

Understanding the role of the
central-local relationship in China,
and its impact on healthcare policy

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Social Policy and Social Work

March 2016

Abstract

China is a huge country with a big territory and an even bigger population. The issue of how to deal with local government is one that has long vexed the central government of every Chinese epoch. Since the establishment of the People's Republic of China, China has experienced rounds of decentralization and centralization. The central-local relationship has experienced many changes as well. Thus, there is fierce debate over whether China is still a unitary country or whether it has transformed into a federalist nation. The central aim of this thesis is to provide an examination of the nature of the central-local relationship in Chinese governance, and to provide an understanding of how this central-local relationship affects healthcare social policies in China.

Research was conducted cumulatively in three steps. First, it drew a lesson from the variety of literature on arrangement of central-local relations and policy process to build a theoretical context and foundation for this research. Secondly, the research examined whether the central-local relationship in China could be categorized as a federalist system or a unitary system, or whether neither label was suitable. This examination led to an understanding of "de facto federalism", which provides an institutional description of the central-local relationship in Chinese governance. The examination was also conducted with reference to Paul Pierson's three characteristics of federalism, namely: reservation of specific powers to constituent units; expression of interests to the centre; and the extent of commitment to fiscal equalization across the states. Thirdly, this research conducted a fieldwork study which included a document study and semi-structured interviews in three different Chinese provinces to examine and explore the nature of central-local relation in China and its impact on healthcare policy.

It was observed that the de facto federalism partly captures the nature of central-local relationship from perspectives such as the extent of local autonomy and the reciprocity mechanism within central-local interactions. However, the central-local relationship in China does have many unique features. It is profoundly influenced by

the culture of unity, which seems to be the boundary of any reform in China. Meanwhile, China has a long history of non-institutionalized central-local power distribution, which is the result of a “dynamic” central-local relationship. The central government takes more initiatives to change the power distribution within such a dynamic central-local relationship. Indeed, de facto federalism has been constrained by these features. The rise of the “project mechanism” could be regarded as a sign of this dynamic relation and the central government seems to take more and more initiative when dealing with local governments.

TABLE OF CONTENTS

ABSTRACT	2
TABLE OF CONTENTS	4
LIST OF FIGURES	11
LIST OF TABLES	11
ACKNOWLEDGEMENTS	12
DECLARATION	13
CHAPTER 1: INTRODUCTION	14
Section 1.1 The central-local relationship in China	14
1.1.1 Central-local relationship in history	14
Section 1.2. Research problems	16
Section 1.3 Theory building	17
Section 1.4 Selection of policy field	21
Section 1.5 Research questions	22
Section 1.6 Methods	22
Section 1.7 The structure of the thesis	23
Section 1.8 Note on terminology	24
Section 1.9 Contribution	25

CHAPTER 2: THE POLITICAL SYSTEM AND THE CENTRAL-LOCAL RELATIONSHIP IN CHINA26

Section 2.1: Political structure of China.....	26
2.1.1 Review of state structure	26
2.1.1.1. Central government	28
2.1.1.2. Local government	29
2.1.2 The de facto system in political structure and informal rules.....	31
2.1.2.1 Demand-led government behavioural preferences.....	32
2.1.2.2 Preference of mandatory administrative tools.....	33
2.1.2.3 The dominating role of government at the higher level.....	34
2.1.2.4 The personification of government power operations.....	35
2.1.2.5. The impact of “guan xi”	36
2.1.3 The role of the CPC.....	37
2.1.3.1 The scale and structure of the CPC	38
2.1.3.2 The CPC’s ruling model and its changing process	40
Section 2.2: The central-local relationship in China.....	43
2.2.1 Historical review of central-local relations	43
2.2.2 New changes and features during the reform and opening-up period	46
2.2.2.1 Stepping out of the zero-sum game interaction	48
2.2.2.2 Bilateral growth of central and local authority.....	49
2.2.3 Problems within the central-local relationship	50

CHAPTER 3: LITERATURE REVIEW56

Section 3.1: Theoretical context.....	56
3.1.1 Policy network theory.....	57
3.1.1.1 The rise of the policy network concept.....	57
3.1.1.2 The policy network analysis paradigm	58
3.1.1.3 Limitations.....	61
3.1.2 Historical institutionalism	63
3.1.2.1 Origins of the “new institutionalism”	64
3.1.2.2 The three schools of the new institutionalism.....	66
3.1.2.3 The main aspects of historical institutionalism.....	67
3.1.2.4 The historical approach	73
3.1.2.5 Implications for this research	75

Section 3. 2: The central-local relationship as an institution	77
3.2.1 Types of central-local relationships	78
3.2.1.1 The federalist system	78
3.2.1.2 Unitary system	80
3.2.2 Power distribution in the central-local relationship	80
3.2.2.1 Power distribution in a federalist system	81
3.2.2.2 Power distribution in a unitary system	83
3.2.2.3 Development of the federalist and unitary systems.....	85
Section 3.3: How the central-local relationship affects social policy.....	89
3.3.1 Public choice theory	91
3.3.2 Historical institutionalism	92
3.3.3 Pierson’s three characteristics	94

CHAPTER 4: THE CENTRAL-LOCAL RELATIONSHIP IN CHINA: UNITARY, FEDERALIST OR NEITHER?..... 99

Section 4.1: Debates between federalism and the unitary system	99
Section 4.2: Unitary features.....	101
4.2.1 The central leading group and governing party	101
4.2.2 Personnel control by the central government	103
Section 4.3: Federalist features	104
4.3.1. Fiscal federalism	104
4.3.2 Market-preserving federalism	107
4.3.3 De facto federalism	109
Summary	119

CHAPTER 5: THE HEALTHCARE SYSTEM IN CHINA 121

Section 5. 1: Why health?	121
5.1.1 Social policies in China	121
5.1.1.1 Social policies before 1978	121
5.1.1.2 Social reforms after 1978.....	124
5.1.1.3 Summary	129
5.1.2 Why healthcare?	130
Section 5. 2: The healthcare system in China	133

5.2.1 What is a healthcare system?	133
5.2.2 Typology of healthcare systems.....	134
5.2.3 The development of the healthcare system in China	136
5.2.3.1 1951–1984: The public healthcare stage	136
5.2.3.2: 1984–2005: The market-oriented healthcare system stage.....	139
5.2.3.3 After 2006: Regulatory reform and the adjustment-innovation period	144
Conclusion	151

CHAPTER 6: METHODOLOGY 153

Section 1: Introduction.....	153
6.1.1 Research objectives.....	153
6.1.2 Research questions	154
6.1.3 Analytical framework	154
6.1.3.1 Why a comparative framework?	154
6.1.3.2 Why Pierson’s framework.....	155
Section 6.2: Data collection	158
6.2.1 Quantitative and qualitative approaches.....	158
6.2.1.1 The differences between quantitative and qualitative approaches	158
6.2.1.2 Implications for this research	162
6.2.2 Interviews.....	164
6.2.2.1 Why interviews?	164
6.2.2.2 Semi-structured interviews.....	165
6.2.2.3 Elite interview	166
6.2.2.4 Ethical and other challenges of interviewing in different cultural settings	169
Section 6.3: Sampling	173
6.3.1 Sampling of provinces	174
6.3.1.1 Indicator selection	174
6.3.1.2 Data sources	175
6.3.1.3 Data description.....	175
6.3.1.4 Different types of province	183
Summary.....	184
6.3.2 Interviewee sampling	185
6.3.3 Fieldwork summary.....	186
Section 6.4: Data analysis.....	187

6.4.1 Approaches to qualitative data analysis	187
6.4.1.1 Content analysis.....	187
6.4.1.2 Thematic analysis.....	188
6.4.1.3 Narrative analysis.....	189
6.4.1.4 Grounded theory	189
6.4.1.5 Discourse analysis	191
6.4.1.6 Conversation analysis	191
6.4.2 Implications for this research.....	192
6.4.3 Process of data analysis	194
6.4.3.1 Language and tools	194
6.4.3.2 Coding process.....	195
Section 6.5: Validity and reliability.....	196
Section 6.6: Document triangulation.....	197
Section 6.7: Ethical scrutiny	199
6.7.1 Informed consent.....	199
6.7.2 Confidentiality and anonymity.....	200
6.7.3 Risk to participants.....	201
6.7.4 Clarity and understanding.....	201
Section 6.8: Limitations.....	201
CHAPTER 7: FINDINGS	203
Section 7.1: Administrative power distribution and local policy innovation.....	203
7.1.1 Power distribution: Clear or not?.....	203
Summary.....	206
7.1.2 Roles in healthcare policy	207
Summary.....	209
7.1.3 Policy implementation and space for local government innovation	209
Summary	214
Section 7.2: Central-local interaction and interest expression.....	215
7.2.1 Channels for interaction.....	216
7.2.1.1 Internal approval and referral procedure	216
7.2.1.2 Procedure for formulating local policies.....	220
7.2.1.3 The People’s Congress system.....	222
Summary.....	224

7.2.2 Interaction during the policy process	225
Summary	229
Section 7.3: Fiscal relations between the central and local governments.....	231
7.3.1 The context of the central-local fiscal relationship	231
7.3.2 Fiscal relationship and policy innovation	234
7.3.2.1 Space for policy innovation	234
7.3.2.2 Attitudes towards policy innovation	237
7.3.3 Transfer payment as the main tool of central government	241
Summary	244
CHAPTER 8: DISCUSSION	246
Section 8.1: Does de facto federalism capture the nature of the central-local relationship?	247
8.1.1 Dilemmas of central-local relations	247
8.1.1.1 Effect of the nomenklatura system.....	250
8.1.2 The project mechanism – the central solution to resolving the dilemma	254
Summary	259
Section 8.2: What best captures the nature of the central-local relationship in China	260
8.2.1 The tradition of non-institutionalized power distribution as a key to understand the central-local relationship in China	261
8.2.2 Culture of unity – the boundary of reforms in China	270
8.2.3 Dynamism: the nature of the central-local relationship in China	274
8.2.4 How the dynamic central-local relationship affects healthcare policy	276
Summary	279
CHAPTER 9: CONCLUSION	281
Section 9.1: Theoretical and empirical contribution	281
Section 9.2: Limitations	286
Section 9.3: Avenues for further study	287
LIST OF ABBREVIATIONS AND ACRONYMS.....	289
APPENDIX 1: DETAILS OF INTERVIEWEES.....	290

APPENDIX 2: QUESTION LIST	294
APPENDIX 3: INFORMATION SHEET	298
APPENDIX 4: CONSENT FORM.....	302
BIBLIOGRAPHY	304

LIST OF FIGURES

<i>Figure 1: Government structure of China</i>	错误! 未定义书签。
<i>Figure 2: Governmental expenditure per head (Yuan)</i>	178
<i>Figure 3: Total governmental expenditure of each province</i>	179
<i>Figure 4: Urban and rural residents' healthcare expenditure (Yuan/year)</i>	181
<i>Figure 5: Healthcare availability</i>	183

LIST OF TABLES

<i>Table 1: Proportion of local fiscal revenue and fiscal expenditure 2000–2007</i>	51
<i>Table 2: Difference between qualitative and quantitative approach</i>	160
<i>Table 2: Governmental healthcare spending per year per person (Yuan)</i>	174

ACKNOWLEDGEMENTS

First, and foremost I would like to express my great gratitude to my supervisors Dr Chris Holden and Dr Hongxia (Sabrina) Chai, for their patient and effective guidance, invaluable advice, and continuous encouragement throughout the whole process of this research. It is my great honour to conduct research under their guidance and I have definitely learnt much about academia and other aspects from them. It has always been a pleasant experience to have meetings with my supervisors, in which I see their smiles and feel their love.

I would very much like to thank my Lord, Jesus Christ, for coming to me and letting me follow Him. His words and presence were the best company while I was doing my research alone. When I faced difficulties during the research, my Lord always strengthened me and encouraged me with His amazing grace. I thank God that I have a group of fantastic brothers and sisters in church, who love, look after and help me in every aspect of my life. They are all priceless gifts in my life.

I would very much like to thank my family, including my dearest wife, for their endless support during my research. Their love and kindness make me brave and peaceful even during really difficult times. Without their love and support I could not possibly have completed this research.

Last, but not least, a very special thank you to all my interviewees in Inner Mongolia, Beijing and Guangdong, I am deeply grateful to their help, which provided precious data for my research.

Declaration

I declare that this thesis is a presentation of original work and I am the sole author. This work has not previously been presented for an award at this, or any other, University. All sources are acknowledged as references.

Chapter 1: Introduction

Section 1.1 The central-local relationship in China

1.1.1 Central-local relationship in history

The long history of China is one where centralization has been continuously strengthened and local forces have been continuously weakened. Although China initially experienced three major secessions, it eventually moved towards three grand united dynasties (the Qin dynasty, Sui dynasty and Ming dynasty). Why were local separatist periods always short and why did each secession result in a centralized political regime? There are many reasons, but the major ones are perhaps the high regard for unity and the negative attitude towards secession which have existed in Chinese culture for a long time. The Chinese, as an ethnic group, have a strong sense of self-awareness and cultural superiority, which Fairbank (1986) termed “cultural nationalism”. Such awareness led to unity being the main idea for Chinese people. When Max Weber studied religion in China, he suggested that there was a stable factor that maintained the unity of China (Weber, 1977). The separatists that had appeared in China did not try to set up separate nation states. Their aim was not national independence or separatism, but to overthrow the current dynasty and establish a new one to unify China (Deng and Deng, 2004). Meanwhile, prevention against and containment of local forces were also priorities in China, especially for its rulers. When the Qin dynasty was established, the emperor drew lessons from the fall of the Shang and Zhou dynasties, which were both ruined by local forces; the feudal system was removed and replaced by the prefectures system. Since then, China’s central power has continuously been strengthened while local forces have been continuously weakened. Although there were periods of great division, such as at the end of the Han dynasty and the end of the Tang dynasty, historical lessons had caused Chinese rulers to be extra vigilant against local forces (Wang and Lin, 1985). In the Song dynasty, the first emperor Zhao Kuangyin highly centralized military, political, financial and judicial powers. Local administrative units were diminished and the

powers of local officials were dispersed. Such policies made the Chinese centralized system more mature (Zhao, 2004). In the Ming and Qing dynasties, central power (or imperial power) was greatly increased. Except for in the early stages of these dynasties, local separatist problems did not occur again for a long time (ibid.). As can be seen from this history, a regard for unity and a high degree of vigilance towards local forces have rooted themselves in the minds of Chinese rulers. Such a phenomenon has deeply affected the central-local relationship of present-day China.

Since the establishment of the People's Republic of China (PRC), China has experienced several cycles of centralization and decentralization in the central-local relationship. However, China has generally developed via the route of centralization. The leaders took decentralization into consideration and tried to maintain the enthusiasm of local government. But at the same time, the central government maintains a high degree of vigilance towards localism. After the founding of the PRC, the central government set up six large administrative districts in the northeast, north, northwest, east, south central and southwest of China. Both the Party Committee and the People's Government were also set up within each district on behalf of the authorities of the Party Central Committee and the central government, to help the national economy recover and solidify the regime (Xie and He, 2010). In 1953, the first Five-Year Plan was implemented, and a large-scale economic construction commenced. This process helped form the national centralized management system. The planned economic system was formed and the power of the central government was also strengthened during the process. China then experienced decentralization in 1956, which ended in 1961, and again at the beginning of the Cultural Revolution until 1975. However, these changes only focused on economic rights and the highly centralized planned economic system was not changed. These decentralizations did not bring political change either (Xie and He, 2010). Since the power of local governments during these periods was expanded and the power of central government was passively narrowed, the central government still maintained a dominating role over the local governments.

The long history before China's reform and opening up is, in fact, a history of constantly strengthened centralization and constantly consolidated unity. It is also simultaneously a long history of vigilance against local separatists. Eliminating local forces and taking precautions against them had long been basic policies of the central government of each dynasty. During the long process of suppressing local forces and separatists, the centralized regime became accepted and the culture of unity permeated the minds of Chinese people. The dominant political force was not the only one who set maintaining unity as its highest goal. Oppositional and discrete political leaders also set establishing a new and reunified dynasty as their goal. Even normal people regard protecting the unity of the imperial power as just (Zhao, 2006). Such political culture ensured that China was reunified each time it split up. It also made local forces a lot more passive in relation to the central government as local governments held quite limited powers and could not even voice different opinions on central government decisions and policies.

However, when China started to reform and open up in the 1980s, it unleashed new forces that had great influence on central-local relations. The economy developed alongside the growing local force because local governments were the main engine of economic development in the 1980s. The central government had to encourage the local governments to develop while staying vigilant against local authorities that may endanger central authority and national unity. Furthermore, the economic development from China opening up has produced inequality between different provinces. This issue has raised new concerns about how the country is governed. The central-local relationship and how the two forces interact with each other have experienced new changes as well.

Section 1.2. Research problems

While China has experienced significant changes in central-local relations, scholars have been slow to develop their views on this issue. This is because there is little in way of social policy research in China and the ability to engage in serious

evidence-based research is circumscribed by jealously guarded access to government organizations – the preserve of the privileged few. Little attempt has been made to either combine traditional Chinese scholarship with Western theories or develop authentic Chinese theories of central-local relations affecting specific policies such as healthcare. Moreover, very few research studies examine central-local relations based on current changes such as the rise of project mechanism.

Section 1.3 Theory building

This research aims to combine domestic Chinese scholarship with Western theories. It will be conducted cumulatively in three steps. Firstly, it draws on historical institutionalist theory. Since the central-local relationship has been regarded as a kind of institution, historical institutionalism helps to establish a theoretical foundation and analytical approach to explore the nature of the central-local relationship. Secondly, it reviews both Western and Eastern perspectives on the central-local relationship and how it affects social policy – specifically, Zheng’s (2007) “de facto federalism” and Pierson’s (1995) three institutional factors that affect social policy process. This examination will lead to an understanding of de facto federalism, which will provide an institutional description of the central-local relationship in Chinese governance from many perspectives such as interaction mechanism and interest expression. Thirdly, the research will apply this “de facto federalism” to a fieldwork study which will include a document study and semi-structured interviews conducted in three different Chinese provinces. The aim of this step is to find out whether it captures the nature of the central-local relationship in China.

The decentralization and opening up of China that commenced in the 1980s has granted local authorities plenty of economic powers. As the local government gradually obtains a certain degree of autonomy on local policies and fiscal rights, the central-local relationship itself may evolve into a contract-based cooperation and bargaining relationship (Rodden, 2004). Thus, the role of the local government has changed from being an agent of the central government to being a stakeholder. The

central-local relationship in China, especially in terms of the economy, has presented more and more features similar to those of federalism. Among theories relating to the central-local relationship in China such as market-preserving federalism, “de facto federalism”, which was developed by Zheng, provides an institutional way to explore the changes and features of the central-local relationship based on the in-depth study of central-local government interaction in the different provinces of China during the opening-up and reform period. It also involves political features and traditions in exploring the whole picture of central-local relations. It seems to be a more reasonable theory that describes the central-local relationship in China compared to other theories.

Pierson’s three dynamics, which was developed by Paul Pierson in 1995, has provided a specific way to explore how the institutional elements affect outcomes of social policy. Three institutional dynamics, namely reservation of specific powers to constituent units, interest expression to the centre of different tiers and the extent of commitment to fiscal equalization across the states, were emphasized to discuss how these institutional arrangements influence policy outcomes (Pierson, 1995, p. 463).

These two theories are both institutional by nature but emphasize different perspectives of central-local relations, therefore Pierson’s three dynamics theory was chosen to complement de facto federalism to help explore how this institutional arrangement affects the outcomes of social policy in China.

De facto federalism – a reasonable explanation of central-local relations in China?

Zheng (2007) studied the formal and practical aspects of central-local relations over a long period and did in-depth case studies of three typical provinces in China. From the research, he suggests that de facto federalism in the central-local relationship in China is better explained from a behavioural perspective. Zheng defines de facto federalism as:

A relatively institutionalized pattern which involves an explicit or implicit bargain between the centre and the provinces, one element in the bargain being that the provinces receive certain institutionalized or ad hoc benefits in return for guarantees by provincial officials that they will behave in certain ways on behalf of the centre. (Zheng, 2007, p. 39)

Moreover, according to Zheng, China's central-local relationship could be described as de facto federalism because it satisfies the following conditions (Zheng, 2007, p. 39–40):

1. A hierarchical political structure in which both central government and provincial governments have some activities on which they make final decisions.
2. Intergovernmental decentralization is institutionalized to such a degree that it is increasingly difficult for the central government to unilaterally impose its discretion on the provinces and alter the distribution of authority between governments.
3. Provinces have primary responsibility over their economy and, to some extent, the politics within their jurisdictions.

The intergovernmental decentralization which started after 1978 could be seen as the starting point of de facto federalism in China. During this decentralization, many political and economic policy-making powers for areas such as local public security and road construction were obtained by the local government. The local government became the economic planner and used these granted powers to develop an independent power base and increase local wealth. A large portion of economic decision-making authority was decentralized from the central government to individual enterprises as well. Such decentralization completed the reform which aimed to achieve a more laissez-faire economic model where the central government does not intervene in the economy (Zheng, 2007). The political transition during the decentralization is another big step for China in the reform period. Certain rights were given to protect both individuals and social groups from arbitrary acts by the state

while citizens were given more rights to raise issues and participate in institutions and elections. This liberalization and partial democratization included a broader portion of the society in the process of economic and political decision making. Therefore, this decentralization was not only a process which decentralized power from the central to local authorities, but also from government to the society. Local governments obtained institutional status and legitimacy to intervene in economic activities under their jurisdiction. Moreover, since local authorities became less dependent on the central government, the central-local relationship became a more interdependent one. It became necessary for the central government to seek the cooperation of the local government when it wanted to implement policies. At the same time, local officials also changed their strategies for dealing with the central government (Zheng, 2007).

Pierson's three dynamics – a perspective on how central-local relationship arrangements affect social policy

Pierson (1995) analysed the relation between federalism and policy outcome in a more comprehensive way. His research suggests three characteristics of federalism which have great relevance to social policy outcomes, namely (Pierson, 1995, p. 463):

1. Reservation of specific powers to constituent units,
2. Interest expression to the centre of different tiers, and
3. The extent of commitment to fiscal equalization across the states.

In other words, Pierson has offered a research strategy for studying the issue from the perspective of constituent units' power, an interaction model between the central government and state government and the fiscal relationship between all constituent units. The first characteristic, reservation of constituent units' power, has various effects on social policy outcomes in different countries mostly due to constitutional differences. This characteristic not only involves constituent units' power but also

potentially restricts the policy intervention power of the central government. The way interests of different tiers are represented federally can also be considered in terms of the extent to which member states are able to influence the central government. The degree of fiscal equalization across the constituent units produces a great impact on the development of social policy. Fiscal capacity and approach really matters when it comes to state members' attitudes towards social policy. States whose income mostly relies on revenue redistribution from the central government usually have more motivation to support expansive social policy innovation. Other constituent units who gain their income through local taxation tend to hold more conservative attitudes on social policy or even block welfare reform to protect the interest of local businesses which are their main source of fiscal income.

Section 1.4 Selection of policy field

Before the opening up of China, the central government had great power over social welfare and plenty of public services were uniformly provided by the central government. After decentralization started in the 1980s, the role of government in social security and welfare was weakened and the central government even relinquished certain fields. Market forces and local governments became increasingly important and took over within those fields. During the changing of the central-local relationship, healthcare appeared to be quite significantly affected by decentralization and centralization. During decentralization in the 1980s, local government and local market forces became the main source of the development of healthcare services. Thus, a big gap rapidly formed between different provinces on healthcare services. Medical service resources quickly transferred from towns to big cities or from undeveloped areas to developed areas. Large hospitals increasingly had better technology and equipment, while primary healthcare institutions such as rural township hospitals, health centres and other community medical institutions were gradually shrinking – many could not even survive.

When (selective) centralization was launched, healthcare reforms were accordingly activated. The trend of privatization of healthcare was strictly controlled by the central government and market forces were weakened. The bargaining and cooperation between the central and local governments subsequently made the healthcare system more and more complex and inefficient after reform. Therefore, as the healthcare system is obviously very sensitive to the changes of central-local relations, it would be a good policy field to explore the influence of central-local relations upon social policy. Moreover, from the perspective of data accessibility, healthcare records are a better choice than other policy fields such as housing in China because there is less sensitive information involved.

Section 1.5 Research questions

This thesis will focus on two questions:

1. What best characterises the nature of the central-local relationship in China?
2. How does the central-local relationship affect healthcare policies in China?

Section 1.6 Methods

The principle theoretical aim of this thesis is to combine de facto federalism with a broader understanding of the transformation of central-local relations rooted in a historical perspective and to provide a comprehensive analysis of the nature of central-local relations and their impact on healthcare policy. Fieldwork will be deployed as the principal approach for conducting this research, and the data for this thesis will be collected via the use of semi-structured interviews and documentary analysis. This thesis deploys a qualitatively oriented data collection.

Section 1.7 The structure of the thesis

This thesis is organized into seven further chapters. Chapter 2 ('Background of the political structure and the central-local relationship in China') provides an in-depth review of the political structure of China, which includes the government system and the party system. A review of central-local relations is also provided in this chapter, which focuses on the transformation process and current problems.

Chapter 3 consists of a literature review. The first section explores the theoretical context to study the central-local relationship and draw lessons from historical institutionalism. The second section is an in-depth discussion of central-local relations which emphasizes the typology and power distribution. The chapter also examines how institutions affect social policy by reviewing the relevant literatures. Here, Pierson's (1995) theory of three characteristics of federalism that affect social policy is chosen to be explored within the context of China in later chapters.

Chapter 4 ('Central-local relations in China: unitary, federalism or neither?') then discusses whether China should be categorized under federalism, the unitary system or neither. China has both federalist and unitary features in its political and economic situation, however, de facto federalism seems to be a more reasonable theory to provide an explanation for such a comprehensive situation. This is also selected to be explored within the context of China.

Chapter 5 ('The healthcare system in China') discusses China's healthcare system, which is the chosen policy field of this thesis. It provides a snapshot of social policy in China. Reasons are given as to why healthcare was the chosen area of study. At the end of this chapter, there is a review of the developing process of China's healthcare system from 1951 to the present day in order to help understand how it works and grasp some specific features.

Chapter 6 ('Methodology') sets out how the research was undertaken. It also chronicles how I, drawing on literature on research methods, considered appropriate methodologies and subsequently developed the study. A detailed explanation of the

research design is provided to show how and why the sample provinces were selected.

Chapter 7 ('Findings') draws on a broad range of elite interviews with officials and academics in three sample provinces in China. The interview transcripts are reviewed according to Pierson's three characteristics in order to explore whether these institutional factors operate in the context of China.

Chapter 8 ('Discussion') provides an in-depth discussion based on the findings from interviews and the documentary study. This chapter tries to answer the research questions on the nature of central-local relations in China and how this affects healthcare policy in terms of power distribution, the interaction model and central-local fiscal relations. It also notes that recent changes such as the rise of project mechanism somehow limit the extent to which de facto federalism can be regarded as an accurate description of current central-local relations in China.

Finally, this thesis concludes with a summary of the main theoretical, methodological and research findings. The research questions are comprehensively answered in this last chapter. When the research is considered within the Chinese context, de facto federalism can be regarded as a periodical description of central-local relations, but dynamism is discovered to be a fundamental feature of central-local relations based on the transformation process and special context.

Section 1.8 Note on terminology

In mentions of "government" in the following chapters, any references to local government on a specific level will be presented with clear indication such as "provincial government" or "county government". Otherwise, "local government" refers to the general governing bodies which are below the central government.

Section 1.9 Contribution

This research seeks to make three main contributions to the study of Chinese social policy. Firstly, it provides substantial in-depth interview data about central-local relations and their impact on healthcare social policy. Secondly, it combines Chinese scholarship with Western theories through an examination of de facto federalism and Pierson's three characteristics within the Chinese context. Lastly, it provides a broader view of the nature of central-local relations and their impact on healthcare policy rather than just their periodical features and impact.

Chapter 2: The political system and the central-local relationship in China

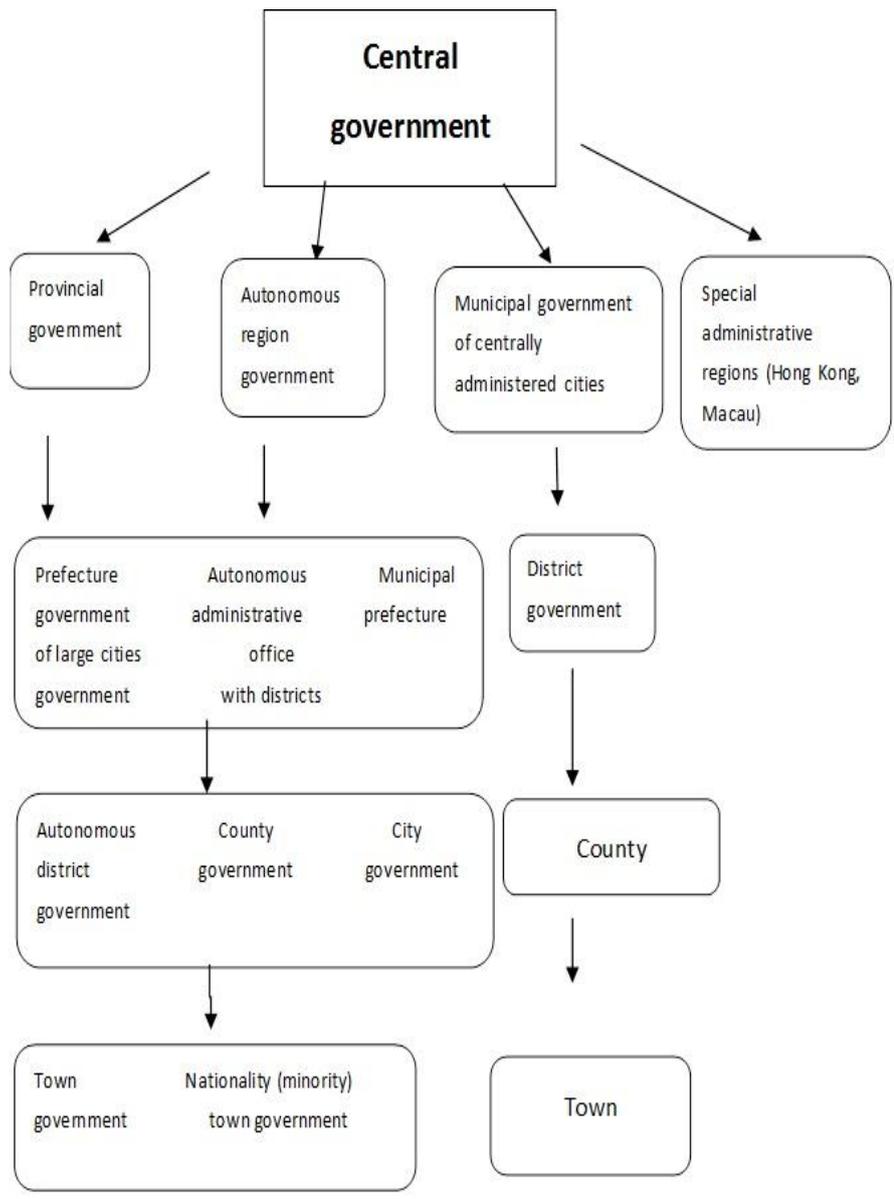
This research seeks to understand the role of central-local government relationships within a healthcare system. Since China is a huge country with a different culture and history from that of Western countries, and its unique institutional settings are full of complexities, realities there may be more complicated than in other places. This chapter will provide a brief overview the political structure and intergovernmental relations in China which provide important context for this research. Section 1 discusses the political system from formal and informal perspectives, while Section 2 discusses the central-local government relationships in China's history and in recent years.

Section 2.1: Political structure of China

2.1.1 Review of state structure

Due to its long historical development, China has gone through many changes in terms of state structure. Since the founding of the PRC in 1949, the structure has undergone several changes. China used to have five levels of local government. At present, according to the constitution, China utilizes a centralized structure where the entire administrative system is divided into four levels: provincial, municipal, county and town. The structure is illustrated by Figure 1 below.

Figure 1: Government structure of China



Source: Organic Law of PRC on Local NPC and Local Government (2004).

2.1.1.1. Central government

In spite of the role of the Chinese Communist Party (CPC) and the lack of competitive elections, the governmental structure of China is still a little similar to Western parliamentary systems, with both president and prime minister appointed by a parliament and a semi-independent judiciary.

The PRC government is presided over by President Xi Jinping, who entered the office in 2013. He also chaired China's Central Military Commission, which supervises China's military, the People's Liberation Army (PLA). Traditionally, the president always chairs the Central Military Commission.

Much of the PRC governing structure falls under the charge of the State Council. The State Council is headed by China's premier Li Keqiang, who also entered office in 2013. There are vice premiers, ministries, bureaus, commissions and agencies under the Premier. They serve as the administrator and regulator, responsible for the daily operation of government.

The State Council administers the offices of China's executive bureaucracy, which include ministries, commissions and offices. There are 27 ministries and commissions, which are ranked the highest among PRC government offices. There are 30 "directly administered offices", including most government offices not mentioned above, which report directly to the State Council. There are also differences between these directly administered offices. For example, there are directly administered government bureaus, such as the State Administration of Education, and directly administered professional organizations, such as the National School of Administration. Quite a few these offices are granted ministry-level status by the State Council.

There are also 11 indirectly administered offices, such as the National Energy Administration, which are under the State Council but supervised by ministry-level offices. Moreover, there are a handful of "leading groups" which lead on specific policy concerns under the State Council. Such leading groups are typically headed by a senior-level leader (at the premier or vice premier level) and report to a relevant

central ministry. The Leading Group on Western Development, for example, is chaired by the Premier Li Keqiang and reports to the National Development and Reform Commission.

Legislative organs

China has two main bodies responsible for legislation – the National People’s Congress (NPC) and the Chinese People’s Political Consultative Conference (CPPCC). The NPC is China’s highest legislative branch; it is responsible for all laws at the national level and approves the appointment of leaders at the national level. In practice, however, the NPC has long acted as a “rubber stamp” organisation which has little practical influence; only recently has it played a more independent role in daily politics. It meets in full once a year, while the Standing Committee meets bimonthly. The CPPCC is a parliamentary body which is formed by other political parties in China. The CPPCC serves as a forum for discussing big public issues and provides advice to State Council and the CPC. However, it holds no decision-making authority or power on these issues.

Judicial organs

The Chinese judicial organs consist of the People’s courts and the Procuratorate courts. The People’s Court is responsible for handling civil, criminal and administrative cases as well as appeals. In addition to the normal court, there are specialized military courts, maritime courts and railway courts which handle specific cases. Procuratorate courts supervise the application and enforcement of laws.

2.1.1.2. Local government

As shown in Figure 1, there are four types of provincial government in China: (general) provincial government, autonomous region government, municipal

government of centrally administered cities and government of special administrative regions (SARs). Due to the special nature of SARs, this thesis will not be concerned with them.

Function of local government

According to the Constitution (Article 107), the function of local government is to manage economic and other affairs within its jurisdiction. This specifically includes:

1. Managing and developing the economy, education, science, culture, health, sports, and urban and rural construction within its jurisdiction,
2. Administrating finance, civil affairs, public security, nationalities affairs, judicial administration, supervision and other administrative work within its jurisdiction,
3. Appointing, removing, training, evaluating, rewarding and punishing administrative staffs within its jurisdiction (The PRC, 2004, amended by author).

Since decentralization started in the 1980s, local governments have gained a large amount of power from the central government, and play an increasingly important role in economic development. For example, there were great socio-economic leaps in the Pearl River Delta. Between 1980 and 1993, the number of local enterprises in the Delta increased from 30,850 to 403,898, and by 1993 the industrial output value by local industries consisted of 39.49% of the total industrial value (Yiu, 1996). Meanwhile during the decentralization in 1980s, many local governments took ownership of many enterprises. Hence, local governments directly intervened in the economy and played a leading role in local economic development.

Formation of local governments

For local governments at the county level or higher, senior officers of local governments such as provincial governor, the chairmen of the autonomous regions, the mayors and heads of autonomous prefectures, counties and districts are elected by the corresponding People's Congresses (Organic Law of PRC on Local NPC and Local Government, Article 8). It is notable that these local administrative officers are elected through an indirect election system, in which the local voters elect the representatives to the People's Congresses who then have the right to elect the officers of local governments. The candidates for the positions of senior officer and vice officer should be nominated by the presidium of the people's representatives or co-nominated by more than ten representatives (Organic Law of PRC on Local NPC and Local Government, Article 8).

Structural relations of local governments

Local governments in China operate within a hierarchical system of leadership at different levels, where the lower level is in principle subordinate to the higher levels (Yang, 2003). The provincial governments lead the municipal governments. City governments lead county governments and county governments lead town governments. Governments at the lower level are principally under the leadership, instruction, and supervision of governments at a higher level. This means that local governments on the one hand exercise their powers independently under the guidance of higher-level governments, but on the other hand may have to complete tasks required by government at a higher level (Yang, 2003).

2.1.2 The de facto system in political structure and informal rules

The political organs and mechanisms mentioned above make up the dominant political system of China. Such a dominant system refers to that which is expressly provided in the rules of formal specification. These formal rules mainly include relevant provisions of the constitution, the Party Constitution and other specific formal documents which relate to local power configuration and performance evaluation. At the same time, China also has a recessive system in its political

structure that contrasts with the dominant system. A de facto system is one that is not expressly provided for but in fact plays a role in the system and policymaking process. It may appear to deviate from the formal system; it may appear to be complementary and corrective to the formal system. This system provides important context to understand the political system in China. The main aspects and features of this system will be discussed in the following sections.

2.1.2.1 Demand-led government behavioural preferences

The demands of government at higher levels lead the governments at lower levels. This higher-government-demand-led system means that the preference structure of local government is compatible with the requirements of the higher levels of government. This is in contrast to the public-demand-led preference structure. Some scholars such as Jiang and Yang (2008) and Zhu (2008) have studied this system from the angle of fiscal expenditure and have concluded that local governments have more motivation to develop the economy and minimal motivation for affairs that service people's well-being. Among the services for people's well-being, education, health and social security receive attention from local governments, but only in terms of guaranteeing stability; outside of the stability concerns, the local governments have little enthusiasm for these services.

