement of Central Committee Members in China", *American Political Science Review* 106, no. 1 (2012): 166–87.

³⁰ Lü Xiaobo and Pierre F. Landry, "Show Me the Money: Interjurisdiction Political Competition and Fiscal Extraction in China", *American Political Science Review* 108, no. 3 (2014): 706–22.

³¹ Zhu Xufeng and Zhang Youlang, "Local Government Entrepreneurship, Official Turnover, and the Diffusion of Organizational Innovation: The Rise of a New Administrative Licensing System in China", *Journal of Public Administration Research and Theory* 26, no. 3 (2016): 535–51.

³² Bo Rothstein, "The Chinese Paradox of High Growth and Low Quality of Government: The Cadre Organization Meets Max Weber", *Governance* 28, no. 4 (October 2015): 533–48.

Chen Kang examines the evolving role of local government entrepreneurship in the context of the so-called “China model” debate. He argues that considerable disagreement over the key ingredients of the “China model” may stem from the existence of two China models that have prevailed in two separate time periods with different types of local government entrepreneurship. The first, China Model I, captures patterns of changes during the early years of the reform era in the 1980s and early 1990s when local governments in China mainly played an enabling role in facilitating the growth of non-state sectors and in following the demand-driven growth path to expand local tax bases under the revenue-sharing system. The second, China Model II, describes the patterns of growth after 1998, during which the current state-led investment-driven development model had gradually emerged, and local governments have focused on searching for new ways to maximise financial resources for their own investment projects.

Chen attributes recent problems in the Chinese economy, such as wasteful, inefficient and unsustainable growth patterns, to deficiencies of the China Model II as it has catered to the needs of a few thousands of Party secretaries, mayors and governors whereas the China Model I was linked to incentive systems and the macro conditions benefiting millions of Chinese entrepreneurs in the 1980s. He suggests that China needs to have a major breakthrough reforming of the financial system such that local government entrepreneurship can help to reshape state–market relations towards creating equal access to financial resources for millions of entrepreneurs in the private sector.

Li Hui focuses on land-transfer revenue, an important area of local government entrepreneurship under the China Model II. Local governments have been allowed to collect extra-budgetary revenue in order to make up for the part of fiscal expenditures that could not be covered by budgetary revenue alone, and to use extra-budgetary revenue to pay bonuses, subsidies and other fringe benefits of local officials. Land-transfer revenue is the single most important source of such extra-budgetary revenue for local governments. Li’s findings have shown that land-transfer revenues lead to a biased budgetary expenditure structure prioritising economic development over social development. Her findings of land-transfer revenues’ contribution to economic development performance, but not social development performance, indirectly confirm that the same spending priority applies to local government “total” spending. Li argues that such bias is fundamentally linked to the performance evaluation system that favours the spending preferences of local governments, which is accentuated towards activities related to economic development.

The article by Wu Xun, M. Ramesh, Michael Howlett and Gu Qingyang demonstrates the full potential of China Model I through a case study of Yiwu Market. Wu et al. examine how entrepreneurship and innovation among local governments led to the transformation of Yiwu from a small and little-known agrarian county in eastern China to a global commerce hub. The case analysis reveals the decisive role played by the local government of Yiwu county throughout the history of the Market—in its formation, development and continual upgrading. They argue that the local government’s extensive and persistent involvement at every stage of the Market’s development,

rather than a *laissez-faire* or private-sector-led approach (as has often been suggested), led to the success of Yiwu Market. Their analysis shows that intrinsic values can be created through local government entrepreneurship by finding solutions for local issues such as breaking down market entry barriers, building infrastructure, establishing industry standards, reducing information asymmetry and enabling private sector growth.

In China's officialdom, climbing up the hierarchical bureaucratic ladder is the ambition of most local leaders because power, resources and privileges are closely tied to rank positions in the hierarchy. Hu Xiaobo attributes the driving force for local government entrepreneurship to the incentive structure for local leaders, from the perspective of an institutionalist approach. He identifies three factors among new rules of the games for shaping local government entrepreneurship—economic growth targets, age limits and the so-called “59-year-old phenomena”—and illustrates their roles in local government entrepreneurship in three key areas of reform in China: private sector development, management buyout and infrastructure investment.

Hu's analysis shows that economic growth targets explain the focus of local government innovations on recruiting investment from outside, retaining local businesses, and developing real estate and infrastructure projects. The introduction of age limits and term limits in the 1990s has made promotion an even more pressing and urgent personal goal. Given the new rules developed in the reform era, local officials in China have to be more entrepreneurial and innovative in achieving their economic goals as soon as possible in order to catch the time train for promotion.

The central–local relationship serves as the key backdrop of local government entrepreneurship. Since promotion is decided at higher levels, innovative ideas must address key concerns of the central leaders, be it economic growth, social stability, employment creation, inflation control or food supply. Articles by Jessica C. Teets, and Zhao Hui, Zhu Xufeng and Qi Ye examine the central–local relationship in two areas beyond economic growth: social development and environmental protection.

Literature on policy experiments has hitherto focused on the viewpoint of the central government—that is, local policy experiments may be tested first before triggering larger processes of change, and successful experiments can then diffuse to other localities and to the level of central policy. Teets, however, argues that policy experimentation has emerged as a preferred strategy for officials desiring either career advancement or security, with the result that an inability to institutionalise policy innovations at the local level creates unsustainable experiments because the sponsoring official rotates out or ages out of office, and diffusion has relatively short birth and death cycles corresponding to political business cycles. Teets' main contribution is her demonstration that while the existing process of social learning has created a norm of policy experimentation and diffusion, this process is currently informal and does not naturally allow optimal policies to diffuse and suboptimal policies to disappear. Her analysis leads to the suggestions that stronger institutions for supporting policy innovation and capturing knowledge must be built and that efforts should be made to identify policies which match both local needs and central preferences.

Zhao Hui, Zhu Xufeng and Qi Ye have described a scheme that attempts to match local needs and central preferences in carrying out policy pilots for reducing carbon emissions in China, whereby the central government determines the national goals, sets the regional low-carbon pilot scheme and dominates the process of selecting pilot areas. Local governments are responsible for the design of pilots based on various factors, including accessible resources, regional conditions and previous achievements. They also see to the implementation of those pilots through innovative policy instruments, such as tax incentives, technology promotion and funding provisions. The authors argue that such a scheme both helps to combine national targets with local characteristics while encouraging local entrepreneurship, and, more importantly, allows the government to foster local entrepreneurship in low-carbon development paths without fundamentally changing the existing Chinese performance evaluation and promotion system for local officials.