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Policy Experiments in the
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1978-2008 (abstract)***

**The full version can be found online as
CID Working Paper No. 172, June 2008,
Center for International Development, Harvard University
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Sebastian Heilmann

Professor of Comparative Government / Political Economy of China

**Department of Political Science
Trier University, 54286 Trier, Germany**

E-mail: heilmann@uni-trier.de

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Abstract

The reorganization of China's state-controlled enterprises after 1978 was subject to strong political inertia and opposition. Powerful vested interests and ideological concerns stood in the way of transformative change. Against this background, one central puzzle in China's restructuring efforts lies in how policymakers managed to overcome these constraints and to promote new policies and institutions that changed the rules of the game.

The Chinese experience demonstrates how a succession of policy experiments can drive the generation of restructuring measures and transform basic policy parameters. From 1978 to the mid-1990s, recurrent rounds of experimentation under hierarchy (a process of policy generation that legitimizes local initiative while maintaining ultimate hierarchical control) resulted in protracted policy tinkering with bureaucratic and financial incentives or formal corporate reorganization, yet without touching the politically protected and financially privileged status of the state-owned enterprises in the economy. Incremental reforms minimized political conflict and social disruption but did not eliminate the misallocation of resources and therefore may be judged as wasteful in narrow economic efficiency terms.

Yet, seen from the perspective of policy learning, the contribution of experimental tinkering to transforming the policymaking context of local and central decision-makers was essential. It provided test-runs for novel administrative and business practices, initiated behavioral and attitudinal changes among state managers and bureaucrats, and thereby undermined entrenched ideologies and interests. Experimentation resulted in serial, and cumulatively radical, redefinitions of the policy parameters for economic activity and prepared the ground for broad reform departures that were finally triggered by transnational push factors such as the Asian Financial Crisis and the WTO accession negotiations.

Keywords: experimentation, China, state enterprises, restructuring, economic policy-making

JEL codes: D72, D73, N45, P31