This preference structure is a result of the policy guidance of central and higher levels of government. Over the years, central policies have revolved around economic development and stability overrides everything. Under the guidance of such a policy, local governments are active in economic development and social stability work, while for education, health and social security, services for people's well-being, policies and fiscal input are insufficient (Lin, 2000). Despite the policies resulting from central and higher levels of government, specific performance appraisals have a direct impact on the behavioural preferences of local governments. We often see "image projects" – projects done to make one look good – implemented by local governments to cope with the higher-level assessment. In order to achieve

outstanding results in the assessment, local governments may be willing to commit fraud in the statistics (Lin, 2000). For identical infrastructure projects, those in urban areas will be quickly launched and built while projects in distant rural areas will be delayed. The reason such things happen are because appraisal cycles for local government are generally shorter and the assessment methods prefer the use of quantitative indicators (Jiang and Yang, 2008). In order to adapt to this assessment system, local governments are more interested in implementing policies that could be well expressed by quantitative statistics (Jiang and Yang, 2008). Therefore, the projects which are more valued by their superiors and more visible – projects displaying engineering feats with minimal effort – are favoured by local governments.

In 2005, the central government proposed establishing a harmonious socialist society in order to correct the imbalance of economic and social development caused by the preceding period. Local governments' policy behaviour in recent years has also adapted (Jiang and Yang, 2008), and they have been paying more attention to fulfilling the central guidance. Although some goals were achieved, the behavioural preferences of local governments in China are still in the higher-government-demand-led mode because the appraisal system has not changed very much.

2.1.2.2 Preference of mandatory administrative tools

Mandatory actions are the main administrative tool chosen by the Chinese government. There is a variety of governmental administrative tools. In order to solve practical problems, there cannot be just a single tool, but a portfolio of tools available to the government. According to their social attributes, administrative tools can be generally classified as mandatory, voluntary and mixed (Huang, 2010). Mandatory administrative tools of the government are public control and direct offers; voluntary tools of the government are the market, communities, families and voluntary organizations; mixed tools of the government always present themselves as subsidies,

taxes, user fees and property rights auctions. The mandatory administrative tools of the government are considered the highest level of government intervention in the tools category. The voluntary tools of the government are at the lowest level while the mixed government tools are in the middle of the category.

Specific policy decisions will bring about different choices, and the government's preference of which tools it uses will reflect the behavioural characteristics of the government. The Chinese governments, especially local governments, usually prefer mandatory administrative tools, followed by mixed governmental administrative tools (Huang, 2010). The voluntary administrative tools are rarely selected. This situation is due to many factors: the political system, the economic and social system, political culture, the level of political democracy, economic and social development, and the values, position and cognitive abilities of the decision makers (Huang, 2010).

Since China's reform and opening up, and with in-depth development of the market economy, the national social structure has improved significantly. The progress of political reform has continuously accelerated. Especially with the widespread dissemination of advanced concepts of government and governance, the proportion of non-mandatory administrative tools used has grown; significantly the use of economic tools has become more frequent, which is directly related to the process of market-oriented economic development (ibid.). However, the situation has not fundamentally changed the fact that mandatory administrative tools are still the first choice for the Chinese government.

2.1.2.3 The dominating role of government at the higher level

Governments at higher levels have a dominant position, while the governments at lower levels are often passive. Here "government" may include the People's Congress, People's Government, the courts and Procuratorates. In the dominant system, the relationship between government at higher levels and lower levels is very complex. The executive organ and the Procuratorate implement a dual-leadership system according to the relevant laws and rules. For example, Article 132 of the

constitution and Article 10 of the People's Procuratorate Organization Act declare that the lower Procuratorate is under the lead of the higher Procuratorate, which is at the same level as the People's Congress and hence the Procuratorate should be subject to their supervision. However, the reality is the executive organ and the Procuratorate are dominated by higher-level government and are formally led by the People's Congress at the same level. Generally speaking, the overall condition of China's vertical intergovernmental relations is that lower-level governments obey the wishes of higher-level governments. Governments at higher levels can manipulate lower-level governments, which can also be seen as passive obedience. Such a situation may be the result of the lack of democracy within the entire political system. It may also be the result of China's personnel management and the distribution pattern of leaders in relevant organs and institutions.

2.1.2.4 The personification of government power operations

The dominant system is expressly provided for by the Code of Conduct; an open, well-known list of rules for procedures. However, the reality is that these explicit specifications have not been fully complied with and implemented – they are modified and distorted or even completely opposite to the rules (Yang, 2003). One important issue associated with the softening of the dominant system is the personification of government power operations. In other words, the personification of power is a key cause of incomplete implementation of dominant rules. Therefore, personified governmental power seems like an unspoken universal rule of the political system in China and impacts the system continuously. The reason personified power operation occurs is because the power is too concentrated and lacks effective supervision in some sectors. The major drawbacks of such a phenomenon are excessive concentration of power, patriarchal leadership, life-long tenure of leadership and various privileges. Much of the political power is inappropriately concentrated in the Party committees. The powers of the Party committees tend to be concentrated on a few secretaries, especially on the first secretary (Deng, 1994). The first secretary may finalize everything as a commander.

Thus, leadership of the party often becomes a personal leadership (Deng, 1994). In China, the phenomenon of personal autocracy not only occurs in the governmental sector, but also extends to state-owned enterprises and institutions and has gradually become part of the recessive system in daily political life.

2.1.2.5. The impact of “guan xi”

Informal relationships (“guan xi” in Chinese) are a significant factor which affects the governmental process. This invisible rule is closely related to the personification of government power operation. In other words, the personified power is the direct cause of the informal-relationship effect. When investing in China, foreign investors may observe that informal relationships play a significant role. One might profit if one does not understand such relationships. Native Chinese people are clear about the importance of so-called relationships. Some people make a living by relying on such relationships and there is a kind of “relationship economy”. Some intermediaries even claim that they can help others buy official positions using their contacts and strong relationships; these were reported in cases of cheating in Beijing (Guo, 2010). The informal relationships relevant here are a kind of personal relationship contributed by familial relations, marriage, geopolitical factors, learning geography (relationship with classmates), industry and other factors. Due to the personified characteristics of the operation of governmental power, these informal relationships penetrate political life and play a role that formal relationships cannot match (Yang, 2003).

The areas affected by informal relationships are all-encompassing, such as personnel arrangements, development planning, investment, urban renewal, assessment appraisal and so on. For example, in the daily operation of a government, discovering and setting up “guan xi” has become the preoccupation of people inside and outside the institutions, dominating their main daily discourse and behavioural strategies (Zhou, 2005). In terms of access to official positions, a subordinate member relationship with his superiors may be a screening criterion to judge whether he deserves a promotion. In terms of power execution, “opening back doors” (i.e. making benefits for someone who has an informal relationship with the powerful

officer) has become a tacit strategy among government officials and local people. As for getting resources from government at higher levels, “hunting for projects” that rely on informal relationships and bribing officials have become normal and expected behaviour in local governments (Yang, 2003). People who are skilled in such informal relationship strategies could be dubbed geniuses or capable workers by their employers, and even obtain a certain social status and informal power themselves (Zhou, 2005). Proliferation of such behaviour based on relationships in local government leads to many difficulties in government power operations. A strong Machiavellian culture, which is rooted in informal relationships, leads to internal friction within institutions and organizations, meanwhile reducing the overall efficiency of the operation of power (Zhang, 2010). The informal relationships also violate the fairness within institutions and organizations and leads to the formation of a resource-adhesion mechanism based on informal relationships (Zhang, 2010).

The dominant and recessive systems described above affect each other and together contribute to the behavioural pattern of government. For example, a highly centralized political system determines the elite political characteristics of the governmental process and set mandatory tools as the go-to selection for a government to achieve its goals. Only by grasping the character of these two systems can we effectively understand how the governments (at the central and local level) operate and affect social policies.

2.1.3 The role of the CPC

The CPC, which was established in 1921, has ruled China for more than sixty years. After it defeated the army force of Chiang Kai-shek, the CPC built up a new regime named the People’s Republic of China. From then on, the CPC has played a dominant role in China’s politics and profoundly evolved China’s political institutions and political culture. The following sections will emphasize the role of the CPC in China’s political system in order to present a holistic image of the CPC.

2.1.3.1 The scale and structure of the CPC

According to the Party Constitution, any Chinese citizen who is over 18 and willing to accept the Party's constitution and policies, for example being an atheist, may apply for the membership of the CPC. However, the approval rate is somewhat low. For example, while there were 21 million applicants in 2010, only 15% of them were accepted, of which less than a quarter were female (Zhao, 2011). In light of the statistics released by the Organization Department of the Communist Party Central Committee in 2011, the CPC has 80 million members which constitute approximately 6% of the total population in China (Zhao, 2011).

In accordance with the provisions of the Party Constitution, all Party members, regardless of their rank, must belong to a branch or a specific unit to attend the regular Party activities. These branches and units cover almost all the organizations and institutions in China. Most of the branches and units are distributed among official and semi-official organizations and institutions, including state-owned enterprises and academic institutes. The CPC also tries to set up Party cells within private enterprises and foreign-invested enterprises. These Party cells hold a great deal of influence within enterprises. The only exception is within the wholly foreign-owned enterprises, where the Party holds very little power. An increasing number of young people in China are eager to join the CPC precisely because of the ubiquity of Party organizations and the great control on promotion it wields in the public sector.

The whole structure of the CPC can be divided into the central, local and the grass-roots parts. The central part is the highest authority and decision-making organization of the whole Party. CPC local organizations exist in the public sector at the provincial, municipal and county levels. Grass-roots organizations are widely present in enterprises, rural areas, offices, schools, research institutes, communities, social organizations, the enterprises owned by PLA and other grass-roots units. Based on the CPC's constitution, as long as there are three full Party members in such organizations and institutions, a formal grass-roots Party unit will be set up.

At the very top of the entire Party system stands the Politburo Standing Committee (PSC). It is the most powerful and highest decision-making unit. It is composed of nine members, who are regarded as the nine most powerful men in China and are always named “the Big Nine”. Under PSC, there is a board Politburo which is composed of 23 members. These 23 people lead the Central Committee, which is composed of nearly 370 official and alternate members. Of the nine men who compose the PSC, each of them is concurrently responsible for the leadership in one or a few specific political systems. The top-ranking PSC member, General Secretary Xi Jinping, for example, concurrently serves as the chairman of the Central Military Commission and as the president of the PRC, which means he is the head of the state and military force. Zhang Dejiang, who is the second highest ranking member in the PSC, serves as the head of the NPC. Li Keqiang, the third most powerful man in China, serves as the premier of the State Council. In the fourth place is Yu Zhengsheng, who is responsible for the leadership of the CPPCC and the supervision of the non-communist group’s relationship with the Party. Other members in the PSC include the senior bureaucrats in the propaganda system, in the management of Party bureaucracy, finance and economics, Party discipline and internal security system (Lawrence and Martin, 2013).

The full Politburo is the decision-making body below the PSC. Besides the nine men in the PSC, these members include the heads of major departments of the Party bureaucracy, the two highest-ranking officers in the Military Force, the vice premier of the State Council, State Councillors and the heads of important provinces and cities. Due to the relatively large size and geographic diversity of the personnel, the full Politburo is not involved in the decision making of day-to-day work. Their work tends to focus on discussing important issues and preparing for the national conference (Lawrence and Martin, 2013).

The power of the PSC and full Politburo comes from the Central Committee in the lower layer. Approximately 370 official and alternate members together elect the Party General Secretary Politburo Standing Committee and the full Politburo, and “decide” on the composition of the Party’s Central Military Commission. Members

of the Central Committee come from various parts of China's political system including the provinces (41.5% of members), central ministries (22.6%), the military (17.5%), central Party organizations (5.9%), state-owned enterprises, educational institutions, "mass organizations" such as the Communist Youth League, and other constituencies (12.4%) (Li, 2008).

According to the Party's constitution, the Central Committee derives its power from the Party Congress. The congress is held every five years, during which over 2,000 delegates elect the members of the Central Committee. Meanwhile, delegates of the congress review and approve the Party General Secretary and report to the NPC, revealing the Party's position and entire plan for the next five years. In the time between two Party congresses, the Central Committee is required to meet at least once per year. Each meeting is called a plenum. The plenum generally discusses a specific aspect of the developing direction and makes important appointments and dismissals. For example, in October 2010, the fifth plenum of the 18th Party Congress discussed and approved the 12th five-year plan which covered 2011 to 2015. The meeting also approved the appointment of Xi Jinping as the first vice chairman of the Central Military Commission. The action was widely considered to be in preparation for Xi to become the next supreme leader of the Party in 2012 (Lawrence and Martin, 2013). When a plenum ends, the Party will issue a communique to announce the major decisions made during the meeting.

2.1.3.2 The CPC's ruling model and its changing process

During the civil war against the Guomindang (Kuomintang Party), the CPC repeatedly announced that it would not rule the country as a one-party state (Chen, 2008). However, due to domestic and international constraints after the victory of the civil war, the CPC eventually established a highly centralized political system that disregards differences between party and state. After the establishment of the PRC in 1949, the CPC continued to follow the model of unified leadership that was used during the warring years in order to ensure the leading authority upon provinces and

complete monumental construction tasks (Chen, 2008). Consequently, the CPC achieved comprehensive leadership on national affairs. For example, the senior leader of the Party served as the leader of government, established the party committee and party group – which was directly led by the CPC Central Committee within the government system, and established the Party approval system to investigate political and legal cases (Chen, 2008). During the Cultural Revolution in 1966, leading political organs at all levels were severely damaged and the personality cult of Mao Zedong grew greatly. This led to the gradual evolution of China's governance into a personal dictatorship party-state model (Chen, 2008).

After Deng Xiaoping came into power, the CPC started to strengthen and improve its leadership model. The CPC had to rely on legislation by the People's Congress and other legislative means to achieve their leadership of state affairs. The CPC was no longer the direct leader of economic and social affairs, and so it turned to play the role of coordinator (Chen, 2008). The centralized unified leadership model on governance had changed into a political, ideological and organizational leadership. The party was no longer directly involved in governmental affairs but was still embedded through a variety of ways to maintain the government's political leadership (Chen, 2008). Firstly, important development plans and decisions about the economy had to be approved by the Party Committee before implementation. Secondly, for the composition of government at all levels, the major leaders must be CPC members. This was more prominent especially at the province, district and county levels, where executive heads concurrently served as the local party's deputy secretary. These leaders also exercised their executive powers with their identity as Party members. Lastly, the power to investigate and appoint administrative officials at all levels was held in the hands of the Party's Organization Department, while the power to punish party members with corrupt behaviour was wielded by the Party's Discipline Inspection Departments (Liu, 2011).

Simultaneously, the duties of the Party and government in economic and social affairs were gradually standardized. The local party's first secretary no longer served as the major leader of the government, and party committees no longer sent

one-to-one correspondence on work instructions to the relevant departments of government (Liu, 2011). Policy decisions made by the government were self-published by the government rather than released by the Party Committee as a party document. The chief executives became the real core in the government of all levels and held the highest decision-making authority and leadership (Xia and Gu, 1999). More and more institutions and state-owned enterprises took the executive leading model rather than the party secretary leading model (Xia and Gu, 1999). Therefore, the boundary between Party and government became increasingly clear.

As mentioned above, the current ruling model of the CPC could be summarized as selecting and recommending outstanding members to state organs in order to manage national, economic and social affairs on behalf of the Party. Meanwhile, the CPC sets up corresponding agencies like a government would. Each Party agency directly or indirectly leads, supervises or serves appropriate government agencies. Party organizations achieve their ruling power in the government through the Party group within the national legislation organ (NPC), the judiciary organ (courts, Procuratorates), democratic parties and social groups (Chen, 2000). Over decades of development, the CPC's ruling model has experienced continuous improvement. The boundary between Party function and government function is basically clear and is realized in daily practice.

However, functions overlap and problems still exist between the Party and government, which reduce the effectiveness and efficiency of daily state operations. Firstly, the Party Committee still holds some authority similar to the one held by government at the same level. During the reform and opening-up process, leaders developed a habit of solving problems via Party organizations rather than through judicial means. Such a phenomenon has formed a kind of path dependency (Chen, 2000). For example, during the institutional reform in 1998, a big issue was how to manage state-owned assets. However, a relevant asset management department was not established within the State Council system. Instead a large Enterprise Work Committee was established within the Party system to manage the state assets and to coordinate the relevant powers of the Ministry of Finance, Ministry of Personnel and

the State Economic and Trade Commission (Chen, 2000). This example indicates that leaders have become accustomed to solving problems via Party organization rather than via administrative and judicial means. Secondly, although the constitution notes that government and the judiciary organ are under the leadership of the People's Congress, due to the unique position of the CPC in China's political system, the power of the People's Congress cannot be fully used. This is because the administrative organs are actually under the leadership of Party organization (Liu, 2011). Thirdly, because of the embarrassing situation of the People's Congress, some of the Party's principles, policies or official documents often have priority over national laws. The increasing judicial corruption is partly because some Party leaders interfere with the results of judicial cases to meet their own interests. Lastly, there is internal friction between government leaders and Party leaders within the same department or institution. Research done by the Central Party School showed that in 50–80% of local governments, the Party secretary would contradict the executive head (Chen, 2000). Such disunity is the result of unclear power distribution and overlapping organization between the Party and government. The Party Committee does have decision-making power on significant events according to the constitution and law, however, it is difficult to determine whether an event is significant or not. Such situations could bring about administrative power confusion and illegal intervention on policymaking and implementation.

Section 2.2: The central-local relationship in China

2.2.1 Historical review of central-local relations

The concept of local autonomy was introduced to China in the late Qing Dynasty; local self-governance was implemented and soon formed the initial framework of both urban and rural self-governance (Hu, 2001). When the revolution broke out in 1911, many provinces announced independence. Federalism was popular around China. When Shandong declared its independence, the Shandong Consultative Bureau made eight recommendations to the central government. Five of these

recommendations were: the constitution shall be marked as a federal system of government; the official system and local taxation customs should be decided by the province; the central government should not interfere; Articles of the Consultative Bureau make up the constitution of the province and the province is free to change the set; and the province should have the freedom to conduct military training to defend its autonomy (Research Council of the National Cultural and Historical in Chinese People's Political Consultative Conference, 1981). Other provinces such as Hubei, Zhejiang and Jiangsu also developed provincial constitutions, namely Ezhou Act of Republic China, Zhejiang Provincial Act of Republic China and Jiangsu Provincial Act of Republic China respectively (Chi, 1997). These Acts were in fact the provincial constitutions at the time. Federalism was widespread in China and led to the local autonomy movement. However, the limited power of local government and external and internal troubles of the central government led to the downfall of self-governance under the storm of revolution. After the establishment of the Republic of China (ROC), the government attempted to preserve and develop self-governance. The local autonomy movement was popular at that time (Hu, 2001). Sun Zhongshan (Sun Yat-sen) supported local autonomy in the beginning, but he later found that the local autonomy movement was actually trying to strengthen provincial warlords and weaken the central government. Thus he turned against local autonomy and strived for unity (Cao, 2003). That directly led to the abandonment of the local autonomy movement. Even on the eve of the establishment of the PRC, the founders discussed whether to establish a federal system, but the final resolution decided on regulating central-local relationships with democratic centralism (Yu, 2002). The only institution which still has autonomy is the regional ethnic autonomy in minority areas.

The CPC took state structure into consideration in the very early stages. In the second national representative conference in 1922, the CPC made a proposal of a future state structure which asserted that Mongolia, Xinjiang and Tibet would have ethnic autonomy and federalism would be the choice to combine the central and the local, these ethnic parts and the rest of China (Lin, 1998). The main reason the early CPC considered federalism seriously is that, firstly, the existing example of the Soviet

Union showed that federalism is possible for a socialist country. Another important reason is that many initial members of the CPC had taken part in the local autonomy movement and saw local autonomy as an effective way to end incessant fighting between warlords and gain independence and unity. However, after 1937, the CPC realized that the multi-ethnic situation in China was different from that seen in the Soviet Union, and federalism based on ethnic autonomy could be easily used by enemy forces to annex parts of China (for example, the Japanese established “Manchukuo” in northeast China to use as a base to invade the whole of China). Therefore, the CPC abandoned this idea and advocated a unitary system with regional ethnic autonomy (Yang, 2003).

Like many emperors in history, leaders of the PRC were vigilant towards the emergence of localism. Localist activities actually appeared in Guangdong province in 1952 and 1953. The localists in Guangdong refused to implement land reform in the manner that the provinces in north China had. Firstly, Guangdong could achieve reform without needing to “mobilize the masses”. Secondly, localists felt that co-operative agriculture production would reduce the farmers’ enthusiasm (Wang, 1958). Localists in Guangdong also valued officials from the local over those from the centre. As Tao Zhu reported in the first session of the Party Congress in Guangdong, the most basic aim of the localists in Guangdong was to oppose leaders and officials from other parts of China. In other words, they sought exclusivity and to oppose the central government (Tao, 1957). In response, the central committee of the CPC started the Anti-Localism Movement in 1957. In 1959, the central government began to centralize and take back power from local government. During the central conference held on 27 January 1962 (also known as the “Seven Thousand People Conference”), Liu Shaoqi, the chairman of the PRC, reported that it was inappropriate to establish many complete industrial systems within the whole country. He noted that there was excessive decentralization and the tendency for dispersion had grown (Chen, 2008). From 1962 to 1965, there was a debate on whether trade flow should be organized based on the division of the administrative district or based on economic efficiency. Local governments advocated organizing trade flow based on district division (ibid.), but on 23 March 1963, People’s Daily, the official

newspaper of the central government, published an editorial which called such practice (that is, organizing trade flow based on district) a kind of “local protectionism” (Xie and He, 2010).

It is apparent that in this period before the reform and opening up of China, localism actually reflected local governments’ requirements for local autonomy based on local conditions. It is completely different from both the local separatism in the history of China and national localism in the West. However, the central government was distrustful of it and eliminated localism by highly centralizing the powers. The central government curbed localism with political movements. The CPC’s organizational discipline and media propaganda were also used to warn and guide local governments not to confront the central government on this issue.

2.2.2 New changes and features during the reform and opening-up period

After the reform and opening up of China, the central government decentralized a series of economic and administrative powers to the local government, which enhanced local management functions on economic and social resources, in order to stimulate the economy and recover from the chaos brought about by the Cultural Revolution.

Previous to the reform and opening up of China, decentralization did not involve enterprises. This is because enterprises in China used to be the appendages of the public administration, and lacked self-development abilities. However, decentralization had not only readjusted the relations between central and local governments but also the relations between government and enterprises. From the perspective of the central-local relationship, local governments were given more autonomy on economic and administrative affairs. Such an arrangement was a result of the mobilization of local government and easing the financial burden on the central government. From 1980, the central government implemented a new “financial contract system”; the financial system was divided into a central system and local system (Li, 1994). In 1985, the financial contract system was improved, and the roles

of the central and local governments became clearer with regard to economic activities and fiscal distribution (ibid.). Local government was also given several economic management rights such as capital construction plan approval rights, price management rights, foreign investment approval rights and foreign trade management rights. Plenty of enterprises that used to be under the jurisdiction of central ministries were delegated to local governments (Zhang, 2000). In addition, special economic zones, economic and technological development zones and central cities were granted a certain number of economic privileges by the central government (ibid.).

Throughout the 1980s, China's policy adjustment was not only a process of administrative decentralization, but also a change in economic management. Local governments obtained more space and concessions to develop the local economy, which promoted the national wealth. However, it also led to an irrational expansion of the interests of local governments, which in turn weakened the central government's macro-control on the economy. Therefore, a new macro-management system in which tax sharing played a key role was established in order to overcome the negative consequences. From 1994, the central government began to implement a new tax-sharing system. The main features of this system include dividing governmental income at each level based on taxation, determining the expenditure standard based on the level of government and establishing an initial redistribution system (Zhang, 2000). Since then, taxes in China have been divided into three categories: central tax, local tax and share tax. At the beginning of 1994, a comprehensive reform which involved financial, investment, planning and foreign exchange commenced, which aimed to build a new framework for macro-management via decentralization and institutionalization.

In the process of social transformation, as part of China's reform and opening up, central-local relationships gained several new features, especially under the promotion of the establishment of a socialist market economy system. The relations now moved beyond a simple cycle and gradually entered a new phase of interaction.

2.2.2.1 Stepping out of the zero-sum game interaction

Under the highly centralized party-ruled system before China's reform and opening up, the relationship between the central and local governments was a negative game relationship. In terms of the division of power and interaction between central and local governments, the central government took the position of absolute initiative and the local government was extremely negative (Shen, 2001). In addition, since power centralization and decentralization were implemented based on an administrative subjection relationship, the power transfer between the central and the local governments was a zero-sum game; the power concentration of the central government meant power loss for local government and the more power local government obtained meant more power the central government had lost (Shen, 2001). Such an obvious phenomenon increased the game awareness of both the central and local governments. Therefore, if local government was granted power by the central government, based on the expectation of power retaking, local government would likely overuse the power, which may result in local dispersion and disorder (in the view of central government). Meanwhile, based on the expectation of local dispersion and disorder, if the power held by local government declined, the central government would rush in to retake the power. This resulted in frequent power adjustments (Shen, 2001). This centralization and decentralization seemed dependent on the will of the central government, but in fact it was a result of the interaction and interest requirements of local government (ibid.). Although both the central and local governments wanted to achieve a balanced situation, under the influence of zero-sum game awareness, such an idea remained just an idea. The result, like Deng Xiaoping said, was that "concentration is not enough and dispersion is also not enough" (Li, 1994, p. 199).

However, the economic reform which separated enterprises from government and the political reform which separated the Party and government provided an opportunity to change the zero-sum game situation. Enterprises obtained some economic management power not only from the central government but also from local governments. Such a power transfer did not lead to a power shift between the central

and the local governments. Since the Party separated from the government, local Party committees have played a positive role in encouraging and helping local governments to implement policies so that local governments can effectively implement central policies and also draw the central government's attention to local interests and demands, which could be fully realized within the purview of local governments (Lin, 1998). Moreover, the tax-sharing system implemented in 1994 makes a clear institutional division on power, rights and finances between the central and the local governments, offering institutional protection for central and local interests. Lin (1998) argues that these changes have caused central-local relations to enter a new stage of benign interaction.

2.2.2.2 Bilateral growth of central and local authority

After the establishment of the PRC, China gradually established a highly centralized planned economy system. The relationship between the central and local governments was also highly centralized. This centralization was necessary in order for such a huge country like China to be managed. However, local governments also required autonomy. In order to deal with the contradiction between centralization and local autonomy, there were several major adjustments which could be seen as decentralization and the regaining of power. After the reform and opening up, society and markets were introduced into the system. Power was no longer only transferred within the government system, it was also transferred among the Party, society and enterprises (Zhang, 2000a). Before this, there was no difference between Party and government and no difference between government and enterprise; the Party was the only dominant leader in China (Shen, 2001). Due to the lack of a buffer zone like enterprises or the society for power configuration, power transfer between governments easily caused conflicts and simple shifts of authority between the central and local governments (i.e. one fell as another rose). Under certain conditions, once there had been an extreme centralization of power, local government would seriously lack motivation for economic and social development. The central government thus started the decentralization within the government system. Since

there was no buffer provided by enterprises and society, the decentralization process was often too rapid. This resulted in the fall of the authority of the central government accompanied with a resurgence of local dispersion. This in turn directly led to the retraction of power and a new process of centralization. These processes had formed a strange cycle: centralization, low local motivation, decentralization, local dispersion and back to centralization (Shen, 2001).

Due to the economic and political reforms, the central-local relationship gradually entered a new stage. Since the relations between Party, government, enterprise and society were gradually clarified, power was not only transferred within the government system, but enterprises and society could also act as the buffer zone and receivers of power. Furthermore, the implementation of a tax-sharing system had formed a power division process with enterprises and society for both the central and local governments (Wang, 1988). Thus, a power transfer between the central and local governments was no longer a simple shift where one falls as the other rises. The central government decentralized the power and duty to local government, expanded local power and motivated local governments, and local governments were building more authority on local the important economic and social management powers and the revenue sources. Sharing tax revenue with local governments in turn helped to enhance the overall regulatory capacity and authority of the central government (Zhang, 2000). Therefore, central authority and local authority was able to grow bilaterally rather than simply shift from one body to another.

2.2.3 Problems within the central-local relationship

The central government had strengthened its power via establishing a tax-sharing system and appointment rights. For example, in the 1980s, the fiscal extractive capacity of the central government kept declining until it stumbled in the early 1990s (Wang and Hu, 1993). However, after the significant adjustments of the tax system in 1994, the government's fiscal revenue – defined here as the sum of budgetary revenue, extra-budgetary revenue and income of the social security fund – sharply

increased from less than 800 billion yuan to nearly 37,000 billion (Tsui and Wang, 2004). The central government could also control the local government to some extent and ensure the implementation of central policy. However, such processes were a kind of longitudinal extension of state power, and such an extension does not completely explain the centrally regulated relationship and power structure between the central and local. In fact, it is the unreasonable allocation of governmental power and the GDP-centred evaluation standards which make the local governments prefer to engage in the pursuit of self-interest, which may lead to regional economic barriers and is harmful to the national economy. Meanwhile, local governments lack the capacity to offer public goods and services, which is a responsibility of this level of government (Huang, 2010).

Despite the tax reforms in 1994, there are still many problems with a rational division of tax. After the reform, those taxes which had a stable source and a potential to increase were determined as central tax or central-local shared revenues. For example, 75% of the local industrial value-added tax was turned over to the central government, while 25% was left to the local governments. Business tax of railways, banks and insurance companies owned by the central government, which are left for the local government, are almost all sources of unstable income with dispersed sources and difficulties in collection and management (Huang, 2010). However, compared with the bottom-up process in fiscal power adjustment, there is an obvious top-down process in government power distribution. Moreover, lower-level government has less flexibility and more rigidity in their administrative power. For example, several centrally formulated policies such as preferential policies for laid-off workers, low-rent housing, preferential policies to support technological innovation and compulsory education are mainly funded by business tax, personal income tax, income tax and other main resources of local finance. Such an arrangement has resulted in more and more work for local government with fewer and fewer financial resources to show for the time expended. We are able to observe the change of proportion of local governments' fiscal revenue accounted for in the national fiscal revenue and the expenditure proportion from Table 1 (Huang, 2010). This is an

important manifestation of the irrational distribution of fiscal rights and administrative powers between central government and local governments.

Table 1: Proportion of local fiscal revenue and fiscal expenditure from 2000–2007.

Year	Local fiscal revenue as percentage of national fiscal revenue (%)	Local fiscal expenditure as percentage of national fiscal expenditure (%)
2000	47.80	65.30
2001	47.60	69.50
2002	45.40	69.29
2003	45.36	69.90
2004	45.06	72.29
2005	47.71	74.14
2006	47.22	75.28
2007	45.90	77.00

Source: Huang (2010), converted by author.

The fiscal responsibility of the government to provide public goods was excessively decentralized, so that fiscal self-sufficiency of local government declined and leads to local fiscal deficit. Meanwhile, the redistribution system was not improved to adequately solve such local deficits. Local governments now have to turn their attention to increasing local economic and fiscal revenue. In the process of pursuing income, local governments fall back on some of the “unsuitable” behaviours, such as government intervention in the normal operation of the market, market segmentation, local protectionism, self-aggrandisement, “grey power” and pursuit of income sources outside the tax system (Ping, 2007). In addition, the tax-sharing system only regulates the revenue within the budget and thus those extra-budgetary funds lack strict oversight. Therefore, local governments attempt to seek extra-budgetary revenue. The most typical manifestation of this is the “land finance” of local government. Since 1994, the land premium (income through selling land) belongs to

the local government and is not handed over to the central government. Since then, the land transfer income has become a major source of extra-budgetary revenue for local governments, who rely on land sales finance (Ping, 2007). The government gets land through land acquisition at a low price from farmers, and then resells it at a higher price to meet various expenses. In developed areas, there is a huge amount of land premium, which has become the most important source of extra-budgetary revenue for local governments. In 2004, the local government land sales revenue reached 615 billion yuan and local governments gained 1,612.6 square kilometres of land, including land in the provinces of Guangdong, Shandong, Jiangsu in east China and Hunan in central China (Ping, 2007). The land expropriated by these four provinces was equivalent to half of the national land acquisition acreage in that year. In the same year, the provincial revenue obtained through land sale in Jiangsu, Zhejiang and Hunan reached 325.8 billion yuan, which was close to half of national land sale revenue (Ping, 2007). This type of land finance harms the interests of the farmers whose land is requisitioned and results in potential social instability. According to 2005 data from the National Bureau of Rural Economic Surveys, provided by the Rural Development Institute of the Chinese Academy of Social Sciences and the Team for the Development of the Rural Economy, from the perspective of distribution of benefits of land acquisition, local governments accounted for 20–30%, enterprises accounted for 40–50% and farmers accounted for 5–10% of these benefits (Ping, 2007). From 1952 to 2002, Chinese farmers have given up their rights to 26 trillion yuan worth of land (calculated with an interest rate of 3%) (Dang, 2005). Moreover, the local governments tend to sell as much land as possible to obtain benefits and real estate-related taxes. With internal driving forces pushing up land premium prices and real estate prices, local governments have both directly and indirectly accelerated the rise in real estate prices, resulting in a serious blow to the future spending power of residents. However, such a large amount of land sales revenue has not been used to provide public goods such as education, health care and social security. It has been used for administrative overhead, highway repair and urban infrastructure construction. In 2004, extra-budgetary fiscal revenue of local governments reached 469.918 billion yuan, with 313.38 billion yuan directly

spent on “administrative expenses” (Ping, 2007). Among the administrative expenses of the local government, 58.9% is spent “off budget” (ibid.). The central government has introduced a number of policies to local governments trying to control this land finance phenomenon in recent years. However, facing such a huge economic interest and the evaluation system based on GDP, local governments selectively or completely ignored the policies introduced by the central government. Such a situation reduces the effects of the national regulatory policies.

On the other hand, most local government officials are concerned about their own interests in political promotion. The main indicator of the recent performance evaluation system is the economic performance of and urban construction in provinces and cities. This performance evaluation system is conducive to local GDP growth and economic development. However, it is also an evaluation system that makes local government officials consider what they can get from provision of public goods, so that local officials have different preferences for the provision of different public goods. Some public goods are supplied excessively, while others are insufficiently supplied. Local government officials often prefer to provide public goods with high economic returns in order to pursue personal achievements and promotions. They often choose projects which have a high degree of observability and can be objectively evaluated. For example, they tend to invest in establishing development zones, building highways and bridges and constructing “image projects”, while other public goods like environmental protection, education, healthcare and social security are more neglected. Although the central government has focused more on these areas and balanced development in recent years, there are insurmountable contradictions between the central government's macro-control goals and local governments' evaluations. Such a situation shows that the central government is in some respects powerless when facing local government interference.

This chapter has provided a brief summary of the political system in China, together with an overview of central-local relations in China. It has reviewed the government and Party system, which is the main arena for the interaction of the central and local

governments. The central-local relationship has also been reviewed historically, which helps to provide an understanding of the features of the central-local relationship in China. These two sections have offered a background of the context against which I will discuss the research questions more deeply. With this contextual understanding, the next chapter offers an in-depth discussion of the theoretical foundation and analytical framework chosen to examine the central-local relationship and its impact on social policy.

Chapter 3: Literature review

As demonstrated in previous chapters, the central-local relationship in China has a long history and has experienced several rounds of change. Divergence of relation-type between the central and different local governments has also been illustrated, as well as policy outcomes that were influenced by the central-local relationship. How seriously does this institutional setting affect social policy, or to dig somewhat deeper, what role does this relationship play in our impression of the divergence of social policy across different countries and regions? It is argued that a rigorous understanding of the central-local relationship and its impact on social policy reasonably requires a combination of Chinese circumstance and ideas drawn from Western public policy theory. This chapter will review relevant Western literature that could provide theoretical background and foundation for this research, and literature that could help identify the central-local relationship and explore how central-local relations affect social policy.

Section 3.1: Theoretical context

The two key terms in this research are the central-local relationship and the policy process. It is reasonable to start with theory that involves the policy process and the central-local relationship, or on a broader level, political institutional settings. There are various theories studying policy process, for example: Multiple Streams Analysis, Policy Feedback Theory, Narrative Policy Framework and Advocacy Coalition Development Framework. However, these theories mainly focus on different aspects of the policy process. From the perspectives of theoretical scope, Multiple Streams Analysis emphasizes “exploring how government makes policies under conditions of ambiguity” (Cairney and Heikkila, 2014, p. 368; Kingdon, 1984). Policy Feedback Theory pays attention to the policy formulation stage and focuses on how policy

shapes politics and subsequent policy making (Mettler and SoRelle, 2014). The Narrative Policy Framework and Advocacy Coalition Development Framework study policy formulation and policy change; while Narrative Policy Framework discusses how narratives influence public opinion and how they reflect policy beliefs, the Advocacy Coalition Development Framework draws attention to how coalitions are formed and learned (Cairney and Heikkila, 2014; Weible, 2014). However, these theories rarely put a premium on studying institutional settings, so they do not constitute an appropriate theoretical background for this research. Policy network theory and historical institutionalism, which incorporate institutional settings and the policy process, could be a better choice. The following sections will review these two theories.

3.1.1 Policy network theory

3.1.1.1 The rise of the policy network concept

Social problems, economic problems and environment problems have grown increasingly along with the globalization and information era. Modern states are much more difficult to control when dealing with expanding political and economic issues, than when solely relying on the bureaucratic system. On the other hand, policy making and implementation involves more and more organizations, different level of governments, public institutions, social groups and private sectors. The concept of the “policy network” was introduced into policy process analysis in the mid-1970s to early 1980s (Klijn, 1996), formed from the theoretical base of inter-organizational relations research, the iron triangle model of policy formulation and research on subsystems and policy communities (Klijn, 1996). Over the past two or three decades, public policy researchers from the United States, United Kingdom and Europe have made extensive use of the policy network concept for policy analysis, with different analytical priorities and results. In 1978, American scholar Hugh Hecló pointed out that the iron triangle formed by Congress, governmental bureaucracy and interest groups can no longer obtain a stable structure for policy formulation (Hecló, 1978;

Marsh and Rhodes, 1992). By studying the policy process of federal government in the US, Hecló stated that the Congress, bureaucracy, lobbyists, businessmen, experts and social media have formed an “issue network” that surrounds specific policy formulation, and each actor influences the policy process in their own way (Marsh and Rhodes, 1992). However, Hecló’s research focused on the informal operation between interest groups and stakeholders within Congress and the executive branches, emphasizing the personal relationships among the key actors rather than the structure relation within the network or among different organizations (Marsh, 1998). British scholar R.A.W. Rhodes, who may have been inspired by inter-organizational relation theory, took a different research approach. Rhodes drew attention to inter-governmental relations and emphasized the structure formed surrounding resource dependence (Rhodes, 1997). He developed the “Rhodes Model” based on resource dependence. Afterwards, more and more scholars correct or improved policy network theory and models. Policy network analysis gradually replaced pluralism and corporatism with the complex situation of social change. The rise of policy network research has been considered as a main contribution to politics and public policy research, as well as an important result of scholars’ attempts to re-conceptualize the policy process over the past two or three decades (Kenis and Schneider, 1991)

3.1.1.2 The policy network analysis paradigm

Due to different political systems and academic traditions, policy network analysis has different paradigms in different countries. Policy network analysis can be divided into three different paradigms: the so-called US paradigm, the British paradigm and the German-Dutch paradigm.

The US micro-level analysis paradigm

Scholars in the US defined policy networks based on the concept of sub-government according to their political research focuses such as pluralism and interest group theory. As Jordan (1990) pointed out, the concept of policy networks originated in the 1950s and 1960s, when American political scientists emphasized the regular contact between interest groups, bureaucracies and individuals within the government which provided the foundation of sub-government. A large amount of American literature focused on the micro-level, dealing with the personal relationship among the main actors rather than the structural relationship between institutions. At first, the focus was on the existence of sub-governments and was seen as a limitation of democratic politics (Marsh, 1998). For example, McConnell (1969) pointed out that the privileged few are closely associated with the government; they not only express their “private” interests but also “hijack” government agencies and lead to a well-known phenomenon of "agent capture", which exclude other interests when formulating policies. Heclo (1978) and McFarland (1987) criticized the sub-government model and emphasized the importance of issue networks, which were defined as the communication network formed by those who are interested in specific policy field, including government authorities, legislators, businessmen, lobbyists and even scholars and journalists. However, analysis on issue networks or policy networks in the US drew attention to personal relationships between actors, and was more likely to be a micro-level analysis.

British meso-level analysis paradigm

The United Kingdom is a parliamentary country with no obvious “tripartite” political system. The legislative branch plays a less important role than the US legislature in the policy process. The main players in the UK policy networks usually include government officials and policy stakeholders. Policy network analysis in the UK mainly emphasizes the continuity of the relations between interest groups and government departments, and the analysis is usually located on the meso-level.

The main representative of policy network research in the UK is R.A.W. Rhodes, who combined and applied the European literature on intergovernmental relations, and emphasized the structural relationship between political institutions on the micro-level and meso-level rather than the personal relationships between actors on sub-governmental level (Rhodes, 2008). Rhodes accepted Benson's (1982) definition and defined policy networks as a set of institutional linkages between the government and other actors who have interests in public policy making and implementation (Rhodes, 1997). These actors are independent but dependant on other actors (organizations) for resources (ibid). Rhodes took a government-centred approach to analyze the policy process and focused on intergovernmental action; policy networks were demonstrated to be interactive network where players are dependent on or exchange constitutional – legal, organizational, financial, political, or informational – resources with other players (Rhodes, 1997; Rhodes, 2008). From the high-level integrated policy community to low-level integrated issue networks, Rhodes categorised policy networks into five types according to the number of participants, the stability of membership, restrictions, the degree of integration and resource allocation; these five types were policy community, professionalized networks, inter-governmental networks, producer networks and issue networks (Marsh and Rhodes, 1992). Thus, a policy network is more likely to be a meso-level concept that links with the micro level of analysis and deals with the role of interests and government in particular policy decisions.

The German-Dutch macro-level paradigm

In the 1970s and 1980s, profound changes were taking place in European society. Private organizations developed rapidly while the role of government was weakened. There was an increasingly blurred distinction between the state and civil society, and consequently a new governance model was required to deal with this drastic change (Mayntz, 1993). The policy network concept was selected by scholars and became a macro-level analysis. German and Dutch scholars focused on the relationship between the state and civil society, and treated policy networks as a new governance

model that differed from bureaucracy and the market (Mayntz, 1993; Kickert et al., 1997a; Schneider, 1991). The German Max Planck School argued that modern society is increasingly complex, dynamic and diverse, that governments are unable to achieve governance alone and must rely on resources and collaboration from other social subjects outside their hierarchical control (Kenis and Schneider, 1991). They maintained that states and social organizations interact and form interdependent policy networks, which have been seen as a third form of social structure and a new model of state governance that is aligned with markets and bureaucratic organizations (Kenis and Schneider, 1991). Dutch scholars put the policy network together with the national government as the two pillars of governance, and pointed out that the key to effective governance lies in effective network management (Kickert et al., 1997a). They argued that it is impossible for the government to play the role of omnipotent in the context of various governmental and social organizations participating in the network of the decision-making process, therefore policy consultation, cooperation, coordination and consensus-building among different policy players is inevitable and is usually promoted by policy networks (ibid.). However, the government still plays a key and indispensable role, with a major responsibility for coordination in complex and diversified policy networks, particularly in the management of policy networks. The policy network is regarded as a governance model on the macro-level, and such an institutional relationship between the state and civil society could potentially find solutions to government failure and market failure (Mayntz, 1993).

3.1.1.3 Limitations

Policy network theory was initially developed in the 1970s, mainly for the analysis of intergovernmental relations. In the 1980s, it was mainly used for comparative policy analysis, and developed into an analysis framework to explain how multiple policy stakeholders interact with each other in the policy process. After the 1990s, the policy network was mainly regarded as a new governance model which makes up for the weaknesses of pluralism and corporatism as a tool of policy process analysis, and

provides a possible solution to government failure and market failure (Lin, 2002). Moreover, Marsh and Rhodes (1992) continually explore the central-local government relations in the UK through policy network analysis. In their book *The Policy Network in British Government*, they provide a more complete description of the classification and the structure of the policy network. It is believed that the policy network as an analytical method can help to understand the complexity of modern society, and the political processes between diverse actors such as central and local governments.

Since the central-local relationship and the policy process are the main research focus of this thesis, the policy network has potential to be a good reference or theoretical foundation to help understand what the central-local relationship is in China and how it shapes social policy. However, policy network theory does have methodological and operational limitations that make it less relevant to this research. Firstly, it is difficult to clearly define the boundaries of the network. In the process of public policy formation, it is impossible to grasp the beginning and the end of the network (Qiu, 2000). It focuses on describing the change of the network relationship rather than practically explaining the meaning of the change, and is more likely to provide a static description of how actors link with each other rather than a description of the structural factors that restrict or shape such a network (Dowding, 1995). From this perspective, it is clear that the policy network theory (partly) ignores the role of state and institutions which have a significant influence on policy formation. Policy network theory might offer some support in analyzing the linkage and interaction between the central and local governments within the policy process, but as for the research purpose of exploring the nature and features of institutions such as the central-local relationship beyond the specific policy process, policy network theory perhaps has a “natural” limitation as it ignores the role of state and institutions.

Secondly, policy network theory ignores the operation of the public authority of government agencies. Although Rhodes (1997) uses a Power Dependence Model to explain the interaction between network members such as the central government and local governments, this relationship is seen through negotiations and bargaining on

material interests; the “one-side coercion power” of government has not been taken into account. Chinese government has long been famous for its strong executive (coercion) power. Policy network theory that emphasizes only negotiation relations between central and local governments could miss important content when analyzing the interaction of central and local government in the policy process. This has limited the analytical capacity of policy network theory in the case of China. Moreover, in Western literature and political operations, there are several independent players or social actors outside government within the policy network. However, in China most of the players involved in the policy process are associated with or even subordinate to government. There are very few social actors that are independent from government. In other words, policy networks as defined by the Western definition are weak, or even struggle to survive in China. Therefore, although policy network theory has some advantages in analyzing the interaction between central and local governments within the policy process, it is probably not the appropriate literature to provide a theoretical foundation for this research, which focuses on institutions and the case of China.

3.1.2 Historical institutionalism

While policy network theory begins with the policy process and players within it, historical institutionalism has an “entry point” of institutions and employs institution-centred analysis. Historical institutionalism could offer a theoretical background and analytical approach for this research not only because it provides a comprehensive understanding of the central-local relationship as a kind of institution, but it also emphasizes how institutions shape the policy process and how policies produce feedback into institutions. Therefore, historical institutionalism may be more appropriate to grasp the nature and features of the central-local relationship in China by studying its long history.

3.1.2.1 Origins of the “new institutionalism”

Institutions have been at the centre of political research for a very long time (Peters, 1999). In ancient Greece Plato compared types of political institutions, and Aristotle emphasized governmental institutions in his famous book *Politics*. They both believed that institutions shaped political motivation and regulation, and influenced political actions and outcomes. In the “old institutionalism” era prior to the 1950s, institutional studies, which included comparing constitutions, governmental structures and legal systems, provided nearly all the content of political research (Lowndes, 2002). Social science researchers put the “state” at the centre of their research during this period, and most of the research is static comparisons and typological studies (Peters, 1999).

After the rise of behaviorism in late 1950s, old institutionalism received extensive criticism from the supporters of behavioralism, who tried to abolish the formalism of any political research that included institutions, organization charts and the “myth” of constitutions (Goodin and Klingemann, 1996). Old institutionalism research was criticized as too static and unable to cover all the relevant variables, and was unable to provide explanations of actual political operations and decision-making processes (Easton, 1971). Meanwhile, the hyperfactualism which occurred in historical description within old institutionalism research was also criticized as the main reason leading to theoretical malnutrition (ibid.). Behaviorists imitate natural science and the proclaimed that research should be based on the principle of positivism, which examines political phenomena and individual behaviour through the process of hypothesis, quantitative testing or experiments, establishing general rules and then developing the general theory (Isaak, 1985). The old institutionalism was regarded as strongly prejudiced and lacking in scientific objectivity by the supporters of behaviorism (Peters, 1999). Discussion about the “state” or “institutions” rarely appeared and individual behaviour was the central focus of social science until the 1980s. Social science restricted itself to factors that could be measured, counted and analyzed such as social attitudes or votes (Steinmo, 2008).

However, behaviorism also has its limitations. There are certain differences between natural science and social science. It is questionable to discuss social issues and develop theories based solely on the logic and approach of natural science. Focusing too much on atheoretical micro-analysis of political behaviour and rejecting institutional analysis out of social science could largely restrict the research scale of social science and creativity of researchers (Sanders, 2002). Moreover, the interests and motivation of individuals are actually greatly shaped by social structure and culture such as social norms, ideology and rules (Ward, 2002). On the one hand, behaviorists over-estimate individual behaviour and its effect on social factors; on the other hand they neglect the function and autonomy of the state and institutions, which can be a prejudiced assumption that is divorced from social reality (March and Olsen, 1984). When many countries were caught in the oil crisis in the 1970s, researchers noticed that the different economic-political institutions in different countries lead to different policy outcomes (for example, Katzenstein's (1977) *Between Power and Plenty*). "Institutions" and the "state" gradually came back on the radar of researchers. Krasner (1984) was the first scholar to re-focus on the state, and his research on state autonomy put institutional analysis back squarely as a main topic of social science.

March and Olsen (1984) took up the opportunity and proposed the "new institutionalism." It played a crucial role in analyzing the social change processes in East Asia and Latin America in the 1980s, and constitution, state structure, election systems and party systems had become the core of social science research (Linz and Valenzuela, 1994; Lijphart, 1984; Shugart and Carey, 1992; Lijphart and Waisman, 1996). The new institutionalism put institutions at the centre of social research and compared real-world cases rather than variables (Steinmo, 2008). However, scholars inherited research assumptions and approaches from economics, political science and sociology, and developed diverse schools and research approaches. According to Hall and Taylor (1996), there are three major schools of new institutionalism: rational choice institutionalism which mainly takes the calculus approach; sociological institutionalism which mainly take the cultural approach; and historical institutionalism in the middle. Historical institutionalism formally became a research approach in 1990 when Steinmo, Thelen and Longstreth published their book

Structuring Politics: Historical Institutionalism in Comparative Analysis. In the book, they emphasized the research on dynamism and change of institutions (Steinmo et al., 1990). In fact, the focus on institutional change was highly affected by the global political situation. Some old countries disappeared and some new countries or even supranational regimes appeared from 1980s to 1990s. All these major changes constrained social researchers to pay more attention to institutional change and research on the “state” (Migdal, 1997).

3.1.2.2 The three schools of the new institutionalism

There are at least three main types of “new” institutional analysis, namely rational choice, sociological institutionalism and historical institutionalism (Steinmo, 2008). Rational choice institutionalism was largely influenced by social choice theory, particularly new developments such as “the paradoxes of voting” and “path dependency” (Lane and Ersson, 2005). Institutions, sometimes as game rules, play an important role in shaping policy outcomes (ibid.). It believed that institutions could produce stable and positive effects, the so-called equilibria, or as Shepsle stated “structure-induced equilibrium” (Shepsle, 1989). Institutional economics also contributed to rational choice institutionalism from perspectives such as positivism and deductive approaches to help analyze institutional choice and development (Shepsle, 1989). Under rational choice institutionalism, individuals are assumed to be rational and calculate cost and benefits in every single case (Shepsle and Weingast, 1987). Institutions act as strategic context that structure individuals’ choices on chasing maximum benefits (Thelen and Steinmo, 1992). However, the dominating factor is still rationality not institutions (Koelble, 1995).

Sociological intuitionism developed from organizational theory and learning theory (Meyer and Rowan, 1977; DiMaggio and Powell, 1983; March and Olsen, 1984; 1989). It emphasizes the influence of cultural factors. Under sociological intuitionism, individuals are not self-interested or rational beings who chase maximum self interest, but “satisficers” who follow a “logic of appropriateness”,

meaning that individuals seek to act appropriately (Steinmo, 2008). Individuals are embedded in many social, economic or political relationships which they cannot control. Institutions act as “culture-specific practices” which determine the meaning of individuals and economic, political or cultural activities in which they are involved (Hall and Taylor, 1996; Meyer, 1987). Institutions not only “tell” individuals what to do but also shape their preferences and identity (Hall and Taylor, 1996). According to sociological institutionalism, institutions are not only formal norms or standard programs, but also “taken-for-granted worldview” and “shared normative notions of appropriateness” (Scharpf, 2000). Such definitions break the boundary between institutions and culture, and even culture itself is sometimes regarded as a type of institution (Hall and Taylor, 1996). Macro inductive approaches and cultural interpretations are employed together with case study research to explore the long-term interaction between individuals and society.

Historical institutionalism seeks to combine the other two institutionalisms and individuals are seen as both norm-abiding rule followers and self-interested rational actors (Steinmo, 2008). Historical institutionalism is also interested in why or what influenced a certain outcome to occur, so the historical record is a crucial source or evidence to help find out (ibid.). On the one hand, the formal or informal arrangements of institutions as autonomous actors could limit or determine the interest of individuals (Krasner, 1984). On the other hand, existing institutions are the production of critical history, therefore history – especially that related to the establishment of institutions – is extremely important evidence that historical institutionalists study.

3.1.2.3 The main aspects of historical institutionalism

Fundamental assumptions

The power struggles among various groups in the political process are the focus of historical institutionalism, with particular attention paid to institutions that shape behaviour and institutions that relate to power distribution. Institutions, according to

Hall and Taylor (1996), are defined as formal or informal programs, norms or rules that are embedded in a political unit regime or economic-political organizations. Institutions also demonstrate a high degree of “stickiness” over time which consequently shows a great level of continuity and an incremental nature of institutional change (Hudson and Lowe, 2004). Therefore, institutions always act as a barrier or a guiding force to policy change, which in turn shapes the policy outcomes or political actions (ibid.).

It is argued that institutions not only define the strategic choice of individual or social actors, but also preferences, goals and rationalities; different actors with different social statuses and different positions within the structure could have neither similar nor fixed preference (Thelen and Steinmo, 1992). Institutions are more likely to provide a structure to actors, however, historical institutionalism does not entirely stand by the structurism. Institutions are stated as a meso-level concept that connect structures on a macro-level and individual behaviour on a micro-level. Individual behaviour, according to Koelble (1995), is not only the dependent variable of institutional structure but is also an independent variable, which means individuals are believed to have rational intention and will calculate interest gains and loss. But individuals are also restricted by the institutional structure and incompleteness of information which results in the “bounded rationality” of individuals, therefore, in the case of unpredictable and determinative outcomes of individual behavior, political outcomes are produced through the interaction between various groups, interests, ideas and institutional structures, and usually appears as an unintended consequence (Koelble, 1995; Hall and Taylor, 1996). Historical institutionalism also tries to avoid considering individuals as “the prisoners of institutions”; in contrast, ideas are also emphasized and are believed to tell individuals what is appropriate and shape their cognition and choice, and eventually may contribute to historical or political changes (Steinmo, 2008). Therefore, historical institutionalism does not stand by structuralism nor intentionalism/voluntarism; it tries to build a “structure-agency” relationship to integrate ideas and individual behaviour with institutions in order to grasp the restrictive and creative factors in social science analysis (Hall and Taylor, 1998).

How institutions shape policies

The complexity of public policy is, to a large extent, restricted by the hierarchical nature of institutional structure. Peter Hall (1992) has analyzed how institutional structures shape policy outcomes from three aspects. Firstly on the macro-level, the basic institutional structure associated with democracy and the capitalist economy forms a macro balance between capitalism and labour, which has an impact on the policy direction (Hall, 1992). Notable here is that the economic institutions led to private ownership of the means of production, which had broad constraints on the policy direction (ibid.). Institutions provide the “rules of the game” and are influential prior to the policy process. At this overarching level, institutions such as election rules restrict the scope of possibilities available to policy makers and block some of the paths of policy development (Hudson and Lowe, 2004).

Secondly, at the meso-level, the institutional features of basic governmental and social organizations also affect the power distribution between these groups and consequently have an impact on relevant policy formulation (Hall, 1992). These features may include the structure of organization such as the degree of centralization within the government system or trade union movement, and the organization of capital (for example the relationship between segments of capital), or other production means such as labour (ibid.). On the one hand, institutions at this level define and distribute interest and power to different social groups; on the other hand, it forms the structure of “veto points” within the state and “in fact set the agenda of what is politically possible” (Hudson and Lowe, 2004, p. 184).

The relationship between the national legislative branch and executive branch could be a good example. The US Constitution sets its national legislative branches and executive branch as clearly separate bodies. Members of both of them are elected independently and cannot occupy seats in the legislative branch and executive branch simultaneously. It can be easily observed when a president’s policy proposal lacks support in both chambers of Congress; it is more difficult for the executive branch to implement a policy by its own will. Unlike this presidential federalism in America, countries such as Germany and Canada have a different model, namely parliamentary

federalism. The parliament is the source of legitimacy for the executive branch, which must hold a relative majority of parliamentary seats (France, 2008). In other words, the loss of a majority in parliament means a loss of the right to govern. Since the executive branch is, to some extent, produced by a majority of seats in the parliament, policy proposals are less susceptible to being blocked. Due to the derivative relationship between the legislative branch and executive branch, more effective continuity and improvements of national policy are achieved (Altenstetter and Busse, 2005)

Electoral rules are also typical examples. For the ruling party, the biggest constraint is the need for re-election. This requires the ruling party to take the interests and demands of the opposition party and interest groups into account during the decision-making process. In the UK, a political party could enjoy a strong single-party government by winning 40% of the vote, thus, the ruling party in UK may have more space to deploy strategies and policy plans which are adversarial to the opposition parties than political parties in Sweden where they have to win 60% of the vote to form a strong single-party government (Hudson and Lowe, 2004). In fact, in the 1980s when Margaret Thatcher came to power, the minor campaign pressure from the Labour Party provided political space for the Thatcher government to embrace a radical reform strategy. Both the UK and Sweden reformed their pension systems in the 20th century. However, the process of their reforms was quite different. The British Conservative government released the Social Security Reform Green Paper in June 1985 and received criticism from all sides. The Labour Party even threatened that if the SERPS system (the previous state pension) was cancelled, they would be seeking to restore it when they came into power (Attanasio and Rohwedder, 2003). However, the Thatcher government held its radical attitude and made only a few minor adjustments of the original Green Paper and the consequent Social Security Act which was enacted in July 1986. From the subsequent implementation of the policy, the achievement was even greater than the Conservative government expected.

However, the reform process in Sweden was quite different. In the 1990s, the economic crisis pushed the reform of the pension system to the political forefront (Attanasio and Rohwedder, 2003). The Social Democratic Party was defeated in the election of 1991 and the non-socialist parties formed a minority coalition government. This coalition government started the reform of the pension system, but due to the minority status of the coalition government, the reforms required external support and needed to be a result of a bargain by all political parties (ibid.). The principles of reform were enacted in 1994 based on the negotiation and compromise of all political parties. Compared with the reform in UK, the reform measures in Sweden were relatively conservative.

Based on the processes above, it is not difficult to notice that the results of the reform under the Thatcher government and Swedish government are quite different. Such divergence demonstrates that institutions such as the election rules really matter in social policy-making and implementation. From the perspective of pension reform in the two countries, the British Conservative government responded to criticisms to a lesser degree, while the Swedish government actively absorbed the opponent. The Thatcher government was able to take a tough attitude to promote reform and practically ignored the voice of the opposition because the Conservative Party had an absolute majority at that time. The pressure for re-election was not as strong as in Sweden, which provides a great deal of legislative freedom for the ruling government. From 1979 to 1992, the Conservative Party won an absolute majority of seats in the parliamentary elections in the UK, which meant that the government's policies could be easily passed in Parliament, therefore, more flexibility and space were available to formulate and implement policy, with little regard for the opposition party. In the pension reform example mentioned above, the ruling coalition government in Sweden came into power in 1991. Due to its minority position in Parliament, its policies and proposals were subject to the constraints of the Social Democratic Party. The coalition government inevitably adopted an attitude of mutual cooperation in the bargaining process in order to ensure that the motion was smoothly accepted by Parliament (Reynaud and International Labor Office, 2000). In addition, the pressure of the re-election campaign forced them to give full consideration to the demands of

interest groups. It is also not easy to boldly reconfigure the existing system, as it would completely undermine the gains of the vested interest group.

Finally, at the micro-level, institutions such as standardized operational procedures, rules and routine procedures in public agencies and organizations, can be seen as institutional factors that have an impact on policy outcomes (Hall, 1992). These institutional factors are more uncertain than those in the two dimensions above, because regulations are more likely to change than regimes. However, such routines and regulations are by no means fleeting, enabling certain social groups to gain the initiative or practical advantage of winning over other social groups, ultimately benefiting from the distribution of power and the direction of policy (ibid.).

Focusing on institutional analysis in the historical process, historical institutionalists pay more attention to how institutional change drives the process of policy change and its causation. For example, Immergut (1992) pointed out how important the institutional structure and change are upon policies. Her analysis showed that a country's electoral rules and constitutional framework provide institutional "rules of the game", which in turn constrain future political struggles. She gave a strong example of how France, Switzerland and Sweden have shaped vastly different systems of national healthcare, with different institutional structures providing different "veto points" when the three countries were attempting to reform healthcare budgets and implementation. She argued that such institutions "established strategic context for the actions of these political actors that changed the outcome of specific policy conflicts" (Immergut, 1992, p. 83).

However, Immergut made a clear distinction between "political actors and their strategies" and the "institutional structure in which they operate". As she has pointed out, institutions are often created and transformed in the struggle for political power (Immergut, 1992). According to Immergut, the long-term impact of institutional changes on specific policies is unpredictable, or at least very uncertain. Indeed, as shown in her case of Sweden, constitutional reform which intended to preserve the interests of the Conservative Party actually produced isolated effects at the turn of the century and contributed to the establishment of the Social-Democratic Government;

in the healthcare sector, it decreased the number of veto points available to the medical interest groups in the National Health Insurance reform (Immergut, 1992).

In summary from the perspective of historical institutionalists, actors always compete for the institutions and results of policies; the reason why there are such game or conflict around institutions and their policy output is that broad policy path will follow the results of institutional selection.

3.1.2.4 The historical approach

Context and temporal sequence

Historical institutionalism is both historical and institutional (Pierson, 1996). On the one hand, political development must be understood as a process of development over time; on the other hand, historical institutionalism emphasizes that the main political significance in the process of time is embedded in institutions (Pierson, 1996). The context has a significant influence on the political system, the power structure and the political outcome in each country; the same events can have different effects in different countries, mainly depending on the timing and sequences of event (Pierson, 2000). According to Pierson and Skocpol (2002), context may include types of regime, historical era, region and culture. Historical institutionalists believe that institutions are not only the product of historical processes but also a great force to promote the development of history towards a specific path. Therefore, they advocate tracing the formation of an institution in the temporal sequence in which historical events took place. In practice, as Steinmo (2008) explains, the temporal sequence should first be elaborated to explain the causes of transition, as well as the degree of historical change; secondly, political actors learn from historical experience, their behaviour, attitudes and strategic choices are born within the specific socio-economic and cultural context of the history; lastly the expectations of the actors are also shaped by history, therefore, researchers should follow the timeline to trace the development of specific events in order to explain how the previous event

changed the subsequent events, then work out the interpretation through models of temporal sequence and institutional analysis.

Such a history tracing and analytical method, according to Pierson and Skocpol (2002), could have the following effect: firstly, it extends the horizons of time and the scope of social processes, and may produce more information and data to help find variables which are significant; secondly, examining the historical order of social events help to explain the causal relationship between variables. Scholars are not only able to explain the causal relationship between variables, but also explain the specific time relationship between the variables. It helps to obtain a more profound understanding of major events, and propose a more powerful cause and effect judgment. Lastly, on the basis of historical data, the time horizon and the timeliness of the explanation in the argument of cause and effect could be improved; if the analyst neglects the historical background or studies it in a narrow time horizon, the timeliness of the interpretation will be severely limited (Pierson and Skocpol, 2002).

Path dependence and critical juncture

As historical context directly affects the occurrence of specific political events, the time of occurrence and order of events is essential. With the same starting point conditions, different contexts may result in different outcomes due to the different time of occurrence and the order of the small or occasional events in the relevant history; once political choices are introduced, the follow-up development path is almost impossible to reverse, not only limiting the future paths and the possible direction of political choice, but also the subsequent stages of a series of events may result (Pierson, 2000). This is path dependence, a core concept of the historical institutionalist method. It implies a “self-reinforcing” or a “positive feedback” mechanisms of the political system in the historical process, which clearly states that: 1). under certain contexts, the cost of switching from one path to another will significantly increase over time; and 2). the temporal sequence should be particularly emphasized, and the critical juncture before the formation of institution and

self-reinforcing period after the formation should be clearly separated (Pierson, 2000). For explaining (major) institutional change, Krasner (1984) has a view of “punctuated equilibrium”, which underlines that the major crisis events that take place under certain political environments will lead to the change and even collapse of the old institution; the power struggle among the actors at the critical juncture are shaped by cultural tradition, the legacy of the old institution, the rationality of the actors and innovation of the ideas, so that the final outcome of the conflict leads to a new institution (Krasner, 1984).

When conflict events occur at critical moments, the main actors have different options. Once a particular path has been chosen, it becomes increasingly difficult to recourse to the options that were not selected previously; therefore, the initial choice made by actors at a critical juncture prior to institutional formation is often the starting point for path-dependent analysis (Thelen, 1999). Based on this, historical institutionalists tend to use the methods of temporal sequence and path dependence to analyze the initial choice of actors and its influence, to conclusively explain the continuity and change of institutions.

3.1.2.5 Implications for this research

The core of historical institutionalism is to locate institutions at the centre of social science research. Historical institutionalism defines institutions as formal or informal programs, norms and rules that are embedded in a political unit regime or economic-political organizations (Hall and Taylor, 1996). Institutions may be political arrangements, the structure of a party system or policy networks between the government and economic organizations, which identify the motivations and constraining contexts for political actors. In real daily life, it is easy to find the same kind of policy resulting in different outcomes in different countries, or countries responding differently to the same global situation. Institutions on the one hand affect the power distribution of actors within organizations or in the policy process; on the other hand, they establish institutional relations and responsibility to identify the

actors' interest and status (Hall, 1986). Therefore, individual or organizational strategies are not the only factor that affects policy choice; the interactions between individuals and organizations also have influence. This reminds us that it is important to examine the relationships between actors within a certain institution to understand the policy process. This thesis is trying to understand the central-local relationship in China and its role in the healthcare policy process. Such a research topic involves central government, local governments and other actors within the healthcare policy network. Historical institutionalism, as a meso-level approach, provides a more comprehensive research vision that emphasizes both individual behaviour (or relevant interests) and the great influence of political tradition and structure. It is also helpful to test how *de facto* federalism and Pierson's three institutional factors theory operate in China in a more comprehensive way (which will be discussed in more depth in Chapter 8).

Another key issue that historical institutionalism focuses on is how policy may stay stable and how it changes over time, which involves path dependency and institutional change. Historical institutionalists argue that the most influential factor is temporal sequence. Institutional context often provides a certain environment such as "the institutional density of politics" or a "far murkier environment" to cause path dependency (North, 1990). Meanwhile the distribution or the structure of veto points could influence institutional change or keep punctuating the equilibrium (Krasner, 1984). Therefore, studying history becomes extremely important; especially the focus on the timing, sequence, critical juncture and contingencies (Pierson, 2000). In fact, historical institutionalism offers an epistemological solution; a historical (context) study. It helps to find out how the historical context shapes the political structure, power distribution and policy outcomes.

China has a rich culture and a long history. There are many institutions, traditions, and ideas formed over thousands of years. The old bureaucratic institution used to be the most stable institution in China's history (Qian, 2001). This may form a relatively "strong" context for path dependency. The central-local relationship is a common topic in China's history. Understanding how the old traditions, ideas, and institutions

influenced current politics is naturally required. Meanwhile, China has experienced several major changes over the past century. There must be some critical junctures which have had a great impact on the central-local relationship and social policy in China. Therefore, historical institutionalism could offer an appropriate methodological approach to achieve an understanding of the central-local relationship in China through a rich history.

In summary, historical institutionalism is an important reference and could lay important theoretical foundations for answering the research question. On the one hand, its meso-level theory provides an ontological solution to comprehensively clarify “what is the central-local relationship?”, “what factors are involved?” and “how do actors interact with each other?”. On the other hand, historical institutionalism also offers an analytical approach to answer the research questions with both long-lived political traditions and rapid institutional change.

Section3. 2: The central-local relationship as an institution

As discussed above, historical institutionalism is taken as the theoretical background for exploring the research questions of this thesis. Through historical institutionalist perspectives, the central-local relationship could be regarded as a form of institution. According to Thelen and Steimo (1992), institutions that have been central in historical institutionalists’ research, normally include “formal rules, compliance procedures and standard operating practices that structure the relationship between individuals in various units of the polity and economy” (Thelen and Steimo, 1992, p.2). The rules of electoral competition, the structure of party systems, and the relations between various branches of government are widely accepted as typical examples of institutions (Thelen and Steimo, 1992; Hall, 1986). The following section will try to understand the central-local relationship from the perspective of historical institutionalism.

3.2.1 Types of central-local relationships

The concept of the central-local relationship is normally regarded as a set of political and economic arrangements between central government and local government as well as an interaction mode between the central and local. Federalist systems and unitary systems have long been regarded as the main modes that systematically describe the institutional setting of the central-local relationship. The distinguishing difference between the federalist system and the unitary system reflect different forms of the central-local relationship. Hence, understanding the central-local relationship could start from a discussion regarding these two broad types of central-local relationship.

3.2.1.1 The federalist system

The Latin etymology of “federal” is “foedus”, which means “covenant” or “compact” (Elazar, 1984). The covenant idea was obtained by the Puritans from the Bible and it stresses true cooperation during the pursuit of justice among individuals, groups and government and the partnership in power-sharing-based negotiations (Elazar, 1984). A covenant is a promise or guarantee that everyone will regard each other’s freedom as partly theirs, support each other’s legal freedom, engage in a common cause decided upon through a common democracy and oppose the common enemy in defense of their liberty (ibid.). Therefore, federalism originated in the idea of covenant and is a sort of logical extension of such a concept.

A federalist system or federal system of government suggests that there are two entities, which are independent to one another, which share control over the same territory (Smith, 2004). Or as Ronald Watts puts it, “a combination of shared-rule for some purposes and regional self-rule for others within a single political system so neither is subordinate to the other” (Watts, 1999, p.1). Shared power and independence are essential features of the federalist system, in which governments on both a national and sub-national level have autonomous decision-making power within their territories. Meanwhile, for the sake of securing the independence of

central government and local government, there should be constitutional protections on the autonomy of government on each level, and on preventing “any one government or federation from making changes to the constitution unilaterally” (Smith, 2004, pp.15).

The United States (US) is considered to be a typical federal state in the earliest modern sense. But in fact, federalism was not invented by the Americans. The Greeks, Swiss, Dutch, and even the Holy Roman Empire provided examples for the founders of the US (Elazar, 1991). The Republic of the United Netherlands had a particularly great impact on American federalism. In fact, the 1787 Constitution of the United States actually took some of its measures and arrangements from the Union of Utrecht (Nordholt, 1979). In reality, in different aspects of federalism, such as the distribution of legislative power and administrative power, the features are diverse and vary in different federalist countries. One type of power distribution is where the power of the federal government is listed by the constitution and the power of the state is reserved by the broad provisions of the constitution. Typical examples are the US, Switzerland and Australia. Federal power is specifically enumerated in these countries and is narrow and limited to two main aspects: the necessary power to safeguard the existence of the community through defence, foreign affairs and taxation, and the necessary power to maintain the unity of basic economic life through currency, weights and measures, foreign trade and interstate commerce. The second type of power distribution is where the powers of the federal and state governments are both listed in the constitution. Canada, India and Malaysia are typical examples. In Canada, the exclusive powers of federal and provincial governments are listed in detail and any residual power is placed under the federal government. It is obvious that the power distribution in these two different types of federalist countries may significantly differ. Countries like the US tend to place more power on the states, whereas the power distribution in Canada tilts towards the federal body.

3.2.1.2 Unitary system

The unitary system, which is always considered as a political structure and arrangement opposed to federalism, generally has no direct definition. Researchers usually describe a unitary system by generalizing the specified characteristics on the basis of a form of state structure which distinguishes it from a federalist system. The significant features of the unitary system are that there is only one constitution and one central governing system and various administrative units and autonomous units must accept the unified leadership of the central authorities and have no independent powers separate from the centre, regardless of the extent of decentralization between the central and local governments (He, 1988). Local governments are more likely to be “employed” by the central to help administer policy made by the central government (Smith, 2004). The powers of the local government must be defined or changed by central legal documents.

The relationship between the central government and local governments in unitary countries is largely one-sided. However, local governments could have different levels of autonomous devolved power from the central government. There are some unitary countries in which local governments possess no autonomy, for example, Norway. Other unitary countries such as the United Kingdom and France have granted a certain degree of autonomous power to sub-national governments. There will be further discussion on the UK and France cases in following sections.

3.2.2 Power distribution in the central-local relationship

Power distribution between the central and local governments has long been recognized as a crucial feature that distinguishes federalism systems from unitary systems. It is certainly an essential concept when studying the central-local relationship. The following sections will mainly discuss power distribution between central government and local governments within a federalist system and a unitary system.

3.2.2.1 Power distribution in a federalist system

In general, there are two modes of the constitutional division of power between federal and state governments. The first is where federal laws are implemented by the federal government and constituent unit laws are run by constituent unit governments. The second is where federal laws are implemented partly by the federal government and partly by constituent unit governments; constituent unit laws are run by the state. The US, Canada, Argentina, Brazil and Australia could be put into the first mode, where the distribution of legislative and executive power is coincident. The respective executive powers of federal and state governments are based on the scope of their legislative powers. Although there are common areas of legislative power, federal law is executed by the federal government and constituent unit law is run by constituent unit governments. Both federal and state administrative agencies coexist within the state to implement respective laws and policies (Elazar, 1991). European federalist countries like Switzerland, Germany, Austria, and Russia take the second mode. There are certain composite parts of administrative power between the federal government and state members. Federal law is partly executed by the federal body and partly executed by the state according to the constitution.

Therefore, we can observe three different administrative powers which constituent unit governments could hold in a federal system (Wang, 2000). The first is the power to implement state laws. The second power is where a constituent unit government implements federal laws according to its own power. The third is where a constituent unit government enforces official federal duties as the executive body of federal agencies. The first administrative power is the inherent power of the constituent unit government and therefore is less subject to direct federal control and intervention. The latter two administrative powers are enforcement powers of a constituent unit government for federal laws and therefore are subject to varying degrees of control by the federal executive branch.

As the first administrative power allocation mode demonstrated above, the administrative power of the constituent unit is the power to carry out its own laws, therefore under such a principle, the administration of a constituent unit should be

excluded from federal control. The US and Australia are the countries which implement this principle most radically. In accordance with the constitutions of the US and Australia, their federal governments do not have any control over state administration; the autonomous administrative capacity of state members are completely protected (Wang, 2000). In Canada, the federal government has control over provincial administration, which means the federal authority has the appointment and removal power of a provincial governor (known as a lieutenant governor). But the impact of this kind of control should not be overstated, because under the parliamentary cabinet system in the Canadian provinces, the real power lies in the hands of the provincial premier; the administrative power of the lieutenant governor is in name only (Watts, 1987).

For countries which belong to the second administrative power allocation model, their state members are under various degrees of federal control when implementing federal law. In Switzerland, implementing federal law is the constituent state's own duty. The constitution only provides federal supervision for states on particular matters such as the construction and maintenance of national highways. Therefore, state members implement federal laws with a high degree of autonomy. In Germany, according to the constitution, state governments seem to be under more control from the federal government. In the case of implementing federal laws on the state's own authority, the federal government has the right to guide and supervise the state's implementation (Nordholt, 1979). The federal government could enact general administrative regulations and send representatives to the state governments. The federal government can also issue an order to a state government according to the power authorized by federal laws (Nordholt, 1979). When a state government is acting as a federal agent to implement federal law, the federal government has full power over it. The federal government can publish general administrative regulations agreed upon by the senate. The appointment of the head of the state member should be agreed by the federal government. Competent federal authorities can also issue orders to competent state authorities and the state government should ensure the orders' implementation. The federal body not only supervises the legitimacy of the implementation by the state but also supervises the purposiveness of the

implementation (Scharpf, 1988). In general, in the federalist countries of continental Europe, such as Switzerland, Germany and Austria, the central legislative events delineated by their constitutions can be divided into two categories: one directly executed by the authorities and officials of the central government, such as postal, telegraph, etc., and another implemented after the federal government establishes the principle of a specific administrative regulation and state government enacts detailed rules and regulations. However, in the federalist countries in North America and Australia, state governments are strongly separated from the central government.

3.2.2.2 Power distribution in a unitary system

Several features of the power distribution in a unitary system can be generalized as follows. First, similar to federalism system, there is a relatively clear division of responsibilities between the various levels of government in a unitary system, however such divisions are always broadened or narrowed by the central government. Different levels of government have their own specific duties and all levels of government have full exclusive powers within their exclusive jurisdiction. There is also a clear division of duty between the different levels of government in the same policy area. However, the responsibilities of each level of government are “incomplete”. The government in each level is responsible only for a limited scope of affairs according to the law, rather than for the management of all the affairs of the relevant administrative areas.

The scope of responsibilities of the local government can be generally divided into three categories: obligatory responsibilities, permissive responsibilities and responsibilities that are prohibited (De Vries, 2000). Obligatory responsibilities include inherent affairs and commissioned affairs. Inherent affairs refer to those affairs local government should assume according to the law. Commissioned affairs refer to the responsibilities of the central government which have been entrusted to local government for implementation. The local government must implement policies based on the strategies and standards set by the central government. The

second category, permissive responsibilities, are responsibilities chosen by the central government for local governments through legal provisions but where local governments have the right to decide whether or not to perform them (Tong, 1996). For example, local governments in the UK can care for and offer help on their own terms to disadvantaged children. The last category of “prohibited” responsibilities mostly includes military, diplomatic and judicial affairs. For example, according to the Japanese Local Autonomy Law, local governments cannot handle the following affairs: judicial and national punishment affairs; postal and national communications; transportation services; national meteorological, aviation, water transportation facilities; national education, research, healthcare, convalescent facilities; the national library and the national museum (Tong, 1996).

Secondly, the central government has specialized agencies in charge of local affairs. In order to control and supervise the activities of the local government, most unitary countries have set up specialized institutions to deal with local affairs. For example, within the French central government there is the Ministry of the Interior, the Ministry of National Security and the Ministry of Local Autonomy. In the central government of the UK, before devolution there was a Scotland Office, a Wales Office and a Northern Ireland Office, and several departments which were in charge of relevant local affairs (devolution in the UK will be discussed in following sections).

Finally, there is an unequal partnership between central ministries and local government. Each level of government in a typical unitary state is only responsible for specific matters. Central ministries and local governments rely on mutual friendship and cooperation to carry out their mandates. It is a partnership characterized by consultations, negotiations, interdependence and cooperation. However, relatively speaking, this partnership is unequal. The central ministries are in the dominant position. In any country, the central government cannot give up the supervision or control of local governments. Naturally, as part of the central government, ministries take on this function. Central ministries are more powerful, and they try to pass much more important decisions such as new laws, including those granting new powers to a local government (Goldsmith, 2010). In fact, according to

Goldsmith (2010), there is no real negotiation between the central and the local authorities in unitary countries. Accordingly, powers are always unified and centralized in unitary countries and local governments rarely have powers of their own (Tong, 1997a). Hence, centralized power was simply linked to the unitary system and decentralized power was linked to federalism.

The corresponding relationship between the unitary system and centralized power and federalism and decentralized power seems inevitable. However, if we look beyond such a simple linkage and observe across the continents, this description of the power distribution in unitary and federal systems is overly simple. In some unitary countries such as the UK and Japan, the degree of vertical decentralization of power sometimes far exceeds that of federalist countries. Some old states with unitary systems started to run decentralization or devolution at the end of 20th century.

3.2.2.3 Development of the federalist and unitary systems

Devolution in the United Kingdom

In May 1997, the Labour government of Tony Blair was elected in the UK with a promise of creating devolved institutions in Scotland. In late 1997, a referendum was held which resulted in a “yes” vote. As a result of the Scotland Act 1998, the newly created Scottish Parliament had powers to make primary legislation in certain “devolved” areas of policy in addition to some limited tax varying powers (which to date have not been exercised). Other policy areas remained reserved for the UK government and parliament. Power was devolved from London to Edinburgh and from an old policy network towards a more pluralistic political community (Keating, 2005). After the devolution, the Scottish Parliament was granted a wide range of powers with some exceptions such as taxation. Its power can be divided into three types: reserved, devolved and shared (Keating, 2005), which are similar to the powers of state members in federalist countries. Scotland received even more overall power than Wales and North Ireland. But specifically, very little of it is shared power

when compared with the power of federal states in Germany, where state members share much power with the central government. However, since the appearance of new social policies such as labour market policy, more space for shared responsibility has been created between the Westminster government and the devolved executive branch or the Scottish Parliament (Keating, 2005). Other social issues such as environmental protection and rural affairs even require cooperation between multiple levels of government including the European Union.

However, the UK has implemented a high degree of asymmetric devolution, as Scotland, Wales, Northern Ireland and England have quite distinct governmental structures. Between the UK central government and the Scottish executive branch, the Westminster government reserves the power of constitution, foreign affairs, national defence and security, monetary and fiscal policies, employment legislation, social security, traffic control, etc., while the Scottish Parliament holds legislative power in issues concerning health, education, training, local government, housing, social work, transportation, the environment, agriculture, fisheries, forestry, sports, arts research and statistics. Unlike Scotland, the Welsh Parliament has no basic legislative power. All legislation involving Wales is still passed by the UK Parliament. The Welsh government took over responsibilities previously exercised by the Secretary of State for Wales and is responsible for education, health, local government, transport, planning, economic development, social services, culture, the Welsh language and environmental, agricultural and rural affairs (Llywodraeth Cymru, 2014). However, England does not have similar mid-level governance. As Keating argues, “the UK government doubles up as the domestic government of England [...] departments are sometimes predominantly English where their responsibility corresponds to devolved powers in Scotland, Wales and Northern Ireland” (Keating, 2005, p. 456). A prime example is the Department of Education and Skills and the Department of Health. One could argue that devolved administrations are pulled along by initiatives from England (ibid.), however, the devolved administrations have often taken the initiative in areas such as health policy (Holden and Hawkins, 2012). The recent political changes in the UK have significantly influenced devolution. Firstly, the recent referendum on Scottish

independence has led to the devolution of even greater powers to the Scottish parliament, because the decision to stay in the UK was quite close. Secondly, the recent Brexit result for the UK to leave the EU has raised more debate and disagreement about Scottish devolution/ independence, because even though the UK as a whole voted to leave the EU, Scotland had a majority vote to remain.

Decentralization in France

The regional administrative system is the key feature of traditional French policy and the political model in the central-local relationship of France. The system relies on the consistency of the national administration, and the interests of the central government are regarded as a priority beyond the political party, region, interest groups and local government. Therefore, the policies made by ministries are implemented by local government and coordinated by the governor and the representatives of the central government in the province. The central government of France used to be a highly centralized government which relied too heavily on its ministries and dispatched branches and this overreliance on the mechanisms of the central government eventually led to a break up of these powers (Humes, 1991).

In 1982, France launched its decentralization process, which confirmed that cities, provinces and regions are self-governed by an elected parliament. The speaker of the local parliament replaced the previous head of local government as the individual responsible for local administration and the implementation of the council's resolutions. After decentralization, the specific power of government at each level was clear. The central government was responsible for internal affairs, diplomacy, defence, the economy and cultural aspects, as well as the macro-management of the Strategic Development Plan. The powers of the constituent units were mainly located on the implementation of national medium- and long-term plans to promote economic development of the region and to develop a five-year plan to support the provincial jurisdiction in the region. Provincial government is responsible for a province's budget, local taxes, the management of the province's transportation,

construction and equipping of primary and secondary education facilities, management of social health and social insurance costs, development and finance of rural territorial management discussion and allocation of central redistributed benefits, social insurance, and initiatives for tackling joblessness. The municipal government is in charge of organizing and establishing the administrative bodies and other public institutions, managing public property and managing the day-to-day life of their citizens (Cole and John, 2001)

Therefore, after decentralization, local parliaments in France obtained a greater power to self-determination and self-management. The functioning of welfare services had also been decentralized to the provincial and municipal levels and those governments became the main managers and funding resource while the central government shouldered the responsibility of legal protection and supervision (Humes, 1991). The latter laws enhanced the decentralization, for example, Act 2003-705 of 1 August details the scope of local referenda and conditions for optional referenda, while the Act of 13 August 2004 institutionalized the new power devolved to local governments (Thoenig, 2005; French Ministry of Foreign Affairs, 2006). Such a “decentralized France” provides a powerful example to challenge the simple linkage between a unitary system and centralization. Decentralization is indeed a striking phenomenon manifested in the running of a unitary state, rather than an essential feature of federalism.

In summary, in federalist states the powers of the federal government have been constantly strengthened in recent years as socio-economic affairs are increasingly complex. This process shows a tendency of centralization in traditional federalist countries such as the United States and Germany. In the US, for example, even though the constitution clearly defines the legislative jurisdiction of the federal and state governments, since the 1920s there has been an expansion of federal powers. The US federal government uses legislative “priority power” frequently to achieve its goal, which has gradually restricted the states’ legislative autonomy. Between 1969 and 1989, a duration which accounts for only one-tenth of America’s history, the US Congress used the legislative priority power 190 times, accounting for 54% of the

total priority power used for the whole 200 years since American Independence (Doring and Schnellenbach, 2011; Xu, 1999).

The development of the unitary and federalist systems has meant that their connotations are different now compared to the 19th century and even the first half of the 20th century. The difference between these two systems is in fact no longer about a separable or inseparable nation, unified or dispersed sovereignty, or whether geographical constituent units have exit power or not. Some scholars have insightfully pointed out that the debate of unitary or federal is essentially how to vertically configure the state executive power and how to regulate the process of exercising power (Tong, 1997a). Focusing on vertical decentralization and centralization of state powers as the standard to distinguish between the unitary system and federalism was accurate in the early stages of their development. But in the second half of the 20th century and even the early 21st century, political economy and cultural affairs have become so complex in the era of globalization that sticking to the traditional standards to measure and examine the unitary and federalist systems is clearly inappropriate. A unitary system may present decentralization as its characteristics and a federalist state may be characterized by centralization (Wolman, 1990). Even the distinction between the unitary system and federalism has become increasingly blurred – federalist countries increasingly subordinate state members' powers and unitary countries increasingly enhance decentralization.

Section 3.3: How the central-local relationship affects social policy

Institutions such as the central-local relationship can have a profound impact on social policy. Although almost all researchers accept that the central-local relationship as a political arrangement does affect the making and implementation of social policies, what role it plays in these processes is considered differently. Some researchers stress that the intergovernmental relations could be particularly dense and produce a more cooperative atmosphere between governments (Elazar, 1984). On the

contrary, other researchers argue that intergovernmental relations seem to be more competitive, and autonomous constituent units are encouraged to compete with each other (Cairns, 1979). When the policymaking depends on actors from different tiers of government, the competitive environment will push the policy outcome towards a lowest-common-denominator policy and the original policy goals are usually replaced with acceptable compromises because all constituent units are sensitive to their own interests (Scharpf, 1988). In contrast, cooperative intergovernmental relations may encourage positive cooperation between local governments. Such a (cooperative) intergovernmental relation can also “generate ‘positive-sum’ efforts to sort out responsibilities across tiers in a way that best meets the needs of many parties” (Pierson, 1995, p. 458). Under such a cooperative environment, a central government will be able to create a level playing field for competition over investment attraction, combine job creation with environmental protection and easily create win-win policies between the federal government and local government (Montpetit, 2002).

However, some researchers consider competitive intergovernmental relations as a positive factor which encourages policy innovation and policy learning (Montpetit, 2002). Governments of constituent units can act as incubating laboratories to experiment with policy innovations and protect against the risks of a policy being rashly implemented in the whole country (Radin, 2000). Once such a policy experiment has been proven successful, it becomes easier for the central government to persuade other constituent units to launch a countrywide policy adoption. The national healthcare policy in Canada is a typical example of such a strategy; the Saskatchewan province was chosen as the initial experimental ground (Montpetit, 2002). Moreover, the experiment process offers opportunity for both central government and provincial governments to learn which types of policy work well and which do not (Montpetit, 2002). This section will review theories that discuss how institutions affect social policy.

3.3.1 Public choice theory

Compared with the brief description of how the central-local relationship can affect social policy mentioned above, some scholars systematically discuss how the central-local relationship can affect social policy. As Obinger et al. (2005) mention in their book that analyses the effects of federalism on social policy, there is a closed feedback loop between federalism and social policy. The variation in social policies between sub-national states can be attributed to the federal arrangement as social policies in turn affects the federal system. The public choice theory, which analyses the issue from an economic point of view (normally referring to chasing personal or organizational benefits), suggests that it is easier to expand the scale of a social welfare system in a centralized country than in a federal one, since the state members under federalism tend to restrict the fiscal ability of central government in order to avoid the appearance of a big federal government which may infract on the interest of state members (Obinger et al., 2005). Investors with mobile capital are free to choose a more beneficial business environment, hence states would not want to enhance the extent of social welfare and would even deny the establishment of a national social welfare mechanism because this may cause capital to withdraw and damage the states' interests (Obinger et al., 2005). Meanwhile, since the implementation of sub-governmental social policy, for example, social policy against child labour, may be affected by relevant interest groups, the "race to the bottom" effect may occur in areas of social welfare and the setting of social security standards (ibid.). The public choice theory also analyses the relationship between a federal system and policy outcome from the perspective of the fiscal source of sub-government. It argues that the fiscal source of state government would affect the scale of public spending because if a state government obtains its income via revenue sharing or intergovernmental grants, then the state government tends to "overfish", which means the government expands the scale of spending on social welfare in order to obtain more fiscal resources from the central or other government (ibid.). In contrast, if governmental income relies on local taxation, the government will not be so active in enlarging welfare expenditure.

Obinger et al. (2005) tried to explore the relationship between political settings such as the central-local relationship and social policy through an economic perspective, however, this also makes it (public choice theory) difficult to form a more comprehensive understanding of this research topic, especially from an institutional perspective. Institutional settings and economic factors interact with each other actively under federalism, so it may not be suitable to analyze such an issue divorced from either perspectives, which may provide some obstacles for understanding the relationship between central-local relations and social policy in a wider context.

3.3.2 Historical institutionalism

As demonstrated in previous sections, historical institutionalism not only centres institutions in social science research, but also emphasizes how institutions shape the policy process and how policies produce feedback to institutions. Many historical institutionalists make an effort to explore how institutions affect social policy through qualitative or quantitative research. This section will mainly discuss how the central-local relationship, as an important institution, influences social policy through a historical institutionalist perspective.

According to historical institutionalists, institutions affect social policy at different stages during the policy process, even before policy creation. “Institutions establish the rules of the game and limit the scope of possibilities open to policy makers, blocking off some paths of policy development” (Hudson and Lowe, 2004, p.181). On the one hand, a static central-local relationship such as the power distribution between the central and local government could set boundaries for policy makers even before policy is initiated. For example, in Australia, the federal government is directly responsible for funding and organizing physician services, pharmaceutical care, veterans’ care, nursing-home care and for regulating health insurance, while the individual states have the task of organizing the provision and financing (with federal aid) of hospital care, dental care, mental care, home and community care, prevention services and public health as well as regulating health personnel (France, 2008).

Therefore, the Australian federal government has direct power to organize, operate and deliver healthcare policies, so there could be wider scope of possibilities open to the central government. Conversely, in Canada the direct responsibility for healthcare is exclusively reserved for the provinces and the federal government is only accountable for quite limited aspects such as healthcare for soldiers and prisoners (Marchildon, 2005). Although, according to the constitution, the federal government has a duty to protect the health of Canadians, it can only establish the guiding principles and has to let provinces directly organize, run and fund healthcare programs. Thus, more possibilities are open to healthcare policy which local governments can benefit from. The situation in Germany is slightly different, since Germany has a shared healthcare provision system according to the constitution. The federal states (Länder) traditionally hold the responsibility for organizing and investing in healthcare. However, hospitals have increasingly become self-governing bodies, separating from the local in negotiation processes, and become more and more national (France, 2008). Thus, healthcare policy may have more possibility to compromise the interests of central government, local government and hospitals.

On the other hand, dynamic central-local relations such as intergovernmental interactions and historical experience of such interaction can also influence social policy. How central government interact(ed) with local government may lay an important foundation for the cooperation and bargaining between the central government and local government during the policy process. A better interaction may lead to a more cooperative rather than competitive atmosphere between governments and a smoother policymaking process.

Intergovernmental relations in Canada are a little bit tense since the federal government holds limited responsibility on healthcare but has large demands and plays a key role in making policies. The Canadian federal government used to exercise federal unilateralism in setting conditions and funding levels for provinces in the area of healthcare (France, 2008). Although the relevant agreement such as the Social Union Framework Agreement was established to ease the contradiction, intergovernmental relations in Canada are still tense. Provincial governments do not

trust the federal government which causes a serious barrier for policy processes and implementation.

Australia perhaps offers a totally different example for intergovernmental relations. As mentioned above, the Australian federal government has a significant leading role in healthcare policies. However, the federal government has tended to employ intergovernmental negotiation and cooperation in making and implementing healthcare policies in recent decades (Bellamy and Brown, 2007). Other cooperative bodies such as the Australian Health Ministers' Advisory Council were established for "adopting common policies, coordinating programs and drawing up common legislation" (Bellamy and Brown, 2007, pp. 88). Thus, Australia has more trustful intergovernmental relations and a smoother policy process.

The situation in the US is more complex., and similar to that in Canada. In the US, state members have long complained about the federal government intervening in their affairs. They are also wary of whether the federal government has become too powerful and are a threat to their own status. However, more and more states think that, as Donahue (1999) argues, their ability to formulate and implement policies has significantly improved. Even the policy standards created by state governments in some areas have exceeded federal ones (ibid.). Therefore, there are plenty of states that still do not trust the federal government, and such distrust threatens to weaken the federal role in social policymaking and frequent blocks to policies by the states (France, 2008).

3.3.3 Pierson's three characteristics

Paul Pierson integrated relevant research and developed a comprehensive theory (framework) to explore how the central-local relationship affects the social policy process through a historical institutionalist analysis consistent with economic analysis such as fiscal arrangement analysis. In his research published in 1995, he suggests three characteristics of federalism which have relevance to the social policy process, namely reservation of specific powers to constituent units; interest

expression to the centre of different tiers; and finally, the extent of commitment to fiscal equalization across the states (Pierson, 1995). In short, Pierson has offered an analytical framework to study the issue from perspectives of constituent units' power, an interaction model between the central government and state government, and fiscal relations between all constituent units.

The first characteristic, the reservation of constituent units' power, affects social policy outcomes differently in different countries mostly because of constitutional differences. As described in the first section, the possession of power and specific policy responsibility varies across countries according to their constitutional provision. Moreover, this characteristic not only involves constituent units' power but also potentially restricts the policy intervention abilities of the central government. For example, the body who is responsible for healthcare policies (include funding) varies across countries. In Canada, hospital and psychiatric institutions were assigned as provincial responsibilities according to the British North America Act of 1867 and the federal government has no direct duty to provide healthcare services except for some specific groups such as soldiers and prisoners (France, 2008). In contrast, the federal government of Australia has a wide range of responsibilities on healthcare policymaking, regulating and funding. Australia's constituent units have quite limited duties on healthcare provision and mainly follow the leadership of the federal government in this policy area (Bellamy and Brown, 2007). Therefore, in Canada, the federal government can only set guiding principles for healthcare policy, but in Australia, the federal government has power to create and implement specific policies.

The second characteristic mentioned by Pierson is how interests at different tiers are represented at the centre. Another way to consider this is to think about the extent to which state members can affect the central government. This characteristic is most relevant to the organizing model and power allocation of the congresses. In general, as Pierson stresses, "the stronger and more direct this representation is, the more likely it is that the interests of constituent members will be respected" (Pierson, 1995, p. 465). In the US, although members of the House of Representatives and Senate are

elected to represent the proportion of population based on geographical districts and state membership respectively, after experiencing a change and reform of nationalism, these representatives are more responsible for their voter groups than for their constituent units (Pierson, 1995). The situation in Germany is reversed. The Bundesrat, which is formed by representatives of the L änder (federal states), holds an effectively strong veto power on federal policymaking and implementation, thus the interests of constituent states receive more respect during the policymaking and regulating process than in the US. Indeed, the extent to which the interests of minority state members are represented affect social policies. The federal system in the US was designed to let minority members still have the ability to protect their own interests (Pierson, 1995). The American South, as the most typical example, was given much more respect and political power than proportionate to its population and economic strength to block policies that the majority of state members may have favoured (Bensel, 1987).

The third characteristic, the degree of fiscal equalization across constituent units, has a great impact on the development of social policies. As stressed by proponents of the public choice theory, fiscal capacity and approach really matter in the attitude of state members towards social policies. State members whose income mostly relies on revenue redistribution usually have more passion and motivation for expansive social policy innovation. Other constituent units who gain their income through local taxation tend to hold more conservative attitudes towards social policy or even block welfare reform to protect the interests of local businesses, which are the main source of their fiscal income. Furthermore, states that mainly rely on local taxation tend to advocate more decentralized systems of social policy to help them gain more power to protect their fiscal capacity (Pierson, 1995). In countries where fiscal equalization is well institutionalized, such as Germany and Canada, state members can receive extensive financial assistance from the federal government. However, the situation in the US seems to go to the other end of the spectrum; weak fiscal equalization in the US makes it difficult for state members to pursue policies which may threaten their financial position and to launch policy experiments, particularly on redistributive issues (ibid.).

The way these perspectives of the central-local relationship are embedded in a particular political context, Pierson (1995) suggests, do matter a great deal for policy development. For example, as Skocpol (1992) and Ikenberry (1983) describe in their research, the federal government in the United States has had more freedom to shape interventions where state authorities had not already occupied a particular policy space; when state-level policy entrepreneurs from Wisconsin were centered in shaping plans for a national unemployment insurance system during the New Deal, and they acted to protect the structure of Wisconsin's existing program, rather than promote more national uniformity (Skocpol, 1992; Ikenberry, 1983). This example indicates how state government shapes a specific policy. The constituent units, as powerful institutional actors within the central-local relationship in the United States, are able to enact their own policies and influence the actions of the central authority (Pierson, 1995).

However, institutional origins are not the only thing that matters in exploring how the central-local relationship affects social policy. In his book *Politics in Time*, Pierson suggests that the divergences or gaps in policy outcome between different federalist systems in different countries are more likely to be a consequence of different institutional development rather than different institutional origins (Pierson, 2004). Pierson emphasizes placing institutions and policies in the context of time when doing social analysis. The particular sequences of both institutions and policy are crucial in producing lasting different policy outcomes. In Hacker's cross-national study of healthcare systems in Canada, the United Kingdom (UK) and the US, the particular sequence critically determined the eventual outcome of national health programs in these countries (Hacker, 1998; Pierson, 2004). Questions of whether the government had failed to enact national health insurance before a sizable portion of the public was enrolled in a physician-dominated private insurance plan, whether initial public insurance programs were focused on residual populations and whether efforts to build up the medical industry preceded the universalization of access all determined which paths these countries eventually took (Hacker, 1998). For the US, consolidated physician-dominated private insurance and the staggering costs associated with a mature medical-industrial complex made it much more difficult for

the government to shift expenses to be financed publicly than it would have been to do so earlier (Pierson, 2004). Thus, the US faced more difficulties in introducing a national health program than the other two countries.

Pierson has also criticized the “decontextualization” trend which regards context as a bad word to mean thick descriptions that present an obstacle to social-scientific analyses in social studies (Pierson, 2004). He states that “the rational choice analyst typically focused on variable-entities such as ‘interest groups’ and a whole range of institutions such as federalism, legislatures are taken to be similar units with similar effects” (Pierson, 2004, p. 168). Context is easily dismissed but it is critically important in understanding social processes. Context means spatial and temporal relations; actors, organizations and institutions are shaped in these relations and their places in those sequences are crucial to determining their meaning (ibid.). Thus, as Pierson suggests, it is much more important to know “when” when we intend to make sense of a social world (Pierson, 2004). The importance of context and thick description also means that a historical approach is often appropriate to understanding how institutions affect social policy.

In the literature above, Pierson discusses how the consequences of a federalist central-local relationship leads to social policy divergence and how crucial context (time) is in analyzing these social relations. Pierson’s three institutional factors not only largely combine institutional settings between the central government and local government, but also provide a comprehensive approach which focuses on the central-local interaction such as interest expression to explore how the central-local relationship affects the social policy process. It provides a more comprehensive and appropriate theoretical framework to understand the central-local relationship and its impact on the social policy process.

Chapter 4: The central-local relationship in China: unitary, federalist or neither?

After the review of relevant Western literature about the central-local relationship and the policy process, the focus now returns to China. China has a long history of a centralized unitary system, however, with the rapid change in politics and the economy in recent decades, how we understand and categorize the central-local relationship in China is challenged. Some scholars such as Tong (1997b) regard China as a democratic centralist unitary government. Yang (2002) argues that China has a “mixed mode” in which features of both federalism and a unitary system can be found and the nature, status and power of local governments are not completely equal. This chapter will explore which category China belongs to, or conversely, whether China has its own style.

Section 4.1: Debates between federalism and the unitary system

Recently it has been fiercely discussed whether China should be an example of a unitary system or a federalist system. Most researchers try to find evidence to put China into either the unitary or federalist category. When describing the central-local relationship by the form of state structure, the unitary and federalist systems are two opposing concepts which seem to be as important as each other (Birch, 1966). However, the fact is the unitary system is likely to be a languishing concept compared with federalism. During the formation of the nation-state in Europe, the formation of these states as a process inhibited localism and nurtured central authority. At that time, the unitary system, with centralization as its main feature, was a widespread system,

while federalism, which forms a nation-state by power-sharing, was exceptional. But when nation-building was basically completed and governments began the process of governance, federalism, which has autonomy and joint governance as its main features, became more common (Yang, 2003). Federalism here not only featured as a structural concept but also a procedural concept. It could be argued that no matter how a constitution provides for a country's political system and political structure, as long as the procedure is in fact shared governance, such a system may be characterized as federalism (Yang, 2003). Therefore, when there are direct local elections or the local government legally obtains a certain degree of local and fiscal autonomy, the central-local relationship could evolve into a contract-based cooperation and bargaining relationship, which means the country is characterized by federalism. In summary, the unitary system itself may not accurately reflect institutional changes of intergovernmental relations in many countries.

Meanwhile, both federalism and unitary systems are not terms that describe ultimate ideological or ethical judgments. They are a kind of instrumental rationality which reflects the nature of an approach to governance. Taking China as an example; in the 1920s and 1930s, the CCP was the strongest federalist system (although changed later) and there were equal rights between the central and the local (Chen, 2005). But when the Common Program was officially approved in 1949, China was made a unitary republic. It showed that neither the unitary or federal system is a kind of specific solution. However, when the Soviet-style planned economy based on an extreme form of the unitary system caused problems, the CCP had to seek a new governance approach; economic reforms based on and oriented by decentralization. After 30 years of development, autonomy and shared governance became common in the economic field in China and local governments became decentralized engines of growth (Tsui and Wang, 2004). China's economic reform has been implemented on the basis of political stability; the economic relationship between the central and local governments has experienced a revolutionary change, while the political structure remains almost unchanged. So it may be more reasonable to have a dualistic understanding of both the political and fiscal when talking about the relationship

between the central and the local in China since the political and economic systems have developed with very different features. This will be further discussed below.

Although the unitary system is a concept that is constantly declining in favour, while the federalist system is an ongoing and expanding concept, given such a rapid period of change in China, the political-economic structure is more complex because of institutional transitions. We cannot simply define China as a unitary or a federal country. Only by analyzing the political and fiscal realms in a binary way, may we better understand and grasp the characteristics of the central-local relationship in China.

Section 4.2: Unitary features

4.2.1 The central leading group and governing party

It is obvious that the Constitution clarifies China's unitary feature by the provision concerning the relation between the government, the People's Congress, and central-local relation. However, perhaps because of the major change brought about by economic reforms, the return of Hong Kong and Macao bringing in new elements, or the provision for ethnic regional autonomy in the Constitution, many scholars have been unsatisfied with the traditional unitary system in describing the central-local relationship. New modes such as the centralized democratic unitary system (Tong, 1997b), the composite unitary system (Ai, 2001), the mixed model are posited (Yang, 2005) and some describe Chinese governance as a federal system (Elazar, 1991; Zheng, 2007) have appeared. Such a loose definition is a result of focusing on new changes brought by SARs and economic reforms. But an essential premise for understanding China's politics should consider not only the political structure but also the revolutionary change in the economy. Another important premise is to regard the leadership of the CCP and the relationship between the Party and the government as the main approach to understanding China's politics (Yang, 2003). That means we need to examine the state structure not only from the Constitution but also from the

Party constitution. It should be examined not only from the legal provision of state structure but also through procedure and operation in practice. Defining China as a federalist system only by the constitutional provision of ethnic regional autonomy shows that Elazar (1991) may hold a simplistic attitude on politics in China, although he has made great contributions to the federalist theory.

China has a huge administrative system which almost covers and authorizes almost every aspect of political, economic and social life in China. The crucial organ is the state council. It administers the offices of China's executive bureaucracy, including ministries, commissions, and offices that it administers directly and a variety of offices and organizations that it administers indirectly. A handful of these offices are afforded "ministry-level status" by the PRC government. The State Council also administers numerous national leading groups, which focus on specific policy concerns. Such leading groups are typically headed by a senior-level leader (at the premier or vice-premier level), with actual administration carried out by an office specific to the leading group under a relevant ministry. For instance, the Office of the Leading Group on Western Development reports to the National Development and Reform Commission. It is notable that these high-level leading groups play outstanding roles within the political system in China. These groups are usually equal to a decision-making organ at the highest level in a certain policy area. As the head of these groups are always at premier minister or vice-premier minister level, sometimes even the president, these leading groups have significant power to mobilize resources and coordinate across different ministries and departments both in the central and local governments. By contrast, local governments may stay in a relatively passive role and their capacity on certain policy areas may be weakened. This could be a reflection of unitary features in political practice in China.

Moreover, the role of the CCP presents the unitary features in China. On the one hand, the government and the CCP are tightly interlocked in daily political life in China. For example, for the leadership of the CCP the Constitution only has one sentence, but the leadership can be seen in every aspect of political life. Additionally, the term "informal politics" is often used in regard to China, which describes procedural

issues to a certain extent (Kostka and Hobbs, 2012). On the very top of the entire party system there stands the Politburo Standing Committee (PSC). It is the most powerful decision-making unit. It is composed of nine members, which are regarded as the most powerful nine men in China and are always named “the Big Nine” (now “the Big Seven”). Under the PSC, there is a broader Politburo which is composed of 25 members. Meanwhile, these 25 (now 23) people lead the Central Committee which is composed of nearly 400 official and alternate members. The CCP selects and recommends outstanding members to state organs in order to manage national, economic and social affairs on behalf of the CCP. Meanwhile, the CCP sets up corresponding agencies like the government does. Each respective party agency directly or indirectly leads, supervises or serves appropriate government agencies. The Party organization achieves its ruling power in the government through the party group within the national legislation organ (NPC), the judiciary organ (courts, procuratorates), and democratic parties and social groups (Chen, 2000).

On the other hand, the CCP operates a highly centralized management system. The Article 1 in Chapter 2 of the constitution of the CCP has provisions like “individual members obey the party organization, minority (members) obey majority (members), lower obey the higher (party organization) and (party) organizations obey central committee”. Therefore, all-pervasive governing of the CCP in fact could make the central government (or more precisely, the central party committee and government) maintain a supreme position towards local government.

4.2.2 Personnel control by the central government

The principle of cadre management or personnel control could be another important institution which highly affects the central-local relationship. Systems of cadres and principles have been regarded as a crucial tool to achieve central authority (Yang, 2003). The central committee changed their authority of managing officials from two levels to one level (only the provincial level) in 1984, dropping the number of officials who are directly managed by the central government from 15,000 to 3,000

(Chan, 2004). However, in the early 1990s, since provincial governments were highlighted as stakeholders, local protectionism clearly increased, and there are many examples in which the local actors negated the centrally recommended candidates for the election and elected local cadres in provinces (Li, 2002). Such a situation alerted the central government, which decided to maintain and strengthen its authority. The most convenient way to do this was to strengthen the local cadre management. So the Organization Department of the CCP Central Committee issued “cadre exchange regulations” (Gan Bu Jiao Liu Gui Ding) in 1999 to implement the principle of non-native and regular exchange systems. The chief provincial party secretary and governor come from other provinces and central ministries and the deputies are mainly elected from the native province. Meanwhile the mandate of the provincial leader was also strictly controlled. Therefore, in the late 1990s, local leaders had shorter terms and were replaced more quickly (Li, 2002). Since the late 1990s, cadre management at the province level was greatly strengthened in order to overcome localism and sectarianism. During the economic reforms in China, the control of local core leaders was the major method that the central government used to constrain the behaviour of the local government, which strengthened the core feature of unitary system in politics in China.

In summary, the central-local relationship presents its unitary features through the party-governing system and personnel control, from which the central government achieves a certain degree of control over local government. It is notable that unitary features mostly locate in political aspects. The next section will discuss the central-local relationship with regard to fiscal aspects, and try to obtain a more comprehensive picture of the central-local relationship after combining the features in both economic and political aspects.

Section 4.3: Federalist features

4.3.1. Fiscal federalism

If there is any doubt in a unitary political structure in China, then “fiscal federalism” may be a controversial proposition. The economic reform based on decentralization was implemented for a quarter of century and in 1980, when the “Contracting Fiscal System” was introduced in China, revenues were divided into three categories: central revenue, local revenue and shared revenue. The shared revenue created a negotiating space between the central and the local. Provinces were also granted power over expenditure and expected to balance their budget. Another two reforms were introduced in 1985 and 1988 to adjust this system. This series of reforms established a “contract agreement system” between the central and the local, and the local was given maximum incentives for revenue collection. Under this fiscal system, an increasing share of fiscal resources was left for the local government, and the real volume of resources available to the central government was reduced. China implemented a Tax-Sharing System (TSS) in 1994 which redefined intergovernmental fiscal relations and revenue-sharing arrangements in order to stem the fiscal decline and provide adequate revenues for government, especially the central government. A tax-sharing bureau was established and the central government established its own tax-collecting administrative organ, the National Tax Service, which supervises the collection of its own revenue. The government’s fiscal revenue (defined here as the sum of budgetary revenue, extra-budgetary revenue and income of the social security fund) sharply increased from less than 800 billion yuan to nearly 37 trillion (Huang, 2010). Such significant changes via fiscal reform had provided bargaining and negotiation space between central and local government.

The scope of the management power of the central government is indeed an important indicator when measuring central-local economic relations. However, the fiscal system should be another core indicator. China has experienced a revolutionary change in fiscal and financial systems and all these reforms are basically fiscal decentralization. Although the tax-sharing system (FenShui Zhi) greatly enhanced the proportion of national revenue going to the central government, the two most obvious results of the tax reform in 1994 are in the central-local relationship, in which the central role in direct economic management declined and macro-control capacity was enhanced; and in government-market relations, where the role of government

was undermined and the role of the market was strengthened (Yan and Chen, 2003). The role of local government was changed from agent to stakeholder, while the role of the market was changed from a supporting to a leading role. Such significant changes in institutional arrangements and practical economic operations resulted in connecting China with “fiscal federalism” or “economic federalism” (Tsai, 2000). Although decentralization does not simply mean federalism, it can be characterized as a form of federalism. When the local government legitimately obtains a certain degree of autonomy, local policymaking power, and fiscal autonomy rights, the central-local relationship itself may evolve into a contract-based cooperation and bargaining relationship, and these will align with the aforementioned federal connotations (Rodden, 2004). Therefore, describing the central-local economic relationship under the shared tax system with fiscal federalism has been popular, and has become the consensus view among some economists in China (Yan and Chen, 2003).

According to traditional fiscal federalism, the central government should bear functions such as macroeconomic stability, poverty alleviation, income redistribution and the provision of national public goods (such as national defence). Instead, local governments should assume jurisdiction to provide public goods because local governments have fully understood the preferences and circumstances of voters within their jurisdiction (Oates, 1999). In late 1950s, there was a trend of “fiscal decentralization” in which some functions of the central government were decentralized to the local government. In Europe, the “principle of subsidiarity”, in which public policy and its implementation should be assigned to the lowest level of government, was adopted by the "Maastricht Treaty" (ibid.). The reason is that constitutional constraints and political pressure limit the central government to provide a higher level of public goods for some areas rather than other areas, and therefore, the central government could only provide the same level of public goods and cannot consider regional differences (Oates, 1999). The decentralization in China was regarded as a similar process under a similar logic.

There are those who oppose the characterization of China as fiscally federalist. From their perspective, although such reforms have made a revolutionary change, central power can still be observed clearly in economic life (Zhang, 2009). The centre still holds the power of direct land management, mineral resources, project investment and coercive power in macroeconomic regulation. A coal transport project from western to eastern China, for example, transported 5,000 tons of coal from the west to the east. Even the province in which this coal was mined has no priority on coal using since the coal should be allocated to the east first (Li, 2002). Although monetary policy was used as the main method in macro-economic control, it is being replaced by coercive powers of central government when monetary policy cannot play an effective role. Such a powerful central government would not exist in typically federal countries. These issues are always used as evidence to criticize the idea of fiscal federalism in China (Zhang, 2009).

4.3.2 Market-preserving federalism

The representative of “rational choice institutionalism”, Weingast, proposed a “market-preserving federalism” (MPF) after a comparative study of central-local relations in England in the 18th century, the USA in the 19th century and China after the reform and opening up (Weingast, 1995). The five characteristics which could be basically recognized as federalism are, firstly, having a hierarchical system within the government structure, where no one government has an absolute monopoly on policies and regulations, while each level of government could enjoy full autonomy within their power. Secondly, the autonomy of each level of government is institutionalized, so that the constraints of federalism can be self-enforcing. Thirdly, local governments have significant management rights over economic affairs within their jurisdiction. Moreover, a unified market which makes local governments unable to use their economic management rights to manufacture trade barriers; lastly, each level of government has to face a hard budget constraint (Weingast, 1995). The first condition is clearly necessary to define the basic characteristics of federalism, but it is not enough, because when only relying on the discretion of the highest government,

decentralized power can always be recovered. In practice, a sustainable federalism must be protected from any coercion that the local government may receive from the central government. So other conditions are also necessary in order to limit the encroachment of the central government. If both the central and the local governments face budget constraints, they will not be able to endlessly go beyond their budget, which would easily result in an unstable macroeconomic environment (Qian and Weingast, 1996).

Specific to China, Weingast pointed out that the decentralized economic reform achieved a balance between the central and local. Firstly, the local holds full information of local enterprises which are difficult for the centre to access. In addition, economic decentralization makes the local governments gain more economic management power which enables them to implement economic policies adapted to local conditions which reduce their reliance on the central (Li, 2011). In other words, decentralization enhances the power and dynamics of the local economy while the fiscal responsibility and pressure of the centre are reduced (Qian and Weingast, 1996). Secondly, fiscal decentralization led to fiscal competition among local governments. The centralized regulation of the financial system not only limits bank credit to local governments but also inhibits the investment of local government, which together help to promote “hard budget constraints” (Li, 2011). Thirdly, as the enhancement of local government ability to manage economic affairs and the weakening of the centre in controlling the local economy takes place, the possibility of a reversal of decentralization becomes less likely, which makes decentralization a more and more reliable arrangement (Qian and Weingast, 1996). Although there are some problems in a unified national market and hard budget constraints such as local protection and excessive money supply, China is basically in line with important features of Weingast’s MPF.

If fiscal federalism is a description of the central-local relations under fiscal decentralization, then “market-preserving federalism” can be seen as the theoretical summary based on the role of local governments after the fiscal decentralization and the strengthening of market mechanisms. However, in the Chinese context, these

so-called federalisms are fundamentally different from the typical form of the federal state. The term of federalism intends to describe autonomy and shared governance status that local governments have under the economic reform based on decentralization in China.

Similarly, the opponents of MPF rejected the claim that it (MPF) has captured the nature of the central-local relationship in China. Although there is significant decentralization and federalist features in the economy, some researchers believe that China still maintains a centralized political structure, though local officials have enjoyed more autonomy since the reform. But the centre has considerable control over them, especially in the selection and appointments of personnel. The CCP has always insisted on the principle of Party control cadres and emphasized the Party's absolute control of the appointment of cadres. The daily management of the Party cadres is fairly centralized; the examination, appointment and transfer of each cadre must be decided by a higher Party committees, and the Organization Department. So the personnel authority is the most fundamental constraint of local officials by the centre. Thus, it may be more reasonable to describe the central-local relationship of China in a binary fashion rather than to simply define it as a kind of unitary or federalist system, in which political relations are likely to be unitary while economic relations are much more like federalism (Zhang, 2009). Such a "mixed mode" might be a reflection of the transition of the economic and political system. One researcher argues that the dual system has captured the current features of the central-local relationship and may transform to another mode when China has found its direction of reform (Zhang, 2009)

4.3.3 De facto federalism

However, another researcher, Zheng Yongnian, has discovered something different from the studies mentioned above. He found that the central government is losing its absolute power not only on economic matters but also on political matters, even in

appointment of provincial leaders, which is treated by many researchers as the only effective approach for the central government to control local government (Zheng, 2007). He developed the “de facto federalism” theory to explain the central-local relationship in China in practice.

Zheng’s research combines structural, procedural and cultural approaches to explore the central-local relationship. His research is “thick description”, which has long been the preference of historical institutionalists. Zheng did a long-term study of the formal and practical central-local relationship and did in-depth case studies of three typical provinces in China. From this, he suggests that de facto federalism better explains the central-local relationship in China from a behavioural perspective. As he defines it, de facto federalism is:

A relatively institutionalized pattern which involves an explicit or implicit bargain between the center and the provinces, one element in the bargain being that the provinces receive certain institutionalized or ad hoc benefits in return for guarantees by provincial officials that they will behave in certain ways on behalf of the center. (Zheng, 2007, p. 39)

Moreover, according to Zheng, China’s central-local relationship could be described as de facto federalism because it satisfies the following conditions:

- 1. A hierarchical political structure in which both central and provincial governments have some activities on which they make final decisions.*
- 2. Intergovernmental decentralization is institutionalized to such a degree that it is increasingly difficult for the central government to unilaterally impose its discretion on the provinces and alter the distribution of authority between governments.*
- 3. Provinces have primary responsibility over the economy and, to some extent, politics within their jurisdictions (Zheng, 2007, p. 39–40).*

The intergovernmental decentralization which started after 1978 could be seen as the starting point of de facto federalism in China. During the decentralization, many political and economic policy-making powers, such as local public security and road

construction, were obtained by local governments. As such, these local governments became economic planners and use these granted powers to develop their independent power base and increase local wealth. A large sphere of economic decision-making authority was decentralized from the central to individual enterprises as well. Such decentralization completed the economic reform which targeted the laissez-faire economy in which the central government does not intervene (Zheng, 2007). The political transition during the decentralization is another big step for China in the reform period. Certain rights were given to protect both individuals and social groups from arbitrary acts by the state while citizens were given more rights to participate in institutions and elections. Such a process of liberalization and partial democratization has included a broader portion of society in the process of economic and political decision-making. Therefore, this decentralization is not only a process which decentralizes power from the centre to the local, but also from government to society. Local government obtained institutional settings and legitimacy to intervene in economic activities in their jurisdiction from intergovernmental decentralization. Moreover, since the local government becomes less dependent on the central, the central-local relationship becomes more interdependent. It is necessary for the centre to seek cooperation with the local when the centre wants to implement policies. So the local officials also change their strategies when dealing with the centre (Zheng, 2007).

The start of intergovernmental decentralization after 1978 was the initial dynamic of de facto federalism of China, then in the mid-1990s when China faced globalization, it quickly became another crucial dynamic for de facto federalism. Unlike the “hollowing out” effect that globalization has brought to other countries, globalization created two opposite forces in China: centralization and decentralization (Zheng, 2007). On the one hand, globalization no doubt increases the decentralized economic power for local government and makes it more difficult for the centre to access local economic resources. On the other hand, globalization makes it necessary for the centre to find an effective way to regulate the national economy in order to accommodate external economic forces resulting from globalization (Zheng, 2007). In order to resolve the tension between the central and local governments brought

about by globalization, China implemented “selective recentralization” since the mid-1990s, which in turn gradually institutionalized de facto federalism in China (ibid.).

One may wonder how the absolute power held over appointments and promotion by the centre may undermine the federalist character of the central-local relationship in China. However, as Zheng argues, the nomenklatura system is no longer the most efficient way to guarantee the central government’s control on the local. In the matter of selecting local officials, the provincial leader has an important say because the centre could hardly make a personnel change without information on individual leaders provided by the provincial leaders (Zheng, 2007). The personnel control by the central government cannot function well without local cooperation. The province is no longer the one that has no impact on central personnel decisions, although it is still in the subordinate position within the formal institution. Susan Shirk also suggested that there is so-called “mutual accountability” between central and provincial leaders since provincial leaders are the largest part in the Central Committee of the Party which elects central leaders (Shirk, 2007). On the one hand, provincial officials hope to be promoted and the central leaders can threaten dismissal as an incentive to mobilize local officials to support the reform. On the other hand, provincial officials constitute the majority of the Central Committee, and their support is necessary for any central leader. They have the strength to persuade the central leader to implement policies that are conducive to local interests. This also tells us that reciprocity, the most important characteristic of central-local relations in de facto federalism, becomes the most common and important mechanism in the political and economic relationship between the central and local governments rather than coercion and bargaining (Zheng, 2007). Thus, as Zheng stated, the central-local relationship in China operates in the way of de facto federalism even without institutional guarantees.

After the general discussion about central-local relations in China, Zheng has done in-depth case studies in three provinces, namely Jiangsu, Zhejiang and Guangdong. These provinces all experienced decentralization and a great decline of the power of

the central government; however, each province developed an obviously different relationship with the central government. The Jiangsu government relatively smoothly achieved cooperation with the centre and did not carry out any radical reform, but implemented pragmatic policies to promote local development. The central-local relationship in Zhejiang is characterized by problem-solving. Conflict existed, especially in the private sector economy (such as the Wenzhou model), but the local leadership acted as a buffer between the outside world and the local community, and prevented the local private sector from actual influence by external forces (Zheng, 2007). But the central government has not taken back power and instead they solicit provincial cooperation by giving incentives to drive them to achieve a central goal. The situation in Guangdong is quite complicated. After the decentralization, Guangdong slipped into excessive localism, going beyond the boundaries. The central government could not tolerate this action. The centre decided to launch a campaign against this excessive localism. But the central government seems to have encountered a dilemma; excessive localism often destabilizes the national economy, but without strong incentives for local interests, local economic development will be undermined (Zheng, 2007). Finally, the centre decided to plant national institutions in selective areas in Guangdong to crack down on the excessive localism and resume the control of central government without negatively affecting local initiatives (ibid.).

From these case studies, we can observe that the central government could no longer eliminate any localistic development in the practical structure of central-local relations in China. Therefore, de facto federalism may be the more reasonable explanation of how the central and local governments interact in practice. As Zheng defined the central-local relationship of China as de facto federalism, how such a federalist system affects social policy becomes the next question. Does it affect social policy in a federalist way like other federal countries, or does de facto federalism have its own style in affecting social policy? It might be reasonable to ascertain how the “old fashioned way” (which operates in other federal countries) works in China. Here Pierson’s three distinctive dynamics of federalism on social policy could

provide a theoretical framework to explore how de facto federalism affects policies in China.

The reservation of specific powers to constituent units, as Pierson suggested, is an institutional characteristic of federalism which is of great relevance to social policy. Particular policy responsibilities or policy areas are reserved for determining the position of constituent units in the process of policy-making and even restrict the potential for central government action (Pierson, 1995). Compared to countries where the particular power of the local government is constitutionalized or clearly institutionalized, the boundaries between central and local power in China are quite blurred and lack clear definition. According to Article 64 in the Legislation Law of China, the local government could enact local laws and regulations according to the specific situation in the region in order to implement laws and regulations. Such ambiguous legislation provides more flexibility for “local affairs”, and the local government has plenty of chances to provide a self-serving interpretation of these affairs and expand their power against the centre. So the reserved power for the province is more likely to be on a practical level and there is much space for the local government to gain some specific power from the central. With globalization, the local government and local enterprises get even more autonomous power from the centre. So it is more and more difficult for the centre to force or drive the local governments to act as the central government would like them to, because the local government has more and more decentralized power, which is in line with Zheng’s idea on the central-local relationship in China. Even those powers reserved for the local government are not institutionalized by law in China, but there is little possibility for the centre to retake the decentralized power. Selective recentralization in specific areas, as Zheng (2007) suggests, seems to be the only option for the centre to retake power from the local governments.

The case study in Zheng’s research also shows how locally reserved power performs in China. When the “Wenzhou model”, which went against the interests and ideology of the centre at the time, appeared in Zhejiang, the centre had not taken the decentralized power back and did not punish the Zhejiang government as it had done

in the past; rather, the central sought to achieve cooperation with Zhejiang and try to drive the local government to achieve the central goals. This provided evidence that although the powers reserved for local governments are not institutionalized, it is less possible for the centre to retake the decentralized power from the local. The case of Guangdong and Jiangsu shows how different reserved powers affect policy-making in different provinces. Guangdong, as the pilot province of the opening up and reform, was granted significantly more power in economic planning than other provinces, such as power over economic development in the private sector. Their power in hand expanded as quickly as their economic development and the central plan and policies could not be implemented as the central will in Guangdong. Eventually, the excessive localism in Guangdong went beyond the tolerance of the centre. The central implemented “selective recentralization” in Guangdong by planting national institutions in selective areas in Guangdong to keep Guangdong in line with the central (Zheng, 2007). While Jiangsu got much less reserved power than Guangdong during the reform and decentralization, the local government interacted with the central positively and achieved smooth cooperation in implementing central policies. Therefore, the dynamic of the reserved power to constituent units seems to have had obvious influence in China.

The second institutional characteristic of federalism identified by Pierson is how local interests are represented at the centre. In China, the way that the local governments express their interest is more complicated. There are two main approaches local: one is the internal approval and consultation process and the other is via a proposal brought by a local representative mission during the National People’s Congress. The internal approval and consultation process refers to the information upload and exchange between different tiers, which is the common and direct way in which local government can express its interests. Since there are dual authorities (government and party organs) at all levels, the internal approval process could go through either channel. Expression through the government system is a worldwide phenomenon. The advantage of this approach is that it makes full use of the existing administrative authority, but the disadvantage is that information might be distorted during the expression through the tiers of bureaucracy and the low

efficiency of the administrative organs. In the current situation, the power of party committees still holds primacy at all levels. The expression of local interests through the internal party organization makes local governments able to circumvent a series of institutional and legal dilemmas in the political system (especially administrative systems), which is a more suitable and efficient way for local governments to achieve their aims (Zheng, 2012). Of course, this expression approach is based on the actual position of party committees in daily politics. Such an approach has to face examination and cross-examination by a series of normative documents like the law and the party constitution. Therefore, although this means of expression for local interests looks quite effective, it has flaws in its legitimacy.

The second main approach for local governments is the proposal on the National People's Congress (NPC). In March of each year, all the national people's representatives gather in Beijing to deliberate the report of each national executive (such as the State Council and the highest People's Court) and discuss the major issues for the whole country. Each national representative is elected at the provincial level, though some are elected among the Army, to represent the local interests of where he or she comes from. Local interests are condensed in the proposal and comments of national representatives reach Beijing directly. During the annual NPC, top leaders will participate in the group discussion of local delegations, making it possible for local interests to be directly represented to the central government. Expression through the NPC achieves expression beyond administrative tiers and helps to avoid inefficiencies caused by multiple levels of bureaucracy. However, due to the current actual position of the NPC and its representatives (as discussed in Chapter 2), the effective response to local expression by means of the NPC is relatively limited. Furthermore, the number of national representatives in each province is determined by guaranteed positions and positions based on population. However, since China only has one parliament (NPC), it is difficult for the provinces with small populations to block policies which are favoured by the majority. This is a result of the inferior position of these provinces with minority populations in the NPC.

In fact, there is a special and informal way for the expression of local interests in China. Each province, district and some counties have their own Beijing liaison offices to lobby central ministries for policy resources such as financial support from the central government. Beijing liaison offices were established under the planned economic background. At the beginning, the centre's initial aim was to build a communication platform between the center and local government. There are three main duties for the Beijing liaison offices, the first of which is to offer hospitality to local officials when they come to Beijing for public affairs. The second is to furnish information on the latest developments and timely reports on the central government to their local government. The third is to lobby the central state organs to get more policy support and resources on behalf of their local interests. But with the advent of economic development and a series of reforms, the core duty for Beijing liaison offices is lobbying for resources and policy support for local government. After the taxation system reform, some undeveloped areas relied more heavily on the central fiscal transfer payment, making the function of their Beijing liaison offices more prominent. Because Beijing liaison offices are located in Beijing and their staff are more familiar with the operating characteristics of the central state organs, the central leadership style and specific central officials than the local government, Beijing liaison offices have become an informal but very effective way for local governments to express their interests to the centre (Guo, 2010). However, this informal approach has experienced some setbacks. In 2010, the central government ordered all provinces to close their Beijing liaison offices because they had the potential to become a hotbed for corruption. But such a simple revocation of the Beijing liaison offices did not actually stop this informal means of local expression. Most of Beijing's liaison offices transferred to the suburbs of Beijing or Hebei province, and continued their previous work. Therefore, this informal but direct approach for local governments remains functional as a way to express local interests to the centre.

The level of fiscal equalization across the constituent unit is the final dynamic suggested by Pierson. As discussed in Chapter 3, the distribution of financial resources among constituent units has a significant influence on the strategies and policy experimentation of local government. Unlike countries which have an

institutionalized commitment to substantial fiscal equalization in their constitutions, such as Germany and Canada, China has no institutionalized commitment to fiscal equalization. Fiscal decentralization was a crucial part of the reform of the market economy after 1978. When fiscal power was increasingly decentralized, the gap between fiscal revenue and public service provision responsibility grew larger. Some poor provinces were unable to meet the expenditure responsibilities or provide basic public services at a very low level (Gu, 2010). These provinces needed more income from taxation in order to provide these public services. Therefore, transfer payments were inevitably used as an important means to meet the vertical fiscal gap and achieve vertical control by the central government. The function of transfer payments by the centre become more obvious after taxation reform in 1994 and local governments, especially poor provinces, relied more on central redistribution. However, the transfer payment model at that stage was a kind of tax return model, meaning that the central government held the initiative. The return amount was used as a tool to control the local governments, and to some extent relates to the behaviour of the local governments (Gu, 2010). With such a low level of fiscal equalization, we are able to understand why the provinces mentioned in the case studies in Zheng's research had different policy and development plans, sometimes even daring to block policies proposed by the central government, as in Guangdong province. These provinces all have a strong local economy and were granted significant power during the decentralization process and are fiscally independent compared to poorer provinces. Therefore, the transfer payment is not an effective means of driving them to achieve the goals of the central government. Thus the centre needs a new effective tool to guarantee both local fiscal ability and its control of local government. When the concept of "Harmonious Society" was proposed in the Sixteenth Party Conference in 2006, it included the goals of "improving the public fiscal system and gradually reaching the equalization of basic public services", while the Seventeenth Party Conference drew much attention to "promoting the equalization of basic public services and the main functional areas". This means that the concept of fiscal equalization has been gradually embedded into the public fiscal system and has become a direction for future development (Gao, 2006).

The different consequences in the three cases listed above also remind us of Pierson's research on federalism and policy outcomes as well as on time and institutions. Since each province has unique path-dependency with regard to local development (for instance, Zhejiang has a strong tradition of private economy and Guangdong has a history of localism), the strategies of both the central government and local governments vary when dealing with each other. As Pierson suggested, how federal institutions are embedded in a particular political context has significant consequences for policy development (Pierson, 1995). Then the unique political context in each province drives the three provinces onto different paths, and they in turn gain different specific decentralized powers from the central government. Meanwhile, three distinctive dynamics of federal institutions mentioned in Pierson's research seem to play a significant role in these cases. The expression of local interest in the centre is different in the three provinces. For example, there are plenty of bureaucratic enterprises (enterprises founded, managed and controlled by the Party cadres, government officials and their family members) in Guangdong, offering a channel for Guangdong to express its local interest to the central government (Zheng, 2007). The enterprises are a strong dynamic of Guangdong localism as well. Therefore, the localism could go beyond what the central government will tolerate, prompting the centre to launch a campaign against this localism, steps which were not necessary in the other two provinces. Such relations between institutions and policy outcomes in these three provinces may provide some evidence that the interaction between the centre and the local in China turns out to be quite similar to the central-local relationship of the federalist system described in Pierson's research in 1995.

Summary

In summary, after reviewing the literature on federalism and unitary systems, *de facto* federalism, which had been conducted in a historical intuitionist framework, may be the most reasonable descriptor to capture the current features of how the central and the local governments interact with each other in political and economic arenas.

The emphasis by both Pierson (1995) and Zheng (2007) on particular political institutions also provides a good research approach to explore how these institutions affect specific policy in specific areas over time. The three distinctive dynamics mentioned in Pierson's research also have a significant role in affecting social policy in the de facto federalism of China. Meanwhile, these dynamics seem to have some unique features or operate in unique ways in the political and economic environment of China. For example, China has Beijing liaison offices, an informal but efficient and effective system of expressing local interests. Providing reserved power to the constituent unit is not well-institutionalized and remains at a practical level. But these practical powers of local government indeed affect how the local governments interact with the centre and policy outcomes. Two chapters have reviewed the central-local relationship and how it affects social policy, and reviewed the arguments of a number of scholars with regard to this relation. However, does the literature reviewed reflect the current reality in China? Does it accurately describe the features of the central-local relationship after the rapid development of recent years? The system of de facto federalism here is a kind of procedural concept rather than an ultimate concept. It is more likely to describe the procedure of how the centre and local governments interact on a behavioral level, but this relationship has been in the process of transformation. Is there a trend of formal institutionalization or is it ultimately transforming to another model? Does reciprocity still play a significant role in central-local interactions in China? For the institutional dynamics which affect social policy distinctively, do they operate in a different way from what we have reviewed? Although China does not have institutionalized fiscal equalization, it is a developing direction for China. Has the fiscal equalization developed to a new level and produced new influences on social policy? All these questions should be answered if we aim at obtaining a clear understanding of the role of central-local relationship in China and how it affects social policies in reality. Thus, we need to explore the answer by further fieldwork and a detailed case study.

Chapter 5: The healthcare system in China

The complexity of China's central-local governmental relationship has been reviewed in Chapters 2 and 4. Exploring how this relationship affects specific social policies is the next task of this thesis. This chapter will discuss the healthcare system, which is the chosen policy field of this thesis. Section 1 will discuss the reason why healthcare was chosen for study by reviewing the social reforms in China. Section 2 will discuss healthcare policy, and a typology of healthcare systems, and then examine the developmental process of the healthcare system from 1951 onward in order to aid understanding of how it works and to grasp some specific features.

Section 5.1: Why health?

This section will briefly review the developing process of social welfare in China. Social reforms in different social areas have similar start points, however reforms in these areas presented more and more differences with the deepening of the reforms. Healthcare reform developed significantly differently from other reforms and its features makes healthcare a more appropriate policy field to observe how the central-local relationship affects social policy.

5.1.1 Social policies in China

5.1.1.1 Social policies before 1978

After 1949, the Chinese government copied the welfare system of the Soviet Union to create a socialist welfare arrangement and policy mode. At that time, social welfare services mainly focused on rural and urban poverty relief and natural disaster relief. Welfare services were arranged for vulnerable groups, mainly for the old and the sick.

Social insurance was set for national cadres and workers in state-owned enterprises and social care was based on special care and placement for war veterans (Bruce and Harrell, 1998). The standard of social welfare stayed at the level where the key goal of social welfare was to alleviate poverty and provide relief after natural disasters. At this stage, these social cares were regarded as a kindness from a national authority and lacked a real basis of citizenship (Chen, 2003). However, since the reform and opening up in 1978, the macro social environment, social organizations at the meso-level and individual lifestyles have greatly changed. The social welfare system and remaining welfare policy model based on traditional work units experienced structural and revolutionary change. Prior to 1978, “the enterprises in China, especially the State-owned enterprises (hereafter referred to as SOE) were acting as an all-encompassing ‘unit’, whereby not only the full employment of all their workers was guaranteed but also ‘cradle to grave’ welfare was delivered” (Chen, 2003, p. 52). Urban workers employed in SOEs, who were treated as ‘labour aristocrats’, enjoyed the fullest welfare of all, patterned after the Russian model. The welfare needs of rural residents, by contrast, were met by their communes (World Bank, 1997).

The connotation and framework of social policy in China before 1978 was consequently different from social policy in the United States and Europe. Since China has its own unique history and culture, social environment, social structure, population structure and industrial structure, the connotation and framework of social policy also has a unique character. For example, the special care and placement of veterans and their families is an important part of the framework of social policy and social welfare system in China. Compared with a similar system in the West, the veterans special care system reflects more about the social welfare responsibilities of government (Liu, 2003). Moreover, environmental protection, ecological health and the Healthy Cities movement is an important part of the social welfare system and social policy framework. Social policy was introduced and primarily developed in China when the concept of green welfare and ecological health arose around the world (George and Wilding, 1994).

At this stage from 1949 to 1978, there were several unique difficulties that China faced. Firstly, the boundary between political, economic, social and cultural policies was unclear (Liu, 2003). Thus, there was a high degree of interpenetration, interdependence and mutual influences between political, economic, social, and cultural factors, which in turn increased the difficulty of policy formulation and implementation. Secondly, the social policy framework lacked corresponding basic values. Social policy is not value-free; on the contrary, it is often based on certain values and goals (Liu, 2003). A crucial essence of the practice of social policy shows that it is meaningless to discuss social policy at a neutral value position (ibid.). However, compared with social welfare as a social right in the Western world, social welfare has been long regarded as a kindness from the government (Liu, 2003). Although China now has an ambitious social welfare system, corresponding values such as universal social rights are still not deeply embedded. Thirdly, the target group of social services has a strong selective character and always needs to be qualified. The basic principles and the main criteria of social services prefer demand, identity, egalitarianism and status orientation, rather than needs, civil rights, performance ability, social justice, equality of opportunity, and the highest national and social interests (Liu, 2003). Fourthly, social policy decision-making commonly has little consultation or opinion polling before any decision is made. The decision-making power is usually concentrated in the hands of a few political elites and it is difficult for ordinary people and the majority of citizens to fully participate in the decision-making process. The policy process is essentially a political process, and an opportunity for a variety of social subjects to maximize their self-interest (Hill, 2005). The political elite should compromise, coordinate and balance the various interests of the community and social values and make an authoritative redistribution. Although experts are participating in the decision-making process more actively, the overall ordinary participation is still at a low level.

5.1.1.2 Social reforms after 1978

When the economic reforms began in the late 1970s, China introduced market mechanism to switch the national focus to economic reconstruction and socioeconomic development (Chan and Mok, 2001). Meanwhile, privatisation and decentralization were attached to the tide of marketisation in China. Similarly to the global trend of privatisation and marketisation, state provision, subsidies and regulations on social welfare were reduced (LeGrand and Robinson, 1985). Heavy provisional and funding responsibility of central government shouldered by local governments and non-government sector (Chan and Mok, 2001; Johnson, 1987). Under the shift from the central-planned economy to a socialist market economy, social policy in China experienced market-oriented change. Individual responsibility and local initiatives were re-emphasized, and people in China started to rely more on themselves and the market for social welfare provision, rather than on government as was the case in the Mao era (Cheng, 1994; Chan and Mok, 2001).

The following sections will briefly examine the reforms in a number of different social sectors. Education, housing and healthcare are chosen as they experienced major changes during the reform period, and there is more interaction in these policy fields. Through comparing the different processes of these social reforms, the tortuous process of healthcare reform and the features presented in the healthcare reform, abundant examples are provided to explore how the central-local relationship influenced social policy.

Education reform

In the education sector, fundamental changes occurred in financing, curriculum and management during the reform. In 1985, some of the responsibilities and power of educational management were decentralized to local governments and educationalists, and schools obtained more decision-making power on the administration of social affairs (Lewin et al., 1994). In 1993, the central government no longer directly “governed” schools, but had switched its role to legislation

guidance, funding, and planning (Chan and Mok, 2001). In 1995 decentralization in the education sector was taken even further; schools were granted more power on academic credentials and recruitment (Mok and Chan, 1998). Meanwhile, the concepts of efficiency and effectiveness, which were closely associated with the market and privatisation, became more popular in the education sector.

These economic reforms alongside the trend of marketisation and privatisation have granted education several “marketized features” (Agelasto and Adamson, 1998; Mok, 2000). Firstly, there is more diversity in educational provision. Although governments remain the major provider, the non-governmental sector has been encouraged to sponsor schools and colleges. Diversified educational services such as “people-run” (Minban) schools and “social-forces” (Shehui Liliang) schools continuously increase across the country (Lai, 1996; Zhou and Cheng, 1997). Secondly, there are multiple financing channels for education services. In the 1980s, the state took nearly all the financial provision for the higher education sector, and free university education was provided to those qualified students who passed the entrance examinations. With the economic reforms and marketisation, non-state forces were encouraged to sponsor education and the state financial provision for higher education gradually reduced. In 1993, nearly 23 million yuan were raised for the higher education sector from the non-state sector, which amounted to more than one third of all funding (Ng and Li, 1997). Meanwhile “user-pay” principles were adopted in the mid-1990s, where all students have to pay their tuition fees, and scholarships and student loans become more and more popular and important to those who came from poor families (Agelasto and Adamson, 1998). In 2010, 47.31% of higher education funding was raised from the non-state sector (Ma and Liu, 2015), which indicates that the “marketized reform” in the education sector continues alongside the economic reforms and decentralization in China.

Lastly, internal competition among education institutions has been introduced and encouraged by the central government. Since the mid-1990s, the centre have introduced specific projects such as “Project 211” and “Project 985” to enhance the efficiency and effectiveness of universities. All universities are assessed by

quantifiable objective criteria on facilities, staffing, teaching and research (Rosen, 1997; Chan and Mok, 2001). Those “qualified” universities will be allocated additional funds based on specific projects. The internal competition is increasingly important to universities because of the attached rewards. Alongside the marketization in the education sector, the internal market in Chinese universities gradually plays an increasing role in the education sector.

In summary, the privatization and marketization started in the 1980s have brought fundamental changes to the education sector in China. The sector, especially higher education, has presented more and more marketized features on service provision, funding and internal competition. Meanwhile these market-oriented approaches still play a big role in current education system. In other words, the education sector remains relatively stable after the market-oriented approaches were introduced and education reforms had taken place.

Housing reform

Under the central-planned system prior to 1978, the state directly controlled the housing sector. Houses (especially urban houses) were directly provided by Danwei (work units) to their employees. The central government was responsible for capital provision and local government was responsible for developing, allocating and maintaining houses together with work units (Gibson, 2009). The ownership of these houses was public in nature, and they were not allowed to be sold. Housing policy was reformed alongside the economic reform after 1978. Market mechanisms were introduced into the housing sector as the main reform effort, which dramatically changed housing in China (Zhang, 2000). During the trend of privatization, housing was gradually switch to an economic good rather than a social good. From 1979, public houses either owned by the state or work units were allowed to be sold, which became a favourite form of privatization for the state in 1988 when the sale of public houses became a national policy (Zhang, 2000). Meanwhile, work units were not allowed to build houses for their employees from 1998. The housing corporatisation,

which refers to setting up independent development companies specializing in housing development, was introduced in the 1980s and separated work units from housing production (ibid.). Work units had to enter the housing market to buy from developers and then sell to employees. In addition, since the Housing Provident Fund became a national policy in 1994, individuals' abilities to purchase houses were improved, and affordability was further enhanced in 1997 when mortgage financial systems was introduced (Zhang, 2000). At the end of the 1990s, all enterprises and work units were ordered to ban their welfare housing systems (Gibson, 2009). Since then, housing supply and purchasing has been largely operated on a market basis and a formal housing market had been gradually established.

Similar to the education sector privatization and marketization were the two main themes during the housing reform. The government continuously distanced itself from house production and distribution. In 1979, more than 90% of housing investment came from the state; by 1993 it had decreased to 23% (Zhang, 2000). The role of the state and work units in housing gradually changed from provider to enabler or mediator, while individuals, which used to be the beneficiaries of the old housing policy, have taken the most responsibility for house purchasing (Gibson, 2009). The government no longer directly involves itself in housing operations; instead, policies which spur domestic demand or cool the supply for housing (such as raising the benchmark loan rate) become the most common means for the government to manage the sector, which indicates the strong marketized features in housing in China. Moreover, the housing reform was mainly launched in urban areas; rural areas are rarely affected by major change in housing reforms.

Healthcare reform

Before the reform, healthcare service was funded by the state in China and patients did not pay for the services. With the economic reform and decentralization, the first round of healthcare reforms was launched in 1980s. Consistent with the trend of decentralization and marketisation, this round of reforms emphasized improving the

economic efficiency of hospitals and holding hospital fiscally accountable (Zhao and Feng, 2010). Several market-oriented innovations were implemented during the reforms: the pricing of services was reformed to be based on real costs in 1985, service contract systems were introduced in 1989 and supplementary commercial activities to compensate for inadequate budgetary financing was allowed in the same year (Zhao and Feng, 2010). After this round of healthcare reforms, healthcare institutions had more incentives to provide healthcare services and could earn more under the fee-for-service payment schedule (ibid.). As a consequence of this round of reforms, many fiscal and administrative powers had been decentralized to healthcare institutions and they started to take more responsibility for generating revenue. The reform was in fact the process of the government relinquishing its responsibility to raise money for healthcare funding, and transferring that responsibility to individuals instead. Under this context, healthcare institutions had a strong “profit-driven” feature. Hospitals were motivated to take advantage of asymmetric information and to charge patients more (Gao et al., 2009).

The second round of healthcare reforms was launched in 1996 to tackle the emerging issues. This round of healthcare reforms recognized healthcare as part of social welfare, and tried to balance economic benefits and social welfare. The role of the government was re-emphasized as the coordinator of national economic development and social benefits (Zhao, 2005). The healthcare insurance system, which combined a social pool and individual accounts, was established during this round of reforms. The central government made an effort to organize different kinds of healthcare insurance for different groups of people. However, the vested interests which hospitals gained from market-oriented reform was further strengthened in healthcare insurance reform, forming interest groups which exacerbated interest distribution and plundered the healthcare market. Many responsibilities which were originally held by the government were transferred and released through its fiscal exit from the supply and demand side of the healthcare service market, which resulted in an unbalanced situation in supply and demand, meaning patients higher and higher prices for healthcare service (Gao et al., 2009).

The third round of healthcare reforms started in 2007 in order to address the consequent outcry on reducing the individual burden for healthcare (Zhao and Feng, 2010). The “Implementation Plan of the Key Reform of the Health-Care System in the Near Future (2009-2011)” was released in 2009, and its goals included:

- *To develop the public health system, and to maintain all public health institutions fully budgeted to provide public health services without user charges.*
- *To strengthen the rural health delivery system and the urban community service delivery system, and to develop appropriate basic health service facilities to provide services at a low cost.*
- *To reform the hospital management and operational system, maintain the nature of public hospitals, and ban supply-side induced demands for medical personnel to earn more.*
- *To develop a health protection system basically comprising three insurance plans: (1) basic medical insurance for urban employees including civil servants, (2) urban residence medical insurance, and (3) rural new cooperative medical insurance for farmers. The Ministry of Civil Affairs will develop a medical relief system for the low-income population (Zhao and Feng, 2010, p. 35).*

It is notable that the role of government was re-emphasized in healthcare funding, service delivery and operation supervision. The difference between this new round of reforms and the previous reforms was the high level of government involvement. With this reform, the government took on the primary responsibility for supply and supervision of healthcare services.

5.1.1.3 Summary

As discussed in previous sections, along with the economic reform and decentralization, the modern social policy framework and social welfare system, which is compatible with the market economy, were gradually established. The modern social welfare structure consists of state, market and community. The non-government sector was formed and began to play a more and more important

role in China (Yang, 2002). Since then, the transformation of China's social structure, coordination of socio-economic development and social services have entered a new stage.

Social policy sectors such as housing, education and healthcare in China experienced market-oriented change since 1978. Consistent with the decentralization, many responsibilities had been decentralized from the central government to local government, and from the government to non-government sectors. It is in fact a process of “bigger market and less government” during the social and economic reforms.

5.1.2 Why healthcare?

After the reform and opening up of China, the role of central government in the social security and social welfare system has retreated – the central government has even completely relinquished control in some fields. However, among different social policy sectors, healthcare reform presents different features compared to other social policy sectors such as education and housing. Firstly, the government is involved in healthcare policy more than in other sectors. Most social policy reforms are consistent with the trend of decentralization and marketization, where the government gradually distanced itself from direct control of social policy and regarded market mechanisms as the most important operating mechanism. However, during the healthcare reforms mentioned above, we could observe that the role of government in healthcare policy and systems didn't “fade out” like it in other sectors. The role of government has actually been re-emphasized several times, and in the third round of healthcare reforms in 2007, a state-controlled basic medical delivery system is set as one of the main goals. The government have planned to take on more responsibilities in the healthcare sector not only in urban areas but also in rural areas. There could therefore be more interaction between the government and healthcare policies across the country than in other social sectors, which makes healthcare the

most suitable sector to be selected to examine how the government influences social policy.

Secondly, healthcare reform in China is more tortuous than reform in other social sectors. Other social reforms such as the housing and education reforms are relatively stable, and privatisation and marketization have been kept as the main features till now. In contrast, healthcare reform has many twists and turns. These changes could provide abundant material to explore the role of government than in other social sectors.

In addition, since China's territory is vast, the development of urban and rural areas is quite uneven. Coupled with the division of the household registration system, many fields of social policy have a localized feature that leads to obvious differences in the social security system and the actual level of social welfare. Together with the strengthening of local social policy innovation, the gap between local social welfare arrangements and levels of social welfare between different areas in China further increased. Such welfare differences are especially significant in the healthcare system since the healthcare gap appears not only between urban areas and rural areas or between different provinces, but also appears between different counties in the same district. For example, from 1982 to 2001, the total number of beds in town hospitals increased from 832,000 to 1,959,000. This was an increase of 135.3%, but in rural areas a significant decrease of 16.7% was seen (1,221,000 to 1,017,000) (Li and Jiang, 2008). In 1982, the ratio of the number of hospital beds per thousand people between the highest and lowest area (Shanghai and Guangxi) was 3.1:1, but it had expanded to 4.2:1 by 2001 (*ibid.*). Meanwhile, since the introduction of market mechanisms into the healthcare system, medical service resources rapidly transferred from towns to big cities or from undeveloped areas to developed areas. Large hospitals have increasingly advanced technology, equipment, and other conditions for growth, while institutions such as rural township hospitals, health centers, and other urban community medical institutions are gradually shrinking – many cannot survive. Meanwhile, a huge number of workers from the poor central and western regions (the major exporters of labour in the eastern region) pay health insurance costs without

being able to actually enjoy medical insurance when they return home or get sick, due to Medicare account transfer problems between different regions and the household registration system; exported workers who have paid in their hometown cannot enjoy the healthcare insurance benefits in their workplace until they start to pay there (Li and Jiang, 2008). Consequently, there is also a big gap between migrant workers and native workers.

Such an increasing gap in the healthcare system seems to be the result of the changes in the central-local relationship after the market economy and tax system reforms. The role of the central and local governments was greatly changed during these reforms, because both of them wanted to survive and continue developing while facing the new pressures brought by the reforms. The game of bargaining and cooperating between the central and local governments makes the healthcare system more and more complex and inefficient after the reform. Thus, the healthcare sector is a good policy field to explore how the centre interacts with the local during the policy process, and how they impact on a specific social policy.

In sum, with so much difference among different provinces, between the urban and rural and the rich and the poor, the healthcare system could be a good policy field than other policy sector to reflect the direct and indirect influence of central-local relationship in China. The tortuous process of healthcare reform also provides abundant examples that reflect how central government and local government interact with each other within policy process, therefore, healthcare sector could be a better choice to help achieving the research objectives of this thesis.

In the next section, I will go on to examine in more detail the features of the Chinese healthcare system and discuss these with reference to a typology of healthcare systems in other countries. Firstly, I will discuss the nature of healthcare systems and relevant typologies, before looking in more detail at the development of the Chinese system.

Section 5. 2: The healthcare system in China

5.2.1 What is a healthcare system?

A healthcare system, as a kind of socioeconomic system, is structured to serve a certain social purpose (Hsiao, 2003). Thus, a wealth of literature has defined the healthcare system by focusing on the function. Healthcare systems used to be described in terms of indicators and activity such as total number of hospital beds or number of physicians (Roemer, 1993; Hsiao, 2003). The OECD had defined a healthcare system as “an ideal typical set of macro-institutional characteristics based on variations in the funding of healthcare and corresponding differences in the organization of healthcare provision” (OECD, 1987, p. 24). Characteristics such as productive resources, organization of programs and service delivery should be emphasized according to Roemer (1993). Hsiao (2003) conceptualized healthcare systems differently to the OECD (1992), describing them as a series of funding flows and payment methods between patients and institutions. Londono and Frenk (1997) also pointed out that healthcare systems are formed by four functions namely financing, delivery, articulation and modulation.

Another body of literature describes healthcare systems by emphasizing the relationship between participants in the healthcare system. According to Frenk, healthcare is “the vehicle for the organized social response to the health condition of the population” (Frenk, 1994, p. 23). However, these approaches neither adequately address the relationship between the outcome and function of healthcare systems, nor explain why and how healthcare systems yield a given outcome. Therefore, in order to merge the “why” and “how” of healthcare systems, Hsiao (2003, p.5) defines healthcare system as “a set of relationships (or causal connections) between components and goals or outcomes such as promote, restore or maintain health”. Such a comprehensive definition could not only help to understand the major factors that may explain varied system goals, but also provide instruments for policy makers to manage healthcare system performance (ibid.).

5.2.2 Typology of healthcare systems

Welfare state typologies, from Castles' (1993) notion of "families of nations" to Esping-Anderson's (1990) welfare state regimes, and to Lijphart's (1999) democratic and state regimes, generate abundant information about policy emergence, policy making and policy cycles. Typologies have been popularly used by researchers to conceptualize institutional context in which policies are embedded (Burau and Blank, 2006). Comparative study of healthcare systems is also commonly used in order to capture the institutional context and identify important dimensions in healthcare system across countries.

Field (1973) was one of the first researchers to develop an influential typology of healthcare systems. Doctors' autonomy and ownership of healthcare organization were the two dimensions he focused to differentiate healthcare systems. Then the OECD developed a seminal framework for a healthcare system typology, which classified healthcare systems on the basis of funding and provision of healthcare (OECD, 1987). This research introduced three basic models of healthcare system; namely the national healthcare service model (for example the UK and Sweden), the social insurance model (for example Germany and the Netherlands) and the private insurance model (for example the USA and Australia). All these models are characterized by their different "performances" on patient sovereignty and social equity (Burau and Blank, 2006). This OECD typology has been widely used in comparative analysis of healthcare policies, especially those analyzing how relevant institutions shape healthcare policy (see for example Freeman, 2000; Scott, 2001).

In more recent research, other dimensions have been included when comparing healthcare systems in different countries. For instance, the governance of healthcare system has been gradually regarded as another salient dimension. Frenk (1994) states that the degree of state involvement in financing, delivery and regulation of healthcare systems could be the most significant attribute that differentiate healthcare systems. Freeman (2000) also suggests that the mechanism by which healthcare is coordinated, in other words healthcare governance, should be included in order to capture the diverse forms of healthcare systems. Similarly, in the framework of the

WHO, how governments deal with policy-making, implementation and monitoring has been assessed to be as important as other pillars such as financing and provision (WHO, 2000). On the basis of shifting focus to the governance of healthcare, Moran (1999) introduced a new healthcare system typology of healthcare state, which consists of the governing on healthcare consumption, provision and production. Under Moran's typology, countries are divided into "entrenched command and control healthcare state", "corporatist healthcare state" and "supply healthcare state" based on distinctions among institutions related to the governance of consumption, provision and production (Moran, 1999; Burau and Blank, 2006).

Other researchers emphasize the influence of relevant institutional arrangements, such as public/private entities and the degree of regulation (involvement) by central/local governments, when categorizing healthcare systems. For instance, Ma and Sood (2008) focus on public and private entities together with regulation accompanying healthcare financing and payment in comparing healthcare systems in China and India. Likewise, Hsiao (2003) underlines institutional factors such as decentralization of finance programs and service delivery. In the typology introduced by International Transport Forum, OECD countries are classified by different levels of regulation and control on healthcare delivery and the diverse modality of public-private relationship in healthcare system (International Transport Forum, 2011).

The discussion above demonstrates that there are different dimensions which help to build typologies of healthcare system. It can be observed that financing, provision and regulation are the significant dimensions that have been most frequently mentioned by analysts. The recent research also indicate that governance of healthcare together with institutional factors such as the role of public/private sector and the relationship between different levels of governments should be addressed when comparing healthcare systems in different countries.

5.2.3 The development of the healthcare system in China

5.2.3.1 1951–1984: The public healthcare stage

The development process

The earliest healthcare system in China was the publicly funded healthcare system, which started in 1951 with the “labor insurance regulation”. Most of the beneficiaries were officials in governmental offices and institutions. The state council later expanded the scope of beneficiaries to rural cadres and college students. In June 1979, retired officials were also included into the healthcare system (Wang, 2012). All the beneficiaries could go to designated medical institutions for treatment, hospitalization or referral with public bursaries for certain expenses. Additional costs would be subsidized by national finance. Since the healthcare system was applied to governmental departments and institutions that have no business income or at least insufficient business income to cover healthcare expenses, the healthcare system was financed by the national budget. The amount was based on the beneficiaries’ actual medical need, national fiscal capacity, and available resources of medical institutions. The fixed budget of healthcare per person per year was calculated and given to local governments to manage and use; any cost over this amount would be subsidized by national finance.

There was another type of healthcare called the “labour healthcare system”. According to the “labour insurance regulation” and “labour insurance regulation implementing Rules draft” (Laodong Baoxian Tiaoli Shishi Xize Xiuzheng Cao’an) issued in 1951, people who worked in state-owned, public-private partnerships, private, or co-operative factories, mines, and their subsidiary units could join the labour healthcare system. Their immediate family members also share the same benefit. Later the scheme expanded to workers in the railways, shipping, telecommunications, transportation, construction, and other industries as well as collective enterprises above the county level. Unlike the publicly funded healthcare system, the finance for the labour healthcare system came from enterprise net income;

the expense was taken from a certain percentage of workers' wages and was accounted as production costs (Chen et al., 2008).

There was also a special healthcare system in early China called the "cooperative medical care system". It is still an important form of healthcare in rural areas today. Back in the early days of the PRC, the Northeastern provinces had been actively organizing a cooperative medical care unit which became the prototype of the cooperative medical care system. In 1955, Gaopin County in Shanxi Province first implemented a collective healthcare system that combined medical cooperatives and producers' cooperatives together (Wang, 2012). After this official appearance of the cooperative medical care system and Chairman Mao's instruction on innovation experience of cooperative medical in Changyang, the cooperative medical care system flourished around the country (Gao et al., 2009).

Achievements and problems

During this period, the healthcare system in China had the following characteristics. Firstly, the government had strict administrative controls on the healthcare system. The government dominated investment in healthcare, and private capital was prohibited from entering the field of medical services; the government directly priced medical services and provided low-cost or even free medical services (Wang and Liu, 2005). The central government greatly reduced medical fees in 1952, 1960 and 1972. Secondly, government intervened in micro-management of the medical care sector. The government directly set up and managed hospitals, and it also allocated medical care resources. For example, the hospitals' key administrative officials were appointed by healthcare management departments and ministries. The government was also responsible for hospitals' daily operations and investment. Thirdly, the healthcare system was highly centralized in a system combining vertical and horizontal administration. Governments at all levels set up appropriate health administrative bodies that were responsible for health resource planning and

supervision of all levels of medical institutions and medical personnel management (ibid.).

At the end of 1952, more than 90% of counties had established healthcare agencies, and the number of county hospitals reached 2,123 by that time (Huang, 1986). By the late 1970s, these three basic healthcare systems covered almost the whole country. Since the level of national economic development was low and the people's demand for healthcare was still at its most basic level, China fulfilled people's basic medical and health service needs with 3% of GDP.

However, since consumers paid very little for medical expenses under the public healthcare system, excessive use of medical resources was encouraged, which accelerated the expansion of healthcare expenditure. Therefore, after the establishment of this system, the effort to repair the institutional defects of the public healthcare system never stopped. In 1957, the government tried to curb the abuse of medical expenses by stipulating ten kinds of circumstances that should not be reimbursed, and tightening the permits for free public healthcare (Wang and Liu, 2005). These principles were put forward in more detail in 1958, 1961 and 1962, but the effect did not seem obvious. The solution to increasing healthcare expenses in this period was to try to restrict patients' behaviour to reduce the expenditure. However, these measures were inevitably weakly implemented and became formalistic under a healthcare system that combined operation and supervision. The government tried to sharpen the boundaries between private payment and public payment in two ways in order to control healthcare spending; they established group demarcation criteria to clarify who should be included, and clearly stated what healthcare services beneficiaries could enjoy by establishing medicine demarcation criteria (Wang, 2012). Although the government made extensive efforts on this front, in actuality the boundaries between private payment and public payment are still vague. The reasons are that both the hospitals and the patients have no incentive to save medical resources and the appropriate agencies have less incentive to monitor use and expenditure.

5.2.3.2: 1984–2005: The market-oriented healthcare system stage

Development processes and reform actions in this period

During 1984–2005, China basically established a market-oriented healthcare system. Learning from the experience of enterprise contract responsibility reform, healthcare providers started operations and management like other enterprises. The direction of reform had been closely related to the great fiscal pressures on the public healthcare and labour insurance systems (Gu et al., 2006). Since the inadequate investment in healthcare greatly affected the healthcare system operations before 1979, the new system encouraged healthcare service providers to be self-supporting rather than relying on governmental payments (Gao et al., 2009). This system bundled doctors, the income of medical service providers and service suppliers together. Some detailed changes to the healthcare system were as follows:

Gradual reduction of direct economic regulation on healthcare providers

In 1980, the State Council approved “The Report on The Issue Allows Individuals To Practice Medical Consultation” by the Ministry of Health and the individual healthcare practice was included in the government management system (Li et al., 2008). In 1985, the government broke the monopoly held by public and collective hospitals, and thus other forms of medical institutions emerged. Price management of healthcare service was also changed. The State Council issued “Guidance on the Urban Medical and Health System Reform”, according to which hospitals were divided into for-profit and non-profit categorizations. In the same year, direct government pricing was abolished. For-profit medical institutions were able to price their services on their own, whereas non-profit medical institutions had government guidance on price. Through these changes, the role of government changed from a business management role to supervisory role (ibid.). In 2001, the “National Medical Price Item Specification” was released, which prominently announced the name and price of major service projects and accepted inquiries and monitoring from the public.

Since then, the names and prices of medical services have been unified across the country and hospitals have been asked to increase price transparency.

Reducing micro-management within public hospitals

In 1989, the State Council approved the report of the Ministry of Health and actively implemented various forms of the Medical Institutions Contract Responsibility System (Xia and Luo, 2009). Medical and health institutions could self-manage after signing the contract to complete tasks given by the government or healthcare department. Thus, hospitals had power to distribute collective benefits, salaries, and bonuses according to doctors' performances. Some hospitals and doctors with good facilities and resources were also allowed to engage in other paid services (ibid.). Since then, the autonomy of healthcare service institutions has continued to increase. In 1992, the State Council issued "Comments on Deepening the Medical and Health System Reform". Healthcare institutions received more autonomy and were directed to actively set up medical and health services or other extension industries. Meanwhile, the medical service market was more open and social capital was allowed to enter in order to encourage fair competition (Xia and Luo, 2009). After the urban medical and health system reform in 2000, some local public hospitals tried to reform. The auction of public hospitals in Suqian in 2000 was the prelude to the reform of property rights. The Wuxi government put forward the idea of trusteeship in 2001 and the Shanghai government launched an investment and financing program for healthcare service institutions in early 2002, which was an exploration of property rights reform for healthcare institutions.

Exploring the urban medical insurance system reform

In 1988, the Ministry of Health, the Ministry of Finance, the Ministry of Labour and eight other departments set up a health insurance reform discussion group to study the social health insurance reform program. Dandong, Siping, Huangshi and Zhuzhou

were picked as medical insurance system reform pilot cities in 1989 (Deng and Liu, 2009). For the public healthcare system and labour insurance, the government introduced a reform on payment and reimbursement for medical expenses in order to control healthcare expenditure (ibid.).

Changing the management system of medical service institutions

In 1988, the “Hospital Financial Management Regulation” (Yiyuan Caiwu Guanli Banfa) and “Accounting System (Trial)” (Kuaji Zhidu (Shixing)) were established. A great change had taken place in 1989 after “Administration Measures for the Medical Institutions Grading (trial)” (Yiliao Jigou Fenji Guanli Banfa) was released. Healthcare institutions were no longer divided according to administrative affiliation and administrative level, but graded according to its comprehensive level such as function, conditions and technical service quality. Medical management institutions changed their direct management model of medical institutions into an indirect management model.

Establishing a social healthcare regulation system

The government was committed to the establishment of an urban and rural social health insurance system. In 1994, the central government, the Ministry of Finance, the Ministry of Health and the Ministry of Labour started to explore social healthcare insurance which combined a social pool and individual accounts. After Zhenjiang and Jiujiang were chosen as pilot cities for the healthcare insurance system by the State Council in 1994, 56 more pilot cities were chosen in 1996. On the basis of these pilot experiences, the State Council issued “The Decision on Establishing Urban Basic Healthcare Insurance” (Jianli Chengzhen Jiben Yiliao Baoxian de Jueding), with which the social healthcare insurance system was officially founded (Deng and Liu, 2009). Meanwhile, the period of public healthcare for urban workers and the labour healthcare system came to an end. Thereafter, the rural healthcare system

reform was relaunched. In 2003, the State Council proposed the establishment of a new cooperative medical system which would cover all rural people, gradually increase the level of healthcare, and transition the rural healthcare system to social healthcare insurance (Wang, 2012). In addition, a new standardized, nationwide urban medical aid system was founded in 2005 by the State Council, the Ministry of Health, and Ministry of Labour and Social Security.

Achievements and problems

China basically established a market-oriented healthcare reform mode during this period. It was a market-oriented reform because the contract responsibility system and enterprise operation mode was introduced within healthcare institutions. The direction of reform was closely related to fiscal pressures since the public healthcare system and labour insurance system had caused major fiscal pressure. Market-oriented reform in the healthcare system was introduced in order to ease this financial pressure. The core intentions of the reform were for the government to lessen its fiscal responsibility and involve the individual in participating in healthcare supply (Xu, 2005). The previous public healthcare and labour insurance system had essentially no personal cost to the user. Even if some areas required personal spending, the amount was very low. When the system failed to control hospitals wantonly expanding the numbers of beneficiaries and limiting patients for excessive medical treatment, reforms that could regulate both hospitals and patients was required (Chen et al., 2008). The way to constrain patient behaviour was to place the cost of healthcare service on individuals.

The first step for this fiscal exit was encouraging hospitals to increase their income and let the hospital be the institution to accept budgetary pressure. The specific approach was to increase the number of hospital's charging project and to standardize the charges. The major feature of this institutional change was that the profit-driven behaviour of small entities in the healthcare system had been established and thus the suppliers of medical services were able to carry out market-oriented financing (Xu,

2005). Detailed records in the reform file of the government show that hospitals were encouraged to make financial provision for income to solve their development constraints and the medical department hiring contract and part-time doctors was also allowed in order to increase revenue (ibid.).

However, China's reform of the healthcare system during this period only established market financing for healthcare services. Market-oriented healthcare service itself had not been achieved yet (Chen et al., 2008). The way to raise healthcare funds had changed – raised by local government rather than by the healthcare institution itself in order to increase health insurance funds' ability to defend against risks. The introduction of market mechanisms was aimed at increasing the cost for those demanding medical services – in order to restrict those who have excessive demand on the healthcare services. Therefore, market-oriented healthcare reform is in fact the process of the government removing its responsibility to raise money for healthcare fund and individuals taking on that responsibility instead. A market-oriented healthcare system has a strong incentive feature; at this stage there is sufficient incentive for medical institutions to propose “supply-induced demand” in order to achieve maximum revenue. Due to such incentives, problems like inadequate funding and lack of healthcare revenue can be resolved through charging consumers; medical institutions will be motivated to take advantage of asymmetric information and expand this asymmetry to seek departmental interests, where patients will bear the high transaction costs (Gao et al., 2009).

After the establishment of a healthcare insurance system which combined social pool and individual accounts in 1997, the reform focus changed from the supply side to the demand side. The reform of the healthcare insurance system seemed to be the process of establishing financial payment to further emphasize the demand side (ibid.). Since then, the price of healthcare services has become higher and higher. Healthcare service providers took full advantage of information asymmetry and uncertainty to increase the patient payment level. Increasing the cost sharing of individual patients was mainly done by medical service institutions to increase their own income (Xia and Luo, 2009). Billing commission and drugs rebates are common tricks that

hospitals like to use. So the price of medication became an important way to gain profit. Such “medicine supporting medical [doctors]” phenomena made medication more and more expensive, making it more and more difficult for the public to bear such costs. Therefore, contradictions in the healthcare market became more prominent for two main reasons: firstly, the vested interest which hospitals gained from market-oriented reform was further strengthened in healthcare insurance reform, forming interests group who exacerbated interest distribution and plundered the healthcare market; secondly, the forces on the demand side of the medical market were weaker. Most of the responsibilities which were originally held by the government were transferred and released through its fiscal exit from the supply and demand side of the healthcare service market, which exacerbated the conflict between healthcare service providers and patients in the market (Gao et al., 2009).

It must be noted that the phenomena of market anomie and interest groups are results of the healthcare system reform. When the government and relevant departments pushed healthcare service providers into the market and removed their own fiscal burdens, they used a decentralized and shirking management model to regulate the healthcare market instead. On the one hand, the government and relevant departments decentralized their supervision duties; on the other hand, they were able to reap the benefits of the healthcare service market through their authority to approve access to the healthcare market (Gao et al., 2009).

5.2.3.3 After 2006: Regulatory reform and the adjustment-innovation period

Developing process

The “difficult and expensive” problem of medical services has increasingly become a prominent contradiction in the healthcare field after the previous reforms, because the established regulatory system could no longer match the current situation and required adjustment. So the Chinese government implemented reforms to the regulatory system of the healthcare market. Firstly, the control of medical service charges was strengthened. In 2006, multiple ministries frequently published

documents to further rectify the price order of medicines and medical services in the market. In 2009, the National Development Reform Committee (NDRC) issued “The Regulations on the National Retail Prices of Essential Drugs”, which implemented price caps on the essential medicine list which included a total of 2,349 specific formulation specifications medicines. By the end of June 2011, 98% of essential medicines had started to be used in rural hospitals and community health service institutions and 28 provinces had achieved full-coverage goals (Wang, 2012). After the implementation of essential medicine price guidance, the cost of nearly half of the prescription medications on the market fell by an average of 12% (Wang, 2011). In areas where this was most effectively implemented, essential medicine prices generally decreased by 30–40% (Mao, 2011).

In 2009, a healthcare reform coordination group was formed by eleven ministries of the State Council, and the new guidance of healthcare system reform which had been discussed at length was published, setting the new healthcare reform into motion. The differences between this new reform and the previous reform were the high levels of government involvement and the return to a public welfare service. With this reform, the government took on the primary responsibility for supply and supervision of healthcare services.

Since then, a new “mixed mode” healthcare system, different from many existing models across the world, has appeared in China. From the experience of much of the world, healthcare systems led by the government usually conform to either the services security model (represented by institutions like the National Health Service) or financing security model (represented by the provision of national health insurance) (Mao, 2011). The so-called services security model (Li et al., 2008) is a method in which national tax is used to finance hospitals and the government directly provides medical services as well as universal free medical care. The so-called financing security model (Cai and Chen, 2008) means that either the government or the individual pays for medical expenses through medical insurance institutions (also known as the purchasing service mode). Accordingly, being the funding body, the government’s input can also be classified as supply side (subsidized hospitals and

doctors) or demand side (subsidized health insurance), based on the way in which medical services are made available. Choosing the supply-side or the demand side was a fierce debate at the beginning of the health care reform in 2009. During three years of medical reform, the government made efforts to increase governmental spending while implementing a series of institutional reforms, which gradually formed a special mode; governmental investment would fill both the supply and the demand sides. Specifically from government spending on healthcare, the fiscal expenditure reached 448.6 billion yuan from 2009 to 2012 (Li and Chen, 2012). Among all this spending, the central government spent 230 billion yuan – 51.2% of the total healthcare expenditure – on healthcare insurance (used to increase the insurance level for urban residents and rural cooperative healthcare members). More than 110 billion yuan was spent on upgrading primary healthcare conditions, supporting the implementation of the essential medicine system, and helping to bring down the cost of medications from 2009 to 2012. The remaining part was used for subsidizing public healthcare and local government (Wang, 2011). From the perspective of hospital revenue structure, hospitals received more from governmental subsidies and insurance payments in order to ensure that medical institutions no longer pursued profit and to prevent hospitals from nibbling healthcare insurance. One case from Anhui province exemplifies this; payment from the healthcare insurance pool to one city hospital in Anhui increased from 87.99 million yuan in 2008 to 141.94 million in 2010, accounting for 43.71% of the hospital's total revenue (Li and Chen, 2012).

The urban and rural basic healthcare insurance system was also improved in this period. The State Council commenced a large-scale medical insurance pilot for urban residents in 2007 in order to deal with the issue of healthcare insurance for school children, the elderly, the disabled and others who may not work. Seventy-nine cities were picked as pilot cities and the healthcare insurance system for residents was implemented nationwide in 2010. More than 200 million urban non-employed residents benefited from it. Thus, the national healthcare insurance system, which includes basic healthcare insurance for urban workers, healthcare insurance for urban residents, and the new rural cooperative medical insurance, had basically been

established. The healthcare insurance coverage increased from 15% in 2000 to 95% in 2011 and more than 1.28 billion people were covered by the end of 2011 (China Health Statistics Yearbook, 2011).

Problems

There have been significant achievements since the new healthcare reform was started. However, many problems were exposed and the situation is not optimistic. The national healthcare operating mechanisms have not been fully established and medical services remain difficult to access and expensive for the majority of the public. What follows highlights the main issues facing the current system. Firstly, the total health expenditure is rising faster than ever, eroding the effect of health insurance. China's total healthcare expenditure grew from 984.3 billion yuan in 2006 to 1.72 trillion yuan in 2009 and reached 2,222.4 billion yuan in 2011, more than doubling expenditure in just four years (China Health Statistics Yearbook, 2011). Thus, although the proportion of insurance claims has risen, there are still masses of medical expenses that patients have to pay themselves while the medical service payment has not significantly declined. Secondly, the interest chain, or in other words, collusion between doctors and manufacturers of pharmaceuticals has not yet been broken – the artificially high cost of medicine has not really decreased, thus the actual drop in the price of medicine is not obvious. Thirdly, the hospital's profit-driven mechanism has not completely changed. The prices of medication are controlled by the government while the hospitals alternatively increase fees of medical inspection. For example, in the cost of both outpatient care and hospitalization, the total cost of seeing a physician and getting prescribed medication remained basically unchanged (China Health Statistics Yearbook, 2010). The underlying cause of the problems mentioned above is that the game between the reform sponsors and stakeholders diverts the healthcare reform process from its original intent.

The game between the central government and local government

The game under central-local relations is mainly the mismatch of property rights and “administrative powers”. Healthcare reform is not an exception. After the tax system reform in 1994, the proportion of the central fiscal revenue in the national fiscal revenue increased year by year (reaching 54.1% in 2007) but the local government bears the primary responsibility for the expenditure (local fiscal expenditure accounted for 77.3% of the national fiscal expenditure in 2007) (Tang and Tan, 2013). The proportion of central government expenditure against the total national expenditure decreased from 30.3% in 1994 to 17.8% in 2010 (Zhou, 2010). In 2011, the total expenditure of local governments reached 84.9% on the national expenditure while the central government only bore 15.1% of the expenditure (Li and Ma, 2012). Meanwhile, the county governments bear huge obligations for public services. Fifty-five to 60% of public healthcare expenditure within budget was taken on by county governments (Zhou, 2010). This situation is a product of China’s unique unitary political system and decentralized economic system. Under this system, the local governments lack the independent legislative power of local governments in other federal systems. Healthcare reform was promoted top-down, so the local governments did not participate in the decision-making process. However, as we can see from the proportions of expenditure above, the central government was charged less than the local, with central government three-year cumulative expenditure accounting for 31.81% of total expenditure (Wang, 2011). In other words, local governments had to bear a greater fiscal burden than the central government. Meanwhile, tax reform only clarifies the fiscal relations between the central and provincial government, while the fiscal system below the provincial level was less clearly delineated. So provincial governments often follow the practice of the central government in centralizing revenue from lower levels of government and decentralizing affairs and fiscal burdens to governments in these lower levels. Therefore, local governments at a primary level were essentially unable to refuse responsibilities assigned by higher levels of government even though they may have extremely difficult fiscal situations. Lower governments, especially county governments, always have to bear large fiscal burdens. For example, in Anhui

Province, the total expenditure for promoting comprehensive healthcare reform was 31.85 million yuan, which includes 11.12 million yuan from provincial finance, 11.21 from municipal finance, 0.43 million from town finance, and 19.07 million from county finance (Li and Chen, 2012).

Thus, the game between the central government and the provincial governments is that the local governments try to obtain more money from the central government to implement the healthcare reform and ease fiscal pressures, while the central government tries to pay less to the local governments and let them spend the subsidy in line with the central government's plan. Implementation of healthcare policies would be damaged if local governments think they do not have enough money from the central. For example, the proportion contributed by all levels of government is clarified by policy in regard to construction funds for medical and health institutions. However, many local governments deliberately reduced their contribution, forcing healthcare institutions to raise money by themselves. Some local governments deliberately slow down the pace of implementation of reform policy. For example, the full subsidy for public healthcare agencies is not implemented in many counties. Those public healthcare agencies have to rely on administrative fees, income from confiscation, prophylactic medical examinations and selling vaccines to sustain their essential operations. Some local governments even changed the use of healthcare insurance funds without authorization (Li and Chen, 2012). All these factors are obstacles that impede healthcare system reform.

Another game between the centre and local governments is that the central government tries to make local governments provide more public services while local governments are keener on economic growth because of promotion rules. The promotion incentives cause local government officials to focus on their own achievements in local economic growth, but make them indifferent to offering basic public services (Tang and Tan, 2013). Zhou (2004) has also proven that local government promotion incentives have a significant influence on local economic competition and cooperation by establishing a game model between the promotion of local officials and local government performance. Thus, the healthcare policy can

also be damaged since the local government tends to spend less on such public services.

Therefore, in order to select sample provinces to study how the central-local relationship affects the healthcare system in different provinces, the central transfer payments should be taken into consideration since how much money a province can get from the central government largely determines how smooth the implementation is and how active the local government is in implementing healthcare policy. Another important factor that may influence healthcare policy implementation is the level of central control of local governments. The stricter the central control is, the more the local government will be in line with the requirements and plans of the central government.

Strong interest groups hinder healthcare reform

Interest groups are another important force that affects healthcare reform. There are two main interest groups in China: one is the interest group (or interest chain) related to pharmaceutical production and the other is the complex interest group of public hospitals. During the process of designing the new healthcare reform program, compromise with pharmaceutical companies can be observed. For example, in the draft of “Views on Promoting the Healthcare System Reform”, “production of medicine, unified distribution, and labelling prices on the packaging” was proposed for essential medicines (Li and Chen, 2012). In the process of soliciting opinions, these requirements were deleted and changed to bidding at the provincial level because of the strength of requests from pharmaceutical companies (ibid.). Judging from the results, the increase in drug prices has become a major factor in the rise of total health expenditure. General hospital outpatient medical expenses and medical expenses of discharged patients grew by 9.1% and 9.7% in 2009 when compared with 2008 (China Health Statistics Yearbook, 2010).

In the context of market mechanisms and hospital autonomy, informal income becomes the main source of revenue for some doctors. This has caused a major

income gap among medical staff. Thus, a complex interest relationship was formed among pharmaceutical companies, pharmaceutical representatives, doctors, and nurses. Ultimately, the burden was passed on to patients and the healthcare insurance funds. The source of this problem is that the profit-driven motives of hospitals and doctors have not changed. On the one hand this is because of insufficient government subsidies, but it is exacerbated by the defence of operational autonomy by hospitals as an interest group (Li and Chen, 2012). According to Li and Chen's research, income from medicine sales of a county hospital increased from 4.60 million yuan to 25.14 million yuan from 2008 to 2010 (Li and Chen, 2012). The cost for medicine per hospital stay grew from 741 yuan to 3068 yuan, and the proportion of medicine sale grew from 47% to 62% during the same period (ibid.). The behaviour of the hospitals is indicative of a profit-driven mindset.

Conclusion

This chapter has explained why healthcare is a suitable policy field to examine the central-local relationship in China and its impact on policy process. By reviewing the literature on healthcare systems we find that more and more analysts have realised that institutional factors such as relations between governments on different levels significantly influence healthcare systems and cannot be ignored when comparing healthcare systems across countries. In other words, it indicates that there are certain levels of government involvement in healthcare systems and the healthcare policy field can offer plenty of opportunities to examine the central-local relationship. Likewise, after reviewing the development of healthcare systems in China, the tortuous process of healthcare reform has also provided more opportunities and space to analyze how the central-local relationship has impacted social policy processes than on other policy fields in China. Meanwhile, we can observe that there is a diversity of healthcare performances in different parts of China and the game between the central and local governments does affect healthcare policymaking and implementation. As different provinces have differing relationships with the central

government in formal or informal ways, different healthcare policies in different provinces could be a significant reflection of how different central-local relationships produce different influences on the social policy process. Therefore, healthcare could be the appropriate policy field that helps to achieve the research goals of this thesis.

Chapter 6: Methodology

This chapter sets out how the research was carried out. It not only discusses what has been done, but it also chronicles the development of the study and the consideration of appropriate methodologies, as well as how these approaches draw on literature concerning research methods.

Section 1: Introduction

6.1.1 Research objectives

After a rigorous review of the relevant literature, it is not difficult to find that there is a substantial literature discussing the central-local relationship in general, such as discussions on federalism and unitary systems, or the literature on the policy process and its impact on policy outcomes (Cairney and Heikkila, 2014; Kingdon, 1984; Weible, 2014; Marsh and Rhodes, 1992). However, much of the literature tends to explore what influence the central-local setting has on the policy process and specific policy outcomes, particularly with reference to China and healthcare policy. Researchers like Zheng and Pierson have only discussed the influence that the central-local relationship has produced on the general policy process and outcomes; there are few attempts to focus on specific policy fields such as healthcare policy. Therefore, there is a need for empirical research on the central-local relationship of China and its impact on a specific policy.

In addition, several literatures relate to the central-local relation in China have been reviewed in previous chapters (Steinmo et al., 1990; Pierson, 1995; Zheng, 2007). However, the latest systematic research on this topic was published in 2007. Some new mechanisms or elements might appear and play an important role on changing the central-local relationship in China. This means that there is a need to operate updated research on this topic. Moreover, existing research tends to employ quantitative methods as the main approach to data collection; few attempts have been

made to obtain data via in-depth interviews with participants who are closely involved in the central-local relationship and healthcare policy process. This may result in a misunderstanding of the practical operation of the central-local relationship in China, and may miss the opportunity to discover the facts that hide behind the numbers and figures. Thus, there is need for an updated and in-depth qualitative research with those who are highly involved in the daily operation of the central-local relationship and the healthcare policy process.

As a result, in order to fill the research gap, the objective of this research is to offer an updated and practical exploration of the central-local relationship and its impact on healthcare policy.

6.1.2 Research questions

As discussed above, this thesis attempts to understand the role of the central-local relationship in China and to illustrate how this relationship affects the healthcare system. In particular, after the cross-provincial analysis, substantial attention will be given to understanding the specific influence of this relationship on policymaking and implementation.

The discussion so far allows us to formulate two research questions to be investigated in the remainder of the thesis:

1. How can we best characterise the central-local relationship in China?
2. How do central-local relationships affect healthcare policy in China?

6.1.3 Analytical framework

6.1.3.1 Why a comparative framework?

As Bryman points out, “social phenomena can be better understood when they are in relation to two or more meaningfully contrasting cases” (Bryman, 2012: 72).

Comparative perspectives have been widely used in the field of public policy analysis (Castles, 1998), especially in the healthcare sector. A comparative research design helps demonstrate how similar factors generate different outcomes under different backgrounds, and highlights the convergence of health policies that are being shaped. Since this research aims to seek a deeper understanding of how central-local relationships shape healthcare performance in different provinces of China, a comparative design to study several cases of the healthcare system in different provinces, which also allows for the analysis of context as noted by Pierson (1995), was adopted in this research.

6.1.3.2 Why Pierson's framework

As the central-local relationship is the crucial research subject of this thesis, one may argue that the framework of de facto federalism, which was carried out by Zheng (2005), could be a direct and appropriate choice to be followed as the analytical framework. As Zheng discussed, de facto federalism has three conditions; hierarchical political structure, a level of institutionalized intergovernmental decentralization and primary responsibility of province (please see Chapter 3, Section 1.3), which provides clear dimensions to explore the central-local relationship in China. However, as the de facto federalism framework draws most of the attention of the central-local relationship to the local government aspect, it rarely offers a comprehensive research perspective of the policy process, and how this can be understood together with the central-local relationship. Pierson's framework, which follows his three "institutional factors" (see Chapter 2, Section 1.3.2), is composed of institutional factors which are very relevant to social policy outcomes such as level of fiscal equalization. As the complete goal of this research is understanding the central-local relation in healthcare policy, Pierson's framework not only better combines the central-local relationship with policy outcomes, but also provides a more comprehensive approach with which to focus on the central-local interactions such as interest expression to explore the central-local relationship itself.

Therefore, Pierson's framework is a more appropriate framework than Zheng's to explore the central-local relationship and its impact on social policy outcomes.

Constructing the comparative framework

This section presents a comparative framework which unveils the influence of central-local relationships on the healthcare system in China. The framework was built in mainly dimensions based on Pierson's (1995) three institutional factors:

1. Focus of power reserved for the provincial government in different provinces, that is, central-local power distribution in different provinces, and how this power distribution affects the healthcare system in terms of the policymaking and implementation process.
2. Focus of the interest-expression model in different provinces and how this interest expression model affects the healthcare system in terms of the policymaking and implementation process.
3. Focus of fiscal relations between the central and local governments in different provinces and how the fiscal relations affect the healthcare system in terms of the policymaking and implementation process.

Dimension one: central-local power distribution in different provinces

This dimension explores the first factor of the three institutional factors, noted by Pierson (1995), within the healthcare systems in different provinces. The comparison takes into consideration power distribution between the central and local governments (noted as the power reserved for constituent units of government in Pierson's research) in the selected provinces. Power distribution is a big part of central-local relationship. The political, societal and institutional concerns of intergovernmental relationships have particular influence on policymaking and implementing (Radin, 2000). Due to the different types of provinces in China, such as minority autonomy provinces, municipalities and normal provinces, it is possible and

necessary to explore – through understanding power distribution – how governmental agencies interact with the central government within different provinces in the provision of public services.

In this comparative framework, the research developed a category with several types of intergovernmental relationships based on different types of provinces. This category mainly considers the level of independence and cooperation between the central government and provincial government. As the provincial governments of minority autonomy provinces, municipalities and normal provinces have different rights on local affairs and different bargaining tactics with the central government, it is important to integrate this dimension into a comparative framework, which offers particular perspectives to analyse the influence of central-local relationships on the healthcare system in China. Official documents and academic articles will be important complementary data in this dimension.

Dimension two: interest expression in sample provinces

This dimension explores the interest-expression model in sample provinces. Understanding how the interests of different tiers are represented at the centre, the second characteristic mentioned by Pierson (1995), can be considered as understanding the extent to which state members can affect the central government. It may also offer an insight into the institutional structure of healthcare and how institutional organs interact with each other when making and implementing healthcare policies from these perspectives. Interviews with key informants are the main data source in this dimension and official documents will be complementary materials.

Dimension three: central-local fiscal relations in sample provinces

This dimension mainly explores the fiscal relationship between central and local governments and its impact on healthcare policy. How government income and fiscal

resources are distributed really matters in the attitude of the local government towards specific social policies. According to Pierson (1995), the local government whose income mostly relies on revenue redistribution usually has more passion and motivation for expansive social policy innovation. Other local governments who gain their income through local taxation tend to hold more conservative attitudes to social policy, and even block welfare reform to protect the interests of local businesses, which is the main source of their fiscal income (Pierson, 1995). Interviews are likely the most important data source in this dimension because interviewees who are deeply involved in the healthcare system have valuable information and experiences about the fiscal interaction between the central and local. Therefore, this dimension bases its discussions on interview transcripts. Official documents, academic articles and statistics yearbooks may also offer valuable insights for this dimension.

Section 6.2: Data collection

6.2.1 Quantitative and qualitative approaches

6.2.1.1 The differences between quantitative and qualitative approaches

When facing the issue of data collection, social researchers always have to make a choice on a qualitative approach or quantitative approach (although sometimes they are mixed). As Bryman suggests, the most obvious distinction between qualitative and quantitative research is that the qualitative study tends to deal with soft data, such as words, sentences, photos and symbols, while the quantitative study tends to deal with hard data in the form of numbers (Bryman, 2004; Lawrence, 2003). In fact, the crucial difference between quantitative and qualitative approaches is not only about the type of data they collect; it is also about “foundational assumptions”, which Willies (2007) describes as the givens that are assumed to be true.

The basic difference of the foundational assumptions starts from ontology, which is “concerned with the nature of reality and reflect different prescriptions of what can be real and what cannot” (Willies, 2007, p. 9). Ontology is the study of “being” (Gray,

2013: 19) and different positions within it. One ontological position is objectivism, which assumes that there is singular, static and objective reality (Brewer et al., 2000; Creswell, 1994; Schutt, 1999). It also values that identifying the characteristics of the social world in terms of entities which are ordered and predictable, and can be identified and recorded without affecting the entities themselves (Matthews, 2010). Another ontological position is constructivism, which assumes there are multiple realities which are constructed by participants' social interaction and reflection (Brewer et al., 2000; Creswell, 1994; Schutt, 1999; Matthews, 2010). Constructivism believes that "the social world is only real in sense and is constructed by ideas of social actors" (Matthews, 2010, p. 25). In fact, the basic difference between qualitative and quantitative approaches is often about ontological positioning. Quantitative approaches take objectivism as its foundational ontological position and believes there is an objective reality, while qualitative approaches take constructivism and insist that there is a constructed reality which is made up by social actors with their own local, everyday experience (Brewer et al., 2000)

Another basic difference between qualitative and quantitative approaches is about epistemology. If ontology is about the nature of "being", epistemology is about the nature of "knowing". It tries to understand "how we know what we know" (Crotty, 1998, p. 8). Similar to ontology, epistemology also has two broad positions, which are highly relevant to those two ontological positions. Interpretivism, which is closely linked to constructivism, believes that knowing is a process of interpretation that understandings and explanations of social phenomena can be interpreted rather than be objectively observed (Matthews, 2010). Interpretivism also insists that subjectivity is unavoidable and the meaningfulness of social phenomena is granted by the value attached by onlookers (Brewer et al., 2000). Researchers are regarded as part of the social world, and bring their own meaning and understanding into the social world (Matthews, 2010). Another main epistemological position, which is closely linked to objectivism, is positivism. It assumes that knowing is a process of observing and recording rather than a subjective understanding of the social world (Matthews, 2010). It also insists that social reality has an external existence to researchers, and researchers should be seen as independent and objective observers

(Gray et al., 2013, p. 20). Therefore, another basic difference between quantitative and qualitative approaches is the epistemological difference. Qualitative approaches take the interpretivist position and insist that “knowing” is an interactive process between researchers and social phenomena (Creswell, 1994; Schutt, 1999), while quantitative approaches take the positivist position, and believe that “knowing” is a rigorous process of scientific inquiry investigating social reality which exist externally to researchers (Gray et al., 2013). Its researchers attempt to remain detached and objective to what they are trying to know (Brower et al., 2000).

Besides ontology and epistemology, another difference between qualitative and quantitative approaches is the foundational assumptions regarding value bases. Quantitative approaches often insist that researchers are conducting research with value-free and unbiased data (Creswell, 1994; Schutt, 1999). Thus, quantitative research is often written in the third person and past tense, to “enhance the sense of researcher detachment and value-free depiction” (Brower et al., 2000, p. 366). Qualitative researchers believe that participants and researchers are unavoidably value-laden, so qualitative research is often written in the first person and present tense, to help “draft” readers’ participation in interpreting evidence they present (Brower et al., 2000).

As discussed above, differences in foundational assumptions such as ontology and epistemology lay the fundamental differential basis between quantitative approach and qualitative approaches. Based on these fundamental differences, researchers discuss methodological differences, which are commonly regarded as obvious differences between the qualitative and quantitative methods, and fiercely debated by researchers. Table 2 compares the differences between quantitative and qualitative approaches in methodological activities. As listed, these differences cover many aspects of methodological activities when doing a research such as analytic process, research design, research questions and sampling. In fact, quantitative and qualitative approaches are such different concepts that heading to different direction from ontology and epistemology, then go further on methodological activities. Their differences are not only about the type of data collected: numbers or text. “They

involve assumptions and beliefs on several levels and cover philosophical position about the nature of the world, about how we understand the world and the relationship between social science research and professional practice” (Willis, 2007). Therefore, the choice of quantitative or qualitative is not only a choice of data type or even methodological activities, it can be also a choice of belief about how you regard the world and how to understand the world.

Table 2: Difference between qualitative and quantitative approach

Methodological Difference between Qualitative and Quantitative		
<i>Methodological activities</i>	<i>Qualitative</i>	<i>Quantitative</i>
Analytic process	Inductive	Deductive
Basis for conclusion	Evidence from naturally occurring, everyday experience	Replicable, numerical data
Cause-effect explanations	Idiographic; emergent, unfolding process of interconnected actions	Nomothetic; relations among static variables
Research design	Emergent, improvisational; openness of meaning	Static design; meanings closed before study begins
Types of research questions	Marginal or hard to study settings and groups; ambiguous phenomena; open-ended questions	Specific, measurable variables and relationships
Goal of sampling	Explanatory power; variation and richness	Generalizability

Source: Based on Burrell and Morgan (1979), Creswell (1994), Rubin and Rubin (1995), and Schutt (1999)

Although quantitative and qualitative approaches have big differences in philosophical assumptions, however, they are not necessarily polar opposites. Mixed methods, which are also referred as “multi-method,” “multi-strategy,” or “triangulation by method” (Bryman, 2006; Creswell, 2007), emerged in the 1980s as a research approach combining traditional qualitative and quantitative approaches. Unlike post-positivism or constructivism, this new research approach roots itself in another epistemological assumption of pragmatism, in which subjective and objective knowledge are both valued (Cherryhomes, 1992). Pragmatists concentrate

on the “what works”, and focus on the “research problem” instead of the “research approach or method” (Creswell, 2003). Therefore, researchers who hold the position of pragmatism can choose research strategies from highly quantitative to mostly qualitative (Greenstein, 2006).

Mixed methods have been more and more commonly used in recent decades since an increasing number of researchers suggested that both numerical and text data can help to answer research questions, and quantitative and qualitative methods could be compatible. One could benefit from the complement between qualitative and quantitative approaches and the possibility of achieving a more complete analysis with both of the two research approaches. Furthermore, the focus on the “research question”, which is highly promoted by pragmatism and mixed methods, offers another research pathway that goes across the loyalty to quantitative or qualitative approaches, and applies a wide range of methods to understand the research question.

6.2.1.2 Implications for this research

In this research, the research goal or research question is the most significant consideration when choosing a research method. The primary goal of this research is to “understand the nature of the central-local relationship in China”. Such an understanding does not mean exploring the appearance of power distribution structure, but rather to discover the in-depth characteristics of the central-local relationship in China including political aspect and fiscal relationships. Thus, those who are closely involved in the central-local relationship in China are probably the most important source from whom to collect the data. The daily experience of these participants can contribute to the understanding of the operation of central-local relationships in a practical sense. Qualitative research approaches typically stress the importance of “understanding the social world through an examination of the interpretation of that world by its participants” (Bryman, 2004, p. 266). It is the more holistic perspective which treats people as creative, compassionate living beings, not as objects (Lawrence, 2003). Therefore, by using a qualitative method, this research

had easier access to participants' experiences of the central-local relationship and could gain potentially complex data (Lawrence, 2003). A qualitative research approach also offered an understanding of the policy process that might better answer the research question than a quantitative approach could. Therefore, a qualitative approach is a more appropriate way to collect data for this research.

Another research goal of this thesis is to understand how the central-local relationship affects the healthcare policy in China. It is an exploration on the interaction between the daily operation of central-local relations and particular stages of healthcare policy process. This exploration emphasizes the policy process and context. Thus, participants who are involved in the healthcare policy process are a crucial data source. In addition, context, as Pierson stated (Pierson, 2004), is important to understanding social processes. The data, especially in-depth data in a "practical sense", from people who are familiar with the context and healthcare policy process in China would make a great contribution to achieve the research goals. Qualitative research always uses the language of "cases and context" and focuses on detailed exploration of cases arising from real social life, whilst quantitative research uses "variables and hypotheses" as language and emphasizes measuring variables or testing hypotheses linked to causal explanations (Lawrence, 2003, p. 139). Qualitative approaches such as interviews or focus groups are very good at discovering the richness of the data. It also reserves the opportunity to discover some unexpected information. From this perspective, qualitative approaches could be a better choice for data collection.

This is particularly relevant to this research, which tries to understand policy processes within the context of certain institutions. As context is important, this suggests the suitability of using qualitative case studies as part of the research. Meanwhile, since policy processes are the main focus, interviews with key participants were an appropriate way to conduct this research. Thus, based on the objectives of this research, a qualitative research method was the most appropriate research method.

In summary, as Shaw and Norton (2007) pointed out, the research design and method should fit the purpose and be justified within the context. A qualitative approach is suitable for this research since it attempts to further explore the nature of the central-local relationship and is interested in the policy process. As such, it relies on rich data provided by interview respondents and textual sources to provide an insight of the practical operation of the central-local relationship and how these relations affect healthcare policy processes.

6.2.2 Interviews

6.2.2.1 Why interviews?

The interview is a common data collection method and provides a significant range of information that can be obtained (Desai and Potter, 2006). However, sometimes the interview is not the only choice or even the appropriate choice. Recently, we could have more accessibility to data since more and more governments or institutions make information online. Thus, it may be unwise to obtain information that is available online by asking someone to give up their time to provide similar information. But if the goal is to collect data such as government initiatives, or how different groups have responded to certain initiatives, interviews could be a more useful choice because they try “to get behind the bare outlines of reported behaviour to the underlying beliefs, strategies and constraints which had shaped that behaviour” (Francis, 1992: 92). As mentioned above, the research goal of this thesis is to understand the factual role of the central-local relationship and its impact on healthcare policy. It draws attention to the process, motivation and reasons behind the central-local relationship. Interviews also provide a good opportunity to know what and how the attitudes, beliefs, and strategies that shape the behaviour of those who are involved in the central-local relationship in China. Therefore, due to the particular research question and research goals of this thesis, interviews are an appropriate method to collect data.

6.2.2.2 Semi-structured interviews

For this research, interviews were employed to collect data in three separate provinces in China. There are three general categories of interview design: unstructured interviews, structured interviews and semi-structured interviews (Wengraf, 2001). Structured interviews are conducted with a pre-set standardized question list, and all interviewees will face the same questions. There is no room for unforeseen topics to be introduced during the interview. The semi-structured interviews follow a schedule with suggested themes but do not have a standardized question list. Instead, semi-structure interviews leave “space” for interviewees to develop their responses (Desai and Potter, 2006). Unstructured interviews leave even more space for interviewees, so that they are able to talk about whatever they would like, and may cover completely unexpected topics (ibid.). In this case, structured interviews are likely to be a face-to-face questionnaire due to its standardized questions (Olsen, 2012). Unstructured interviews could be seen as a kind of “exploratory” conversation while semi-structured interviews allow the interviewer to cover important topics and ensure that the interviewees have the opportunity to express their own ideas and thoughts, which may not be covered by the pre-set questions. Such advantages of semi-structured interviews also indicate why it is the most popular type chosen by researchers (Desai and Potter, 2006).

This research employs semi-structured interviews as the main data collection approach not only because of the advantages mentioned above. In fact, the ontological position of the semi-structured interview is quite close to the position this research holds. Semi-structured interviews value participants’ experience, understanding and interpretation which could be closely linked to interpretivism and constructivism, and treat interviewees as reflexive and constitutive knowledge contributors (Lewis-Beck et al., 2004). Semi-structured interviews also hold the logic of interactive data generation so that the data is derived from the interaction rather than the simple “answer” provided by interviewees (ibid.).

Besides these issues on the ontological and logical level, semi-structured interviews fit with this research on a methodological level. As Hammersley and Atkinson (1983)

point out, semi-structured interviews, or reflexive interviews, are more flexible and allow probing and follow-up questions. A semi-structured interview allows respondents to express their own experiences and elaborate on processes in-depth, rather than being constrained by fixed, standardized questions. The use of a flexible interview schedule based on theoretical propositions developed from the literature review that still has the flexibility to explore areas that are deemed important by the participants is the ideal way to answer the research questions. Meanwhile, a set of non-directive prompts were employed to encourage the participants to respond as much as they could. This will be helpful to allow them to elaborate on their thinking and attitude towards how the central government interacts with the local government, and to explain their own interpretation of what factors they believed had informed their opinions and thoughts on the case. Semi-structured interviews will be used in this research to unfold and probe deeply into the participants' knowledge, values, attitudes and beliefs on the central-local relationship and its impact on healthcare policy in China. Additionally, semi-structured interviews could be more ethical than structured interview because the power relationship between the interviewer and interviewee is equalized as much as possible, as interviewees are granted multiple opportunities to talk about their own thoughts on their own way (Lewis-Beck et al., 2004).

6.2.2.3 Elite interview

An interview, as Aberbach and Rockman (2002) pointed out, must be tailored to the purposes of the study. Thus, knowing who to interview and in what form (e.g. semi-structured) is the most fundamental issue that the researcher should take into consideration. Interviewees should be “selected on the basis of what they might know to help the investigator fill in pieces of a puzzle or confirm the proper alignment of pieces already in place” (Aberbach and Rockman, 2002, p. 673). For this research, in order to gain an insight of the central-local relationship and its impact on healthcare policy, people who might have a say on healthcare policy making, or exercise disproportionately high influence on the daily operation of the central-local

relationship or the outcome of policies, could be the ideal respondent. Such a feature has indicated the elite nature of interviews in this research.

Elite interviews are commonly recognized as interviewing “those who can command a position of authority or privilege, often having some influence upon decision-making” (Wicker and Connelly, 2014, p.4). The term “elite” is an individual or a group of individuals who are closely linked with the abstract notion of power and privilege (Gubrium and Holstein, 2001). In this research, elite particularly means the political elite, who might be directors of relevant departments, leaders of local government (on multiple levels), or members of think tanks who are involved in the operation of the central-local relationship or the process of healthcare policy. These elite could be very helpful to confirm the researcher’s understanding of relevant documentary materials, and fill the gap or clarify the grey area that may occur in these (understandings of) documents. This research could also benefit from elite interviews as they offer opportunities to understand relevant actors’ perceptions, beliefs, and mindsets when they are interacting with the central-local relationship or playing their roles in the healthcare policy process.

Common concerns around elite interviewing

The “elite” are a group of people “who are less open to the subject of scrutiny and are often inaccessible” (Gubrium and Holstein, 2001, p. 299). There are always real barriers, such as the difficulty of identifying who they are and getting access to them, between the elite and researchers (ibid.). Researchers would often have problems on approaching target elites due to the elite nature of interview (Wicker and Connelly, 2014). As Goldstein (2002) suggested, there is no ‘silver bullet’ solution and it takes a fair bit of luck to schedule and complete elite interviews, however there are that researchers can create their own luck. This section will discuss the common concerns about elite interviews and the corresponding actions that were taken in this research.

Firstly, elites are always busy and time-limited, and would not necessarily readily agree to be interviewed. It is important to choose the target elite on the basis of the

research topic; however, it is risky to rely on any one elite to provide all the information. A multi-track strategy could be helpful to aim at elites on different levels to increase the possibility of successful approaches (Pierce, 2008a). It also brings a chance to get access to those “A-list” elites who may be considered to be less approachable than lesser elites (ibid.). After identifying the respondents (the detailed sampling process will be discussed in following section on sampling), asking for the interview becomes the next key step. Apparently constrained by time and some “random” factors in their daily work, elites always have tight schedules that may suddenly interrupt the arrangement (Wicker and Connelly, 2014). It is necessary to contact the respondent a few weeks in advance. In practice, I normally contacted the potential respondents two weeks in advance to ask for an interview. The contacting email was phrased briefly but included crucial points: the nature of my desk-based research, the potential contribution he/she could make to this research, and what I intend to do with the information. I always provided an information sheet which outlined my academic status, including my university affiliation and details of my supervisors, which provided credibility and legitimacy to my work (Richards, 1996) by ensuring that potential interviewees could authenticate my identity and status (Pierce, 2008). As suggested by Pierce (2008), being gently persistent could be very helpful to “win” a chance of elite interview. I contacted most of my interviewees repeatedly by follow-up email and text messages, which had been proved successful (Wicker and Connelly, 2014). Additionally, like Pierce (2008) mentioned in his book, I also benefited from a late-morning appointment. In one instance, I was luckily enough to be invited to have lunch with an interviewee whilst I was interviewing in Guangzhou. I was given substantial relevant information and some valuable contact information for other potential interviewees.

When I successfully obtained permission to do an elite interview, there were still several issues that were significant on the outcome of interview. There were some subtle power dynamics; for example the elite “may announce at the onset of the conversation other demands on his or her schedule, and may interrupt the interview to conduct other business”, which could cause problems for researchers (Gubrium and Holstein, 2001, p. 309). As all these issues may result in shortening the length of the

interview, it becomes particularly important for the researcher to make the most of the time. Preparation beforehand about the background of the interviewee could help to conserve time (ibid.). In practice, I often researched the interests of the particular respondent, such as the respondent's statements and press clippings, before I started the interviews. If I was told that there would be less time for the interview, I normally emphasized on the most important points rather than stick to the initial question strategy. "If you can prompt the interviewee into telling a chronological story of the subject in which you are interested, this is far more effective than firing a series of disjointed questions at him/her" (Richards, 1996, p. 202).

Another crucial concern is the respondent himself/herself. As Susan Ostrander suggested, "elites are accustomed to 'being in charge' and to having others defer to them because they are used to being asked what they think and having what they think matter in other people's lives" (Ostrander, 1995, p. 143). This characteristic may result in the interviewee trying to guide the subject during the interview. In other words, there might be a "dominating" respondent. My experience is that it is quite beneficial to offer a copy of the question list or interview protocol to the interviewee in advance. Respondents could have an overall understanding of the scope of inquiry and reduce the chance of the appearance of a respondent-led situation. In fact, the "dominating respondent" rarely occurred in my interviews. Meanwhile, I luckily found that some of my interviewees prepared some relevant material, which eventually proved to be very helpful to my research, based on the question list that I had sent prior to the interview.

6.2.2.4 Ethical and other challenges of interviewing in different cultural settings

Beyond the universality of social research methods or approaches such as elite interviews mentioned above, there are still indigenous features such as cultural and local contexts which play a fundamental role in authentically engaging with knowledge production and constructing social research practice in different countries or regions all over the world (Gray et al., 2008, pp. 8). Social, economic and political

history all play a part in forming the unique cultural context of a certain country or region. There is also increasing number of researchers and scholars who notice the cultural bias of social research methods and are concerned about the cultural difference (Gray et al., 2008; Munford et al, 2009; Mulder, 1997; Ryen, 2002). As this thesis emphasizes examining the central-local relationship in China, it is important to think and “develop the research practice which is embedded in the cultural and local context in order to make the research finding responsive and relevant” (Munford et al., 2009, p. 424).

The crucial part of the cultural bias of social research methods which derived from western knowledge is the difference between collectivism and individualism (ibid.). Such ideological-level differences actually produce profound influences on many relationships surrounding social research. Relationships such as who can permit the research to be conducted, and who owns the research findings can differ under individualism and collectivism. Other relationships such as how the respondent engages with researchers is also influenced by this cultural difference. For instance, as Munford et al. (2009, p. 421) suggested,

For some participants, the primary goal is to maintain a respectful relationship with the researcher who they see as having important status. This may make it difficult for them to converse about sensitive issues and to tell the ‘truth’ about certain matters as they are concerned to present information that they think the researcher wants to hear.

In fact, the cultural difference did produce several issues and even ethical problems when this research was conducted in China.

China has a strong collectivistic culture, which had big impact on recruiting respondent and gaining consent. Under a collectivistic structure and cultural context, most of the officials hold a conservative attitude to being interviewed. A university student, especially a student from a foreign university, will find it difficult to get permission to do interviews. During the fieldwork, when I contacted potential interviewees as a PhD student of a foreign university, I rarely got positive replies and

sometimes there was no response. But as a Chinese citizen who has lived in China for more than 20 years, I prepared an alternative approach strategy. As Gubrium and Holstein (2001, p. 307) pointed out, “the best entrée to elite individuals for interviews is provided by members of the elites’ own groups”. When I finish the first few interviews, I asked my interviewee to recommend some potential interviewees for my further research. I then contacted those potential respondents according to the recommendations. In my contacting email or text messages, I declared that I am a researcher and received a recommendation from another “elite in their own group”. This strategy mitigated the risk for the respondents, and made my request more acceptable.

However, when I started to conduct interviews with some of the respondents, I found there was an ethical issue regarding gaining consent. Several of the respondents refused to sign the consent form. The reason they refused to do so did not come from an unwillingness to do the interview. In fact, under a collectivistic culture, accepting to be interviewed without permission from his/her organization could be seen as a harmful action to the interest of the collective organization. The interesting point is that they told me they could do the interview, that they could share their ideas and experiences with me; however, they were unwilling to sign the consent form because that might cause trouble. Although those respondents did not sign the consent form, most of them said that they could talk as much in an informal talk as they could in a formal interview. Eventually, most of them provided plenty of information regarding their practical experiences rather than an “official statement or description” on the healthcare policy process and intergovernmental interaction. Such an issue has resulted from the collectivistic cultural context and the corresponding tradition of bureaucratic culture where all things related to the central government are moderated. They were trying to be very prudent when formally talking about their work. It was obvious that they *did* want to share their ideas and experiences according to my interview questions, and some interviewees even gave me materials such as journals and regulation summaries, but the Chinese bureaucratic culture and regulations made them worried about being formally interviewed and signing the consent form. A similar issue occurred regarding the audio recording of the interviews. Some

respondents told me they did not want to be recorded. However, they also told me if the interview was not recorded, they would provide as much information as they could. The reason behind this is quite similar to why some of them refused to sign the consent form. Chinese officials are always very prudent about talking about their work in public. This might result not only from the traditional bureaucratic culture but also from memories of the Cultural Revolution, in which many officials were arrested and killed for what they had said about their work. This cultural difference played a great role and should be taken into consideration when conducting social research outside the Western world. In these instances I obtained verbal consent from the respondents although they did not sign the consent form. However, it is not hard to discover that those interviewees *did* want to talk about those interview topics but preferred not to have their name appeared in consent form. In other words, they give verbal consent to discuss the selected topic but did not consent to be “recorded or identified” that they have been interviewed since they had very complicated reasons. These cases should not be simply treated as unsuccessful interview without consent, but a special interview format under a cultural difference. After all, they had consented to discuss the topics provided by research. Such issues were checked and discussed with the director of Ethics Committee as soon as the interviews were finished. The committee also suggested that these interviews could be treated as consented since respondents in fact agreed to discuss the topic given by interviewer.

Secondly, the cultural context also had an influence on the content that interviewee was willing to talk about. In Munford et al.’s (2009) example mentioned previously, interviewees may consider what the researcher would like to hear and change the way to tell the “truth”. In practice, under the collectivistic context, sometimes some interviewees tend to “protect the interest of collective organization” rather than give an honest account. When talking about some problem or critical points, especially when they know I am a student from a foreign university, they consciously or unconsciously kept “talking on the surface” and just provided some viewpoints that sounded like official statements rather than their own experience. Suspicious of creditability, I carefully triangulated and corroborated accounts from other

interviewees. Consequently some data or information they had provided has been categorized as unreliable data.

Lastly, cultural differences also have an impact on understanding the communication between interviewee and researcher. “Individualistic cultures use low-context communication that relies on clear, concrete and explicit language, while collectivistic cultures such as Chinese culture use high-context communication which relies heavily on attention to contextual details and less on explicit language to transmit its message” (Munford et al., 2009, p. 421). Under high-context culture, the meaning of what is being said could be “derived” from the specific performance of the communication (Ryen, 2002). “If the researcher does not understand the nuanced levels of interaction taking account of both verbal and non-verbal cues they may inadvertently misinterpret key information” (Munford et al., 2009, p. 421). It is important to know and identify verbal and non-verbal cues during the communication when conducting interviews in China, because some respondents may have overtones when communicating. However, this issue has not been problematic for this research. As a Chinese citizen, I am quite familiar with Chinese culture. And with a family member who is a senior official in a province, I have been taught and obtain an authentic understanding of communication within a high-context culture. Also, one of my supervisors is Chinese, who has been doing research on politics and social policy for many years. She was able to offer lots of help in analyzing the interview transcripts to maintain a correct understanding of what has been said in the interview.

Section 6.3: Sampling

As a qualitative approach was adopted, reviewing data, official documents, reports and academic literature as well as interviewing key officials within the healthcare system was considered appropriate within this research. It was therefore necessary and more effective to conduct fieldwork in China in order to get access to these

resources. The fieldwork is comprised of interviews with key officials within the healthcare system and documental analyses of relevant laws and governmental plans. This section will discuss the sampling process of both the sample provinces and sample interviewees.

6.3.1 Sampling of provinces

In order to provide a constructive cross-case analysis, this thesis selected provinces to compare their representativeness of different types of central-local relations and the relatively different features of the healthcare system in each province. Thus the thesis sought to capture the diversity amongst provinces, and consequently the widest range of healthcare services was sought. In order to choose the indicators, the Chinese ranking system, the Instruction of Hospitals Classification, was selected.

An account of the indicators used and of the data analysis will be given in order to explore the rationale for selecting the three sample provinces.

6.3.1.1 Indicator selection

The Instruction of Hospitals Classification has long been used as a regular evaluation tool of healthcare performance. This ranking system mainly focuses on the function of hospitals, the medical equipment and the qualification of physicians (Ma et al., 2008). More than half of indicators in the ranking system are about the resource investment in hospitals, such as physician credentials, number of beds and availability of facility. The others are related to the management of the hospital and quality of health service, which can be seen as output measures. Thus, regarding the focus of performance measurement in Chinese health care and the aim of exploring the variation in health care across different provinces, the Classification provided a useful database from which to select suitable provinces for analysis.

From the wide range of indicators that the Classification provides, four were chosen; two that captured “input” variables (referring to governmental input), and two “output” variables. Governmental healthcare spending and residents’ healthcare spending were chosen as the input variables, as these captured the wide discrepancies in healthcare spending between provinces. Hospital beds per 1,000 people and healthcare workers per 1,000 people were picked as the output variables, as they were deemed most appropriate to indicate the availability of health care.

6.3.1.2 Data sources

All the data used in this chapter is from the China Statistics Yearbook 2009–2012 and China Health Statistics Yearbook 2009–2012.

6.3.1.3 Data description

Although China has established a relatively unified healthcare system and healthcare insurance for residents, there is still an obviously huge difference between different provinces. For example, the Beijing government (provincial) spent 952.26 yuan per person on healthcare in 2010 while Henan’s government spent only 274.63 yuan (See Table 3). But that is just part of the picture. Varying fiscal and healthcare conditions in different provinces in China mean that the performance of the healthcare system in each province also varies. For example, Shandong, which has the lowest governmental healthcare spending (per person), is not a poor province. On the contrary, it is one of the richest provinces.

Table 3: Governmental healthcare spending per person per year (yuan)

	2008	2009	2010	2011	Average

Beijing	855.76	949.44	952.26	1117.06	968.63
Tibet	569.85	761.54	1065.46	1163.86	890.18
Shanghai	647.53	691.55	695.16	809.51	710.94
Qinghai	444.91	582.86	691.62	834.96	638.59
Tianjin	356.43	441.50	539.31	668.12	501.34
Inner Mongolia	247.83	425.00	488.30	663.21	456.09
Ningxia	276.96	366.55	537.44	642.58	455.88
Xinjiang	275.20	393.48	473.93	599.58	435.55
Zhejiang	279.04	341.80	412.24	510.67	385.94
Hainan	218.24	348.75	400.90	573.32	385.31
Jilin	217.69	391.82	403.82	523.28	384.15
Gansu	221.89	335.32	392.20	558.38	376.95
Shaanxi	208.37	333.60	419.40	528.00	372.34
Yunnan	230.22	330.97	399.21	511.75	368.04
Heilongjiang	187.43	354.16	352.64	445.44	334.92
Liaoning	194.45	378.14	345.97	415.40	333.49
Guizhou	177.81	270.77	367.00	499.49	328.77
Chongqing	181.88	268.38	328.88	492.29	317.86
Shanxi	209.63	296.82	318.57	444.25	317.32
Guangxi	163.56	239.18	358.98	501.36	315.77
Sichuan	176.41	267.68	327.34	463.30	308.68
Jiangxi	174.82	271.98	336.19	437.39	305.09

Anhui	169.27	270.33	309.27	464.53	303.35
Jiangsu	193.57	256.58	317.30	442.93	302.59
Fujian	206.09	257.49	318.40	428.23	302.55
Guangdong	210.76	262.35	291.20	412.90	294.30
Hebei	172.04	248.32	327.35	418.13	291.46
Hubei	166.49	243.43	312.73	429.53	288.04
Henan	154.28	235.22	287.29	385.04	265.46
Hunan	137.30	248.51	274.63	389.29	262.43
Shandong	149.11	199.82	261.55	373.93	246.11

Source: China Health Statistics Yearbook 2009–2012.

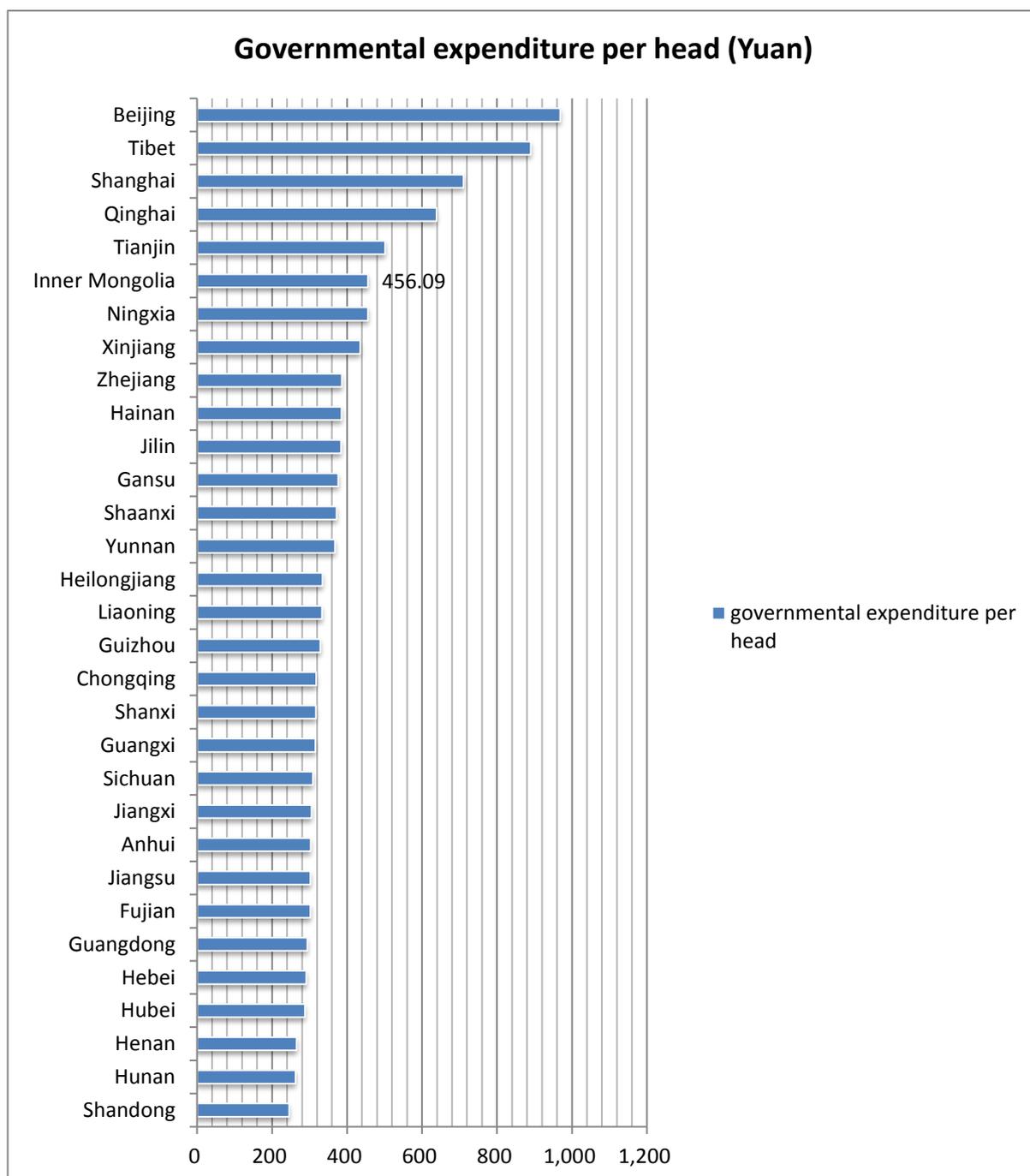
Governmental healthcare expenditure

Governmental expenditure has long been the main source of healthcare funding. Although tax reform was implemented in 1994 and the central government became more and more important in the fiscal relationship between the central and local authorities as mentioned in the previous chapter, the governmental expenditure structure has remained relatively unchanged, especially within the healthcare system. In 2007, the central government only contributed 1.7% of the whole governmental expenditure on healthcare (Pan and Li, 2009). This chapter consequently focuses only on local governmental expenditure.

Figure 2 provides the average governmental healthcare expenditure per head of each province from 2008 to 2011. We can find that the two super cities, Beijing and Shanghai, were ranked towards the top. Other provinces which ranked highly were the minority autonomous regions like Tibet, Inner Mongolia and Ningxia. Their

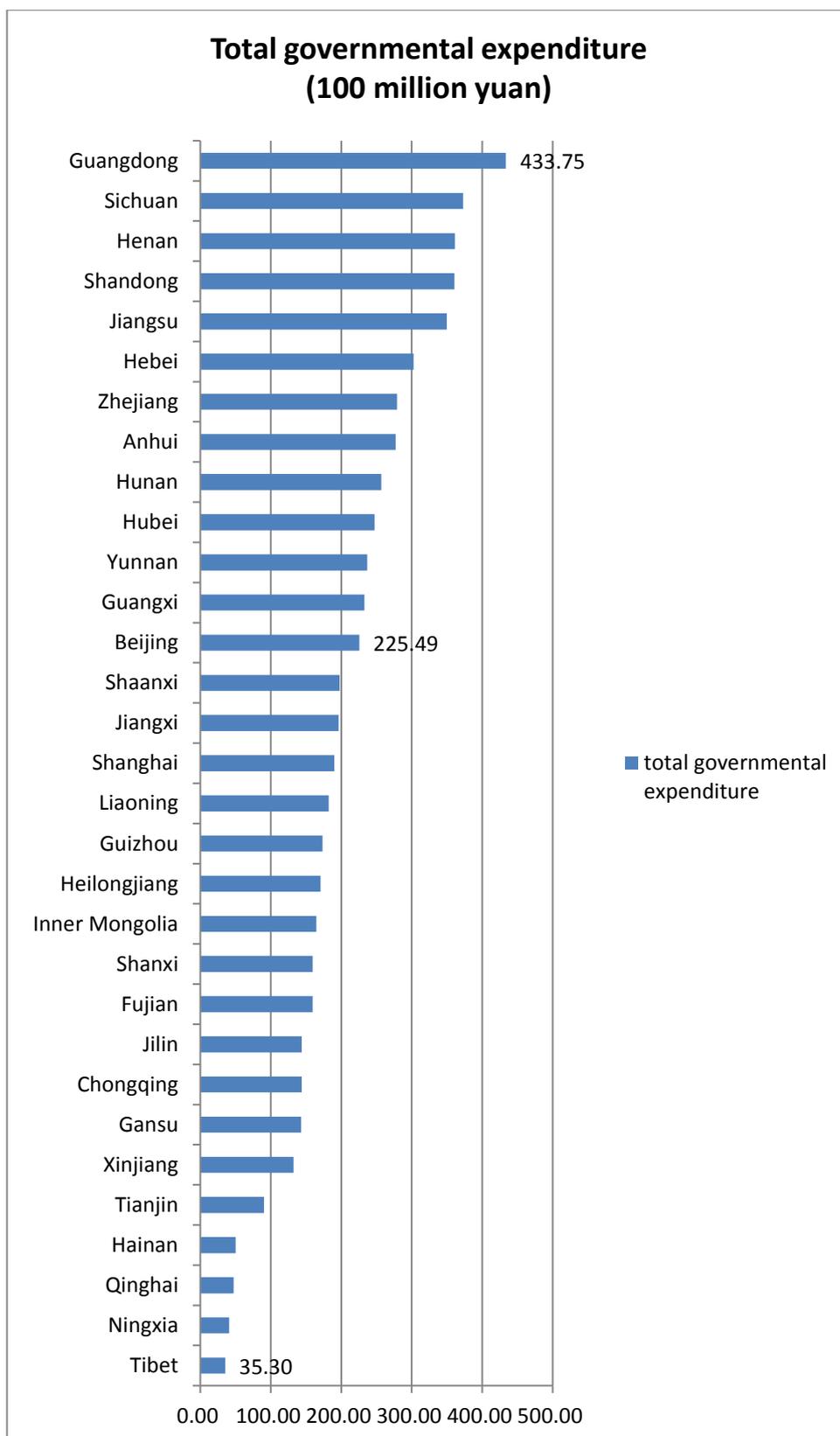
smaller populations and special subsidies from the central government might have been the main reasons for their high rankings. Coastal provinces have long been in the top tier of economic development, however, due to their large populations, the expenditure per head for these provinces ranked in the bottom group. Guangdong and Shandong are good examples to demonstrate this (see Figures 2 and 3).

Figure 2: Governmental expenditure per head (yuan)



Source: China Health Statistics Yearbook 2009–2012

Figure 3: Total governmental expenditure of each province

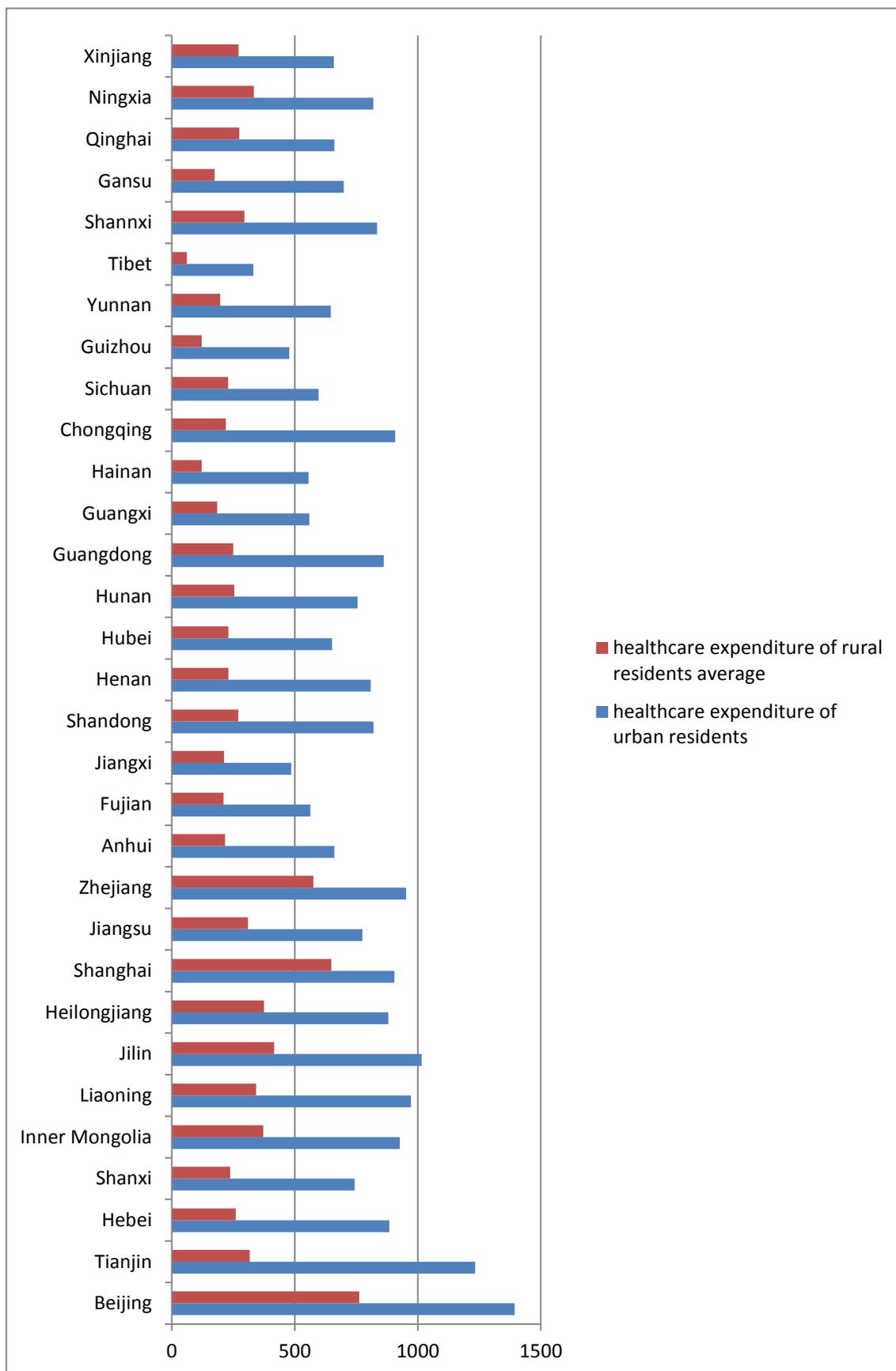


Source: China Health Statistics Yearbook 2009–2012

Residents' healthcare expenditure

Healthcare expenditure of residents is another main source of funding for the healthcare system. From Figure 4 we can observe the expenditure of both urban residents and rural residents in different provinces. For urban residents' spending, Beijing and Tianjin were unsurprisingly in the first group in which urban residents spent more than 1,200 yuan per year (average data from 2008–2011). The second group consisted of Inner Mongolia, Shanghai, Zhejiang, Guangdong and nine other provinces. Urban residents in these provinces spent more than 800 yuan per year. Other provinces except for Tibet made up the third group, where urban residents spent more than 400 yuan on healthcare per year. Urban residents in Tibet spent 331.9 yuan per year on healthcare. For rural residents' healthcare spending, the difference between provinces was smaller than that between urban residents. Rural residents in most of provinces spent between 200 to 400 yuan per year on healthcare. Beijing, Shanghai and Zhejiang had higher rural spending while Guangxi, Hainan, Guizhou and Tibet had lower rural spending.

Figure 4: Urban and rural residents' healthcare expenditure (yuan/year)

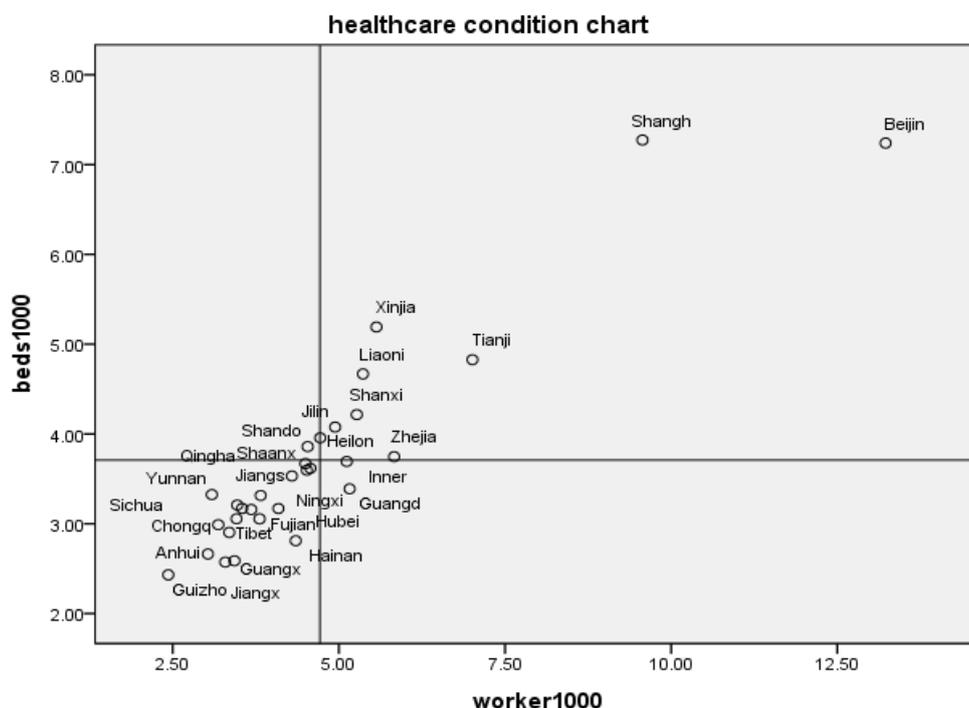


Source: China Health Statistics Yearbook 2009–2012

Availability of healthcare services

When talking about the availability of healthcare services, the amount of healthcare resources and equipment really matter. For this research I have picked *hospital beds per 1,000 people* and *healthcare workers per 1,000 people* as the main variables to measure healthcare service availability. From Figure 5, one can see that municipalities like Beijing, Shanghai and Tianjin have the best availability among all provinces. Coastal provinces like Jiangsu, Guangdong and Liaoning have upper-medium healthcare availability. Some poor inland provinces such as Jiangxi, Anhui and Guizhou are located at the bottom of the ranking. Minority autonomy regions like Inner Mongolia and Ningxia are also in the upper-medium group; even Tibet does not rank at the very bottom. This is probably a result of more special subsidies from the central government for these regions and their relatively small populations.

Figure 5: Healthcare availability



Source: China Health Statistics Yearbook 2009–2012.

6.3.1.4 Different types of province

China consists of 36 provincial units (excluding Taiwan) and most of them are normal provinces. However, due to historical, political-economic, and cultural reasons, there are other types of province namely autonomous region government, centrally administered cities (municipality) and special administrative regions (SARs) (Hong Kong and Macao) A normal province is the most common provincial unit in China which is indirectly governed by the central government. Its power and responsibilities are confirmed by the constitution. Municipalities such as Beijing and Shanghai are directly governed by the central government, whilst they are always prioritized developing areas which benefit more from the centre than normal provinces. Furthermore, the headers of municipalities are member of the Political Bureau of the CPC which is one level higher than the header in normal provinces.

This makes municipalities more powerful when interacting with the central government than normal provinces.

Autonomous regions such as Inner Mongolia and Xinjiang are another type of provincial unit. These regions have long been the settlement area for minorities in China. Besides the constitution which confirms the basic status of autonomous regions, there is also a Law on Regional Ethnic Autonomy which was transformed from ethnic customs or local customs. Thus, autonomous regions always have more autonomy power on perspectives such as economic development and civil administration than normal provinces. This has also made autonomous regions a little bit more flexible when implementing central policies than other provinces.

Summary

From the data presented above, the performance of the healthcare system differs from province to province. Super cities such as Beijing and Shanghai mostly appear in the “high input, high availability” group, which means healthcare expenditure largely matters for the performance of these healthcare systems. Coastal provinces like Guangdong, Jiangsu and Shandong are always in the group of “low input, high availability”, which means there are other key factors rather than expenditure that have a big influence on the healthcare performance of these provinces. Minority autonomy regions with better economic conditions such as Inner Mongolia and Ningxia are in the upper-medium group of healthcare availability, and others who have worse economic conditions always appear in the bottom group. Furthermore, different types of provincial unit refer to different types of central-local relationship. Combining different healthcare performances with different types of provincial unit provides a good opportunity to examine how the central-local relationship affects healthcare policy in various kinds of central-local relationship.

Therefore, considering the performance of the healthcare system which plays a major role in the choice of the sample provinces for this research and the different kinds of provincial units, Beijing (municipality), which is in the “high input, high availability”

group; Guangdong (more decentralized economic power and has long been the base for policy innovation), which is in the “low input, high availability” group and Inner Mongolia (has minority autonomy on plenty of policy fields), which is in the “high input medium availability” group were chosen as the three sample provinces from the 34 provinces of China (excluding Hong Kong and Macao).

6.3.2 Interviewee sampling

This fieldwork was adopted in order to get first-hand data about the healthcare system and intergovernmental relations in China as well as valuable insights and information given by key officials who are deeply involved in the healthcare system. The latest reform changes in the healthcare system were observed as well. Thus, interviews were used as the main research tool to explore the research objectives mentioned above. The following paragraphs describe how these interviewees were identified in the sample provinces.

Purposive and snowballing process

Since the target participants of this research are all officials in the healthcare system or involved in policymaking, all the participants were identified according to their job titles. Specifically, the first interviewee was identified through purposive sampling and further participants were identified by snowballing. The fieldwork was conducted in three sample provinces in China and started from the hometown of the researcher. A “snowball” procedure was used to approach further interviewees after the first few interviews. The researcher asked the interviewee to recommend someone else to be interviewed. If this snowball approach had not worked well, the back-up plan was that participants would be approached through purposive sampling according to the contact information published on the official website of their department. An email would have been sent to those participants to ask whether they agree to do an interview. In practice, the snowballing approach worked quite well; it

only stopped “rolling” once, when interviewing in Guangdong. For that instance, the next interviewee was approached through the purposive sampling strategy.

The initial person in the “snowball” process was identified by his job title. This participant used to be the head of the healthcare department in Inner Mongolia. Considering the institutional structure of the healthcare system, this participant was the key person to help me reach other potential interviewees. Based on the vertical structure, this participant could help to refer key officials in lower and central levels. Based on the horizontal structure, this participant could help to refer the researcher to the head of the healthcare department in other provinces. So it was appropriate to start with this participant.

During my undergraduate study in China, I had run a project investigating the protection of patients’ rights; I knew this first participant through my previous investigation. I asked him if he was willing to be the initial person for the snowball process and he replied that he was happy to do that for me.

To avoid junior officials being pressured or forced by senior officials to attend the interviews during the snowball process, I had asked each interviewee to give me a list of the names of those who might be suitable for me to interview next. I contacted them personally rather than asking the current interviewee to help me contact that person. This helped to prevent senior officials from pressuring others to be interviewed. I also sent a form to ask each interviewee if he/she wanted to do the snowball process for me to make sure that everyone participated in the snowballing voluntarily. An anonymised list of interviewees is given in Appendix 1, and an interview question list is given in Appendix 2.

6.3.3 Fieldwork summary

After almost 5 months, fieldwork was completed in December 2014. Thirty-five respondents were interviewed in Beijing, Guangdong and Inner Mongolia. Most of those respondents are officials who are highly involved in the central-local relationship and healthcare process. The remaining respondents are academics in

relevant areas. Officials who had been interviewed were mainly located on the national or provincial level of the healthcare department or financial department ,as well as in relevant offices of provincial or county governments. Besides the information they provided during interviews, I was also given relevant documents, which were very helpful as complementary materials, by some interviewees.

Section 6.4: Data analysis

6.4.1 Approaches to qualitative data analysis

6.4.1.1 Content analysis

Content analysis, as Bauer (2000) stated, is “systematic classification and counting of text units [to] distill a large amount of material into a short description of some of its features” (cited in Marvasti, 2004, p. 90). It helps the researcher to translate the content of many pages into organized segments. Content analysis is a process of analyzing text which refers to “the recorded information about social life in the form of visual images, published written materials or transcribed interviews” (Marvasti, 2004, p. 90). Under content analysis, text could be seen as the reflection of public opinion, so it demonstrates how public opinion has been shaped, or could be seen as a cause of public opinion in which content analysis help to searching for the “themes that could connected with certain cultural practices or attitude” (Marvasti, 2004, p. 93).

Content analysis was seen as a quantitative approach in its early stages, because it originally counted the frequency of word appearances, or how much time was devoted to themes (Payne and Payne, 2004). However, content analysis began to emphasize attitudes, values and motivations behind the words, and gradually was used as a qualitative approach, in which qualitative researchers could bring their own cultural meaning to interpretation of the texts (ibid.). Qualitative content

analysis, which focuses on the meaning of text (unit) itself, offers a more “objective” approach for social research since large amounts of descriptive data could be translated into quantified categories or standard codes. However, researchers have pointed out that content analysis always breaks the respondent’s statement into “quantifiable chunks”, which will miss some important information when regarding qualitative data in its full social context (Riessman, 2002; Marvasti, 2004).

6.4.1.2 Thematic analysis

Thematic analysis is an approach which shares some principles and procedures such as “themes” and “codes” with content analysis. As suggested by Given (2008), thematic analysis is “a data reduction and analysis strategy by which qualitative data are segmented, categorized, summarized, and reconstructed in a way that captures the important concepts within the data set” (p. 867). It “moves beyond counting explicit words or phrases and focus on identifying and describing both implicit and explicit ideas within the data, that is, themes” (Guest, et al., 2012, p. 10). In thematic analysis, a theme or coding category is always drawn deductively or inductively. It could be derived from existing theoretical idea which the researcher brings to the data, or from the raw data (Joffe and Yardley, 2004, pp.57).

Practically the methodology framework of thematic analysis comprises several approaches such as grounded theory, positivism, interpretivism, and phenomenology (Guest, et al., 2012). It selects from a range of techniques from different methodological camps to “identify and examine themes from textual data in a way that is transparent and credible” (ibid., p. 15). However, thematic analysis can be challenged if a qualitative researcher draws the richness of the themes from the raw information without reducing the insights to a trivial level for the sake of consistency of judgement (Boyatzis, 1998). In other words, it could be problematic if researchers simply pick text chunks to support the argument one wants to make (Silverman, 1993). Meanwhile, as “themes” or meanings behind symbolic texts are emphasized by thematic analysis, the number of times that a theme or category

appears does not always necessarily indicate the extent of importance or relevance; on the contrary, one could be of high relevance and conceptual importance even if it just appears once, or is mentioned by only one interviewee (Joffe and Yardley, 2004). Therefore, it is mainly an interpretive approach.

6.4.1.3 Narrative analysis

Since stories or storytelling is a common form of sharing information, thus, understanding what stories convey and how they convey them becomes an important part of qualitative analysis (Marvasti, 2004). Narrative analysis, as Riessman pointed out, is analyzing data as the order in which story is told (Riessman, 1993). Or as Cortazzi noted, analyzing following a particular pattern of telling, such as the substance of the story, the structure, the purpose that story serves and the context of story (Cortazzi, 2001; Marvasti, 2004). Because narratives are made meaningful under a certain set of practices and context, thus narrative analysis could help to simultaneously examine what respondents say and how they make it meaningful (Marvasti, 2004). Furthermore, as the purpose (of storytelling) and context are emphasized in narrative analysis, this approach goes beyond the asking of whether the story is true or not.

Narrative analysis is good at analyzing text in rich data sources such as in-depth interviews because it always tries to fully understand how various pieces of data relate to one another through the way they are articulated and the context (Riessman, 2002; Marvasti, 2004). It intends to put discrete elements together into big picture in order to display individuals, cultures and societies as wholes (Riessman, 1993).

6.4.1.4 Grounded theory

Grounded theory was developed by Glaser and Strauss in 1964 (Glaser and Strauss, 1967). This approach intends to inductively build up a systematic theory based on observation (Strauss and Corbin, 1994). The grounded theorists begin with

observation and an ongoing conceptual categorizing process upon observation, and then test these categories over time with more observation. A theory will evolve after carefully refining and linking conceptual categories (Glaser and Strauss, 1967). In other words, using grounded theory is a process of suggesting plausible relations between concepts by generating concepts from qualitative data, and then carefully reviewing the data and developing (refining) the concepts. Grounded theory has experienced several changes on its original conceptualization over time (Strauss and Corbin, 1990; Strauss and Corbin, 1994), although many ideas appeared, they do share some components. As Charmaz (2002, cited in Marvasti, 2004, p. 85) listed:

- *Simultaneous data collection and analysis;*
- *Pursuit of emergent themes through early data analysis*
- *Discovery of basic social processes within the data*
- *Inductive construction of abstract categories that explain and synthesize these processes*
- *Sampling to refine the categories through comparative processes*
- *Integration of categories into a theoretical framework that specifies causes, conditions, and consequences of the studied processes.*

The understanding of grounded theory, as Strauss and Corbin stated, has been influenced by “contemporary intellectual development such as feminism, political economy, and varieties of postmodernism” (Strauss and Corbin, 1994, p. 276). Furthermore, the grounded theory approach highlights the importance of the role of researcher. Existing theories can offer a guideline or framework to analyze data; however, it could become a serious restriction for data analysis because researchers often intend to analyzing data in order to “fit” some theory or framework. In the process of grounded theory, a theory evolves by continuous interaction, such as refining and reviewing, between researcher and data. Meanwhile, the researcher’s knowledge and experience play a crucial role in understanding the data. Thus, the researcher plays a more influential role in grounded theory than in other approaches of qualitative data analysis.

6.4.1.5 Discourse analysis

Discourse analysis is hard to define as a unified pattern of research since it has various meanings and application across many disciplines such as sociology, psychology and linguistics (Marvasti, 2004). Nonetheless, there are several central themes shared by researchers across different disciplines:

- *Viewing discourse and language as being productive of social reality (discourse doesn't simply describe reality but it creates it as well)*
- *Treating discourse as a type of social action in its own right (discourse is not just a description but it does things)*
- *Emphasizing the rhetorical functions of discourse (discourse is to promote one side of a conflict)* (Gill, 2000, cited in Marvasti, 2004, p. 107).

There are different kinds of discourse analysis according to the topic of interest. For example, one is interactional discourse analysis. According to Austin (1962), interactional discourse analysis is based on the assumption that language is akin to social action and examines how the spoken word make us accountable to others in order to illustrate “how discourses accomplish reality in everyday talk” (Silverman, 2001, p. 178; Austin, 1962; Marvasti, 2004). Other topics such as the relationships between text and context, or between discourse and power also leads to different kinds of discourse analysis.

6.4.1.6 Conversation analysis

Conversation analysis, according to Silverman (2001), is an approach to investigate everyday conversation in order to show how social reality is produced by verbal exchange. The very focus of conversation analysis is the term “talk”, which could be categorized as ‘naturally occurring’ or ‘researcher-provoked’ (Silverman, 2001, p. 159). Naturally occurring talk refers to what people say in everyday common situations, such as at home or at the bus stop, while researcher-provoked talk refers

to what people say in response to specific questions, such as responses to interview questions (Marvasti, 2004). In conversation analysis, the conversation is always transcribed in as much detail as possible in order to show the “artful use of talk and capture every aspect of a talk such as pauses and intonations” (Baker, 1997, p. 131).

Unlike discourse analysis, conversation analysis neither focuses on written text nor socio-cultural phenomena; it places emphasizes on social interaction such as everyday conversation and interpretations. Additionally, these interactions are often analyzed moment-by-moment.

6.4.2 Implications for this research

As mentioned in Section 3.1, one of the main goals of this research is trying to find out whether Pierson’s three institutional factors play as important a role in China as in Western federalist countries. Therefore, Pierson’s theory of three institutional factors offers a clear framework to analyze relevant data. Based on such an objective, thematic analysis could be the appropriate approach to achieve the expected goal.

Firstly, the analyzing process of Pierson’s three factors has clear existing concept and theory as boundaries. To some extent, it is more likely to be a theory-testing analysis rather than a theory-building analysis. Therefore, grounded theory is not appropriate. Secondly, among all other approaches of qualitative data analysis, thematic analysis has an advantage to achieve the research goal. Analyzing Pierson’s three factors aims at finding out how these factors work in practice. Answers could be achieved through exploring respondents’ ideas or experiences about relevant institutional mechanisms or social phenomena. That means the meaning of the answers given by respondents is very important to this research. However, conversation analysis focuses on the detail of conversation and sequential organization. Rather than knowing what it is, conversation analysis is more likely to examine how it constructed. Narrative analysis focuses more on purpose and order as well as the “whole image” of the respondent’s response rather than content and

meaning. Discourse analysis focuses on the interaction or relationship between different genres of discourse or between discourse and other elements such as context or power. All three approaches listed above emphasize other perspectives of respondents' answer rather than the meaning, and are less appropriate for understanding the policy process. Thematic analysis allows the researcher to cut interview data into "discrete chunks" according to the analytical framework, which makes it possible to understand clearly about respondents' idea or experiences of Pierson's three factors.

However, the research does not look to only "test" Pierson's three factors. This research was started with an open mind to the possibility of other factors that may have significant influence on the central-local relationship or the healthcare policy process. Based on this goal, there is space to employ an inductive thematic analysis approach in order to explore those "potential" factors. Codes and themes will be selected and the definition of the problem will be refined after careful observation of the interview data. Both frequency and distribution of indicators will be checked as well as exploring the specific relationship between the indicator and other social phenomena. After careful review and attempts to discover negative evidence, inductive thematic analysis could help to suggested plausible relations between the indicator and the central-local relationship or healthcare policy.

It is often claimed that inductive approaches are always related to qualitative research, whilst deductive approaches are often related with quantitative research. Deductive approaches often start with a hypothesis which is derived from existing theory, then test the hypothesis by collecting data and exploring the empirical world (O'Reilly,2009). Therefore, a deductive approach suits testing existing theories. On the contrary, an inductive approach starts with as few preconceptions as possible and keeps an open mind to allow theory to emerge from the data (O'Reilly, 2009). This makes an inductive approach suitable for challenging existing ideas and developing new theories. However, the deductive approach is often criticized by qualitative researchers that a theory-testing social researcher's focus is often restricted by the framework imposed from the outset, and it is hard for them to think

outside the framework because when data are “collected with theories in mind it has already been formed into working hypotheses” (O’Reilly, 2009, p. 105).

After a series of interviews done in China, interviews were transcribed so that they could be analyzed. As mentioned in Section 2 of this chapter, this thesis is conducted based on the framework of Pierson’s (1995) three institutional factors. Interview transcripts were mainly coded in a “deductive way”, in which the main purpose of the data analysis is to explore how the three factors work in practice. Interview transcripts will be coded and analyzed in a structure of Pierson’s three factors. To some extent, this thesis is trying to find out whether these three factors play a role as important as that seen in Western federalist countries. Meanwhile, how these factors affect the central-local relationship in China will also be explored. Based on this, the data were mainly analyzed in a deductive way. However, it will not be a purely deductive analysis. Interview transcripts were also analyzed line-by-line in order to discover other factors (apart from Pierson’s three factors) that significantly influence the central-local relationship. There would be no answer to whether these factors exist or how these factors affect the central-local relationship until the data analysis has been finished. From this perspective, inductive analysis was also conducted in this research. Therefore, this thesis will employ a combination of inductive and deductive analysis, in which deductive analysis is the mainstream.

6.4.3 Process of data analysis

6.4.3.1 Language and tools

Since the interviews were done in Chinese, all the transcript analysis was done in Chinese in order to keep data loss caused by interpreting into another language at a minimum level. Data analysis was done with the software “NVivo”. Such a computer-assisted qualitative data analysis software (CAQDAS) obviously leads to a more efficient and faster coding process. Moreover, NVivo allows the researcher to relate coded text to “facesheet variables” such as title of job and other

socio-demographic information, which provides an opportunity to discover new relations between different types of codes and develop explanations (Bryman, 2004). In addition, NVivo also enabled the researcher to easily count the frequency of a specific word or viewpoint occurring in an interview or in a series of interviews, which is helpful when analyzing themes or attitudes towards a specific theme.

6.4.3.2 Coding process

Initial coding stage: In this research, thematic coding was employed. The interview transcripts were gone through line-by-line to create detailed codes in relation to Pierson's (1995) three factors. Although this research was done under the framework of Pierson's three factors, there was still an open coding stage at the beginning of the analysis in order to avoid missing some interesting points or factor not covered by these three factors which may affect the central-local relationship in China or the healthcare policy process.

"Code-theme" stage: In this stage, common elements were searched among codes in order to raise a set of relevant codes into a theme. For example, the code "express interest via NPC system" and code "express interest via government system" were raised into the theme "channel of interest expression". The structure of the codes became clearer in this stage.

Labelling stage: Themes and codes were labelled by the concept or key terms referring to the crucial literature of this thesis in this stage. Themes and codes were combined into higher-order codes. For example, the code "channel of interest expression" was combined with the code "capability of local interest expression" and the code "local enthusiasm on interest expression" into a higher-order code "local interest expression", which is one of Pierson's three factors.

Connection exploring stage: In this stage, the researcher made an effort to explore possible links or connection between key themes (or codes) and to see how themes or codes varied in terms of features of cases. For instance, the researcher tried to

examine the connection between “view on central-local power distribution” and interviewees’ working organization. This resulted in the identification of a significant contrast between interviewees who work in provincial government and who work in the healthcare department.

Section 6.5: Validity and reliability

This research, as stated above, employs a qualitative research method to achieve its goals. There are criticisms of qualitative methods, which mostly revolve around issues of reliability and validity.

Reliability refers to whether different researchers given the same set of data will agree between them on how it should be interpreted (Bryman, 2004). In qualitative research, data collection is more likely to be an “interactive process” that might illuminate different facets or dimensions of a research subject (Lawrence, 2003). Inter-observer reliability may be promoted by clear procedural rules for recording and transcribing the data provided by, for instance, interviewees. Further analysis of the interview transcripts will help to ensure that repeated analysis will reveal similar key concepts and categories.

As Bryman claims, validity is “concerned with the integrity of conclusions that are generated from a piece of research” (Bryman, 2004, p. 28), or as Lawrence presents, is all about “truthfulness that refers to how well an idea about reality ‘fits’ with actual reality” (Lawrence, 2003, p. 179). In some ways, qualitative research can be seen as more valid, in that it allows access to the “lived” experiences of research subjects. For the purpose of authenticity, exploring research questions across different data sources (in the case of this research, interviews, textual analysis and literature reviews) could help to determine whether the participant gave a fair, honest and balanced account of the research target from his or her view (Lawrence, 2003). This is also the triangulation of methods which is more likely to yield a more complete picture of the institutions and policy process (ibid.). However, qualitative research may have

weaker external validity, which refers to the “degree to which findings can be generalized across social settings” (Bryman, 2004, p. 273). Since qualitative research usually employs small samples of respondents and lacks statistical tests of significance-indicating levels of probability, whether the result could be generalized to a wider population, which is possible with large samples of numerical data in quantitative research, is doubtful. In the case of this research, attempts were made to address how the central government interacts with local government, but to also identify the key factors in the central-local relationship in China which influence healthcare policies. This could allow other researchers to question whether or not these factors apply in other circumstances, and as a result address whether these findings may be generalised into a different context. However, there are limitations to this research, such as the choice of only three provinces and only one policy area (healthcare), so results may not be generalizable to other provinces or policy areas.

Section 6.6: Document triangulation

Triangulation is a method derived from navigation. It was used to establish the accurate position of a ship by taking bearing on several landmarks (Pierce, 2008). In social science, triangulation refers to obtaining data from various datasets or by different methods. It is often employed to strengthen the confidence of a research finding. It can be a way of “confirmation”, and overcome the issue of internal validity and bias (Arksey and Knight, 1999). Triangulation can also be a “completeness” that brings views, ideas and experiences from different angles together. It leaves the potential to gain new or alternative explanation based on data collected from different perspectives and by different methods (ibid.).

There are different kinds of triangulation, namely methodological triangulation, data triangulation, investigator triangulation and theoretical triangulation. Methodological triangulation refers to use a range of different methods to collect or interpret data. It could be that triangulation involves two or more different distinct methods (across-method triangulation) or different techniques within one method

(within-method triangulation) (Denzin, 1970). Data triangulation refers to the use of different data sources to explore the same topic. The data sources may vary in terms of person, space or time. Investigator triangulation refers to employing different interviewers or researchers who focus on the same research topic. Theoretical triangulation refers to exploring a single or same set of research question with diverse hypotheses or even all possible theoretical points (Arksey and Knight, 1999).

However, critics of multiple triangulations have appeared in recent decades. As Fielding and Fielding (1986) pointed out, theories are often generated from different traditions. Combining different theories could add range and depth to research findings rather than accuracy. Blaikie also challenged that method triangulation by arguing that it is inappropriate to combine different methods which founded on different epistemological and ontological assumptions (Blaikie, 1991, cited in Arksey and Knight, 1999, pp. 26). The result might be something of “hotchpotch” rather than any more accuracy or real findings (Arksey and Knight, 1999).

In this research, data triangulation was used by cross-referencing documents with the interview transcripts. According to Hodder (2000, p. 704), documents are important in qualitative research because “access can be easy and low cost, ... the information provided may differ and may not [be] available in spoken form, and ... texts endure and thus give historical insight”. With regards to this view, Miller argues that it is important to analyse texts because they mirror power relations (Miller, 1997). Similar to other types of data, textual documents have their limitations and advantages. Since documents are produced independently from a research agenda, they will be unaffected by the research process (Bryman, 2004). Similarly, because they are produced for reasons other than research, they may be fragmentary, they may not fit the conceptual framework of the research and their authenticity may be difficult to determine. Therefore, rather than being used as a single source, documents could be a good approach to check the interpretation of the interview data and add internal validity to research findings.

Furthermore documents can also provide a useful complement to the interview data. For this research, they were analysed qualitatively through the contents of the reports

and were used in two stages. The first was as part of the research design process, where they helped provide a background understanding and develop specific questions for the interviews. The second stage was as part of the analysis. Documents provided another way of understanding the perspective of the central-local relationship in practice. In this sense, documents were not simply taken at their face value and read only for their content; it was necessary to understand how and why they were produced and the rules surrounding their production and use (Prior, 2004). This was particularly helpful with the interviews because I could examine the tensions between the official documentation and the views of the officials and experts, contextualising their construction and purpose.

The documents studied in this research were mainly on the relevant laws of central-local power distribution, national and provincial healthcare policy plans and relevant official reports of healthcare policies.

Section 6.7: Ethical scrutiny

In the undertaking of this research, several ethical issues needed to be taken into consideration. Since it involves fieldwork with human interaction, the research method needed, and received, validation from the University of York's research ethics committee. Key issues are listed as follows:

6.7.1 Informed consent

A brief description of the research, in the form "information sheet", was attached with the initial email sent to all potential interviewees (see Appendix 3). This explained the nature of this research and the role participants would play if they agreed to be interviewed. Those who agreed to participate in the interview were sent a consent form in a follow-up email in order to arrange a suitable date and time (see

Appendix 4). Interviewees were asked to complete and return the consent forms before the interviews.

6.7.2 Confidentiality and anonymity

Although the interviews were not of a personal nature, in some cases confidential information regarding the internal workings of the organization they worked for were provided. There were also other elements of the interviews which interviewees specifically stated that they preferred to be treated confidentially.

Interviewees were asked whether they would prefer their working place or themselves to be identifiable from the data. Although some of the interviewees were happy to be identified, all interview sources were regarded as confidential. All the quotations from the interviews have been anonymized in this thesis and all research outputs. Although some of the interviewees allowed their identities to remain recognisable, others were uncomfortable with that. In some cases, interviewees were happy to be identified in some sections but preferred to be anonymous in other controversial sections. Thus, for the sake of consistency in the results, all sections of the interviews were anonymized.

For social research, confidentiality of the research participants is the norm. Although, as Spicker points out, anonymity may be less of a concern in interviews with public organizations on account of their need to be publicly accountable (Spicker, 2007). However, in the context of Chinese politics, most officials prefer to be publicly silent rather than express their views in public. It thus seemed sensible to provide interviewees with anonymity.

Anonymity in this research means that the names of the interviewees and their working organizations are not mentioned in any part of the research without permission. Care has been taken so that the interviewees cannot be identified from details included in research outputs.

The documentary analysis part of the fieldwork had no confidentiality constraints, since the data source is publicly accessible information.

6.7.3 Risk to participants

There is very little direct risk to participants as a result of the interviews, where I asked for their experience and opinions based on their working life. If I was told or had reason to believe that the question or the line of questioning was causing distress for the interviewee, I would stop the interview immediately and ask him/her if he/she was able to go on. If the interviewee was able to, I would ask whether he/she would like to stop the particular question or line of questioning. In the very unfortunate event that the participant becomes distressed by the interview and cannot go on, I would stop the interview.

6.7.4 Clarity and understanding

I used plain and clear language when speaking with the participants and avoided using acronyms or “technical terms”, which the participants might not have understood. If I needed to use technical vocabulary (especially terms translated from English to Chinese), I would make every effort to provide additional explanatory information.

Section 6.8: Limitations

There are several limitations within this research. Firstly, as a qualitative research method is employed as the main method, the core limitation on external validity exists in this research. It is hard to provide a generalized conclusion through qualitative approaches compared to quantitative methods. Meanwhile, the limited

sample size of both provinces and interviewees also restricts the generalizability of this research.

Secondly, doing interviews under a collective and high-context culture makes it sometimes hard to grasp the real thoughts of respondents. Interviewees may choose to tell a “happy story” rather than the “bitter truth” in order to protect the image and interest of collective organization. Although the researcher has made a great effort to ensure triangulation with different questions or data sources, this may weaken the validity of interview data. Under a high-context culture, an interview could contain several verbal or non-verbal cues. As a Chinese person who has lived in China for more than 20 years, I have tried my best to recognize any cue given by respondents. However, there may be some cues that I have missed, which may result in misinterpreting some key information or weakening the range and depth of this research.

Thirdly, as I mentioned in Section 2.2.4 in this chapter, I have failed to have some of my interviewees sign the consent form. Although I have discussed that it has been influenced by cultural difference and actually these interviewees had given verbal consent to be interviewed. It has reflected that there is limitation in the research design of preparing doing elite interview under different cultures. It also reminds me that interviewing elites can bring big ethical issues if one underestimates the cultural difference, or does not have enough preparation for dealing with bureaucratic cultures.

Chapter 7: Findings

This chapter will present some important findings from the interview transcripts and some governmental documents. There will be three parts to this chapter which represent three important aspects of the central-local relationship.

Section 7.1: Administrative power distribution and local policy innovation

7.1.1 Power distribution: Clear or not?

Inner Mongolia

Officials and experts from different departments have been interviewed in three sample provinces: Inner Mongolia, Beijing and Guangdong. Officials in different departments and provinces hold different attitudes towards the clarity of power distribution between the central and local. For Inner Mongolia, almost all the interviewees found the system of power distribution to be clear. In particular, interviewees from the healthcare department and government in Inner Mongolia hold positive attitudes towards the question of clear power distribution, meaning that they all reckon that the power distribution between the central and local is clear. According to the opinion of an official in the provincial government of Inner Mongolia, “ power distribution, especially in terms of who takes responsibility for expenditure and implementation, and who conducts policy supervision and assessment, is clear. Power distribution in the healthcare sector became clearer after beating the SARS crisis in 2003” (interview no. 5).

Beijing

Interviewees' attitudes towards clear power distribution in Beijing is quite different from those in Inner Mongolia. Most of the interviewees in Beijing hold a negative attitude towards power distribution. Only interviewees who come from the national healthcare ministry and relevant departments think that administrative power distribution between the central and local is clear. Those who are working in government, finance departments and research institutes all think the power distribution is not clear enough. A noted expert on healthcare reform in China pointed out that "the power distribution is quite fuzzy, both the central and local haven't taken enough responsibility, especially during the current healthcare reform" (interview no. 23). According to an official who works for the Beijing municipal administration of hospitals, "the power distribution between the central and local is not clear. The distribution has experienced many major and minor changes in the last three decades and these changes have not been institutionalized. Therefore, the power distribution remains unclear" (interview no. 19).

Guangdong

In Guangdong, the situation is quite similar to Beijing. Only interviewees who work for the healthcare department hold a positive attitude toward the clarity of power distribution. Other interviewees who work for the government, finance departments and research institutes all said that the power distribution is not clear between the central and local. "The power distribution is not clear. The local has taken much of the responsibility for expenditure but sometimes the local doesn't know whether it has the relevant administrative power or not. The central is trying to set a formal list for the local to establish detailed local powers in order to match local fiscal and administrative powers", said an official working in the finance department in Guangdong (interview no. 30).

The healthcare system

It is very interesting that almost all the interviewees who work for the healthcare department in these three provinces hold a positive attitude towards healthcare power distribution. When asked whether power distribution between the central and local is clear, most of them said it is clear because there is a formal document called “Clarification of the Power of the Department in Three Aspects (San Ding Fang An)”, which demonstrates the power and responsibility of the department. Both the national healthcare ministry and the local healthcare department have this kind of document, so the central and the local clearly know what they should and should not do. The only dissenting voice came from an official who works in the Beijing municipal administration of hospitals. He stated that “power distribution is not clear because of its changeable status. Since the changes in power distribution have not been institutionalized, it is hard for the local to know exactly what they can do” (interview no. 19). Another interviewee who works for the national healthcare ministry pointed out that “the power distribution is a little bit fuzzy since the current healthcare reform brings in some new institute and issues. The central and the local have not finished distributing the power and responsibility of these new elements” (interview no. 35). However, for the main healthcare power distribution between the central and local, all the interviewees agreed that there is a clear healthcare power distribution.

Finance system

When asked their thoughts about power distribution between the central and local, interviewees who work for finance departments and the national ministry have completely different attitudes to those who work within the healthcare system. All of these interviewees thought that the power distribution is not clear. Most of them claimed that the local administrative power has remained unclear for many years. As an expert who works at the Institute of Fiscal Science of China stated, “the limits of administrative power remain unclear to the local although the fiscal relation was

clarified through the taxation reform in 1994” (interview no. 14). Some interviewees in the finance system mentioned that the central is trying to make administrative power distribution clearer by setting a list of local powers and trying to match local expenditure capacity and administrative power. However, as two officials in the Guangdong finance department said, this kind of improvement is “only a draft which is planned for implementation in three years” (interview no. 30). In Inner Mongolia, there is no timetable for it at all. All interviewees in the finance system hold a negative attitude towards power distribution and think that local administrative power is mismatched with local expenditure capacity.

Government system

There were five interviewees who worked for the government (specifically the executive organ) who were interviewed, with most located in Inner Mongolia. They all held positive attitudes towards power distribution. When specifically asked about healthcare power distribution, they all answered that they clearly know what the central and local could do in healthcare affairs. When asked why he thinks the power distribution is clear, an official from the government of Inner Mongolia said that “our province relies much on the central, so we have to keep in line with the central very strictly. What they told us to do is what we could do” (interview no. 7).

Summary

There were two questions about power distribution that were asked in interviews. One was about general administrative power and the other was specifically about healthcare power. From the interview data, it is obvious that almost all the interviewees reckon that the healthcare power distribution between the central and local is clear. The only disputed point is the new institutional elements brought about by the current healthcare reform. A few officials and experts insisted that both the

central and the local do not know who should take on these new responsibilities, so the healthcare power distribution becomes blurred.

When talking about general administrative power distribution, the situation is quite different. Interviewees from finance departments and research institutions all hold negative attitudes towards the current power distribution. They all think the local administrative power is not clear and does not match expenditure capacity. Some interviewees also reckon that the central sometimes is not sure about its power boundary, causing uncertainty at both the central and local levels. The only contrasting voice comes from Inner Mongolia, where the local is in a very passive position relative to the central and the local may know what they are able to do by virtue of the will of the central government.

7.1.2 Roles in healthcare policy

During the interviews, all participants were asked about their idea of the role of the central and local in relation to healthcare policy. The answers they gave were quite similar. For a major healthcare policy, the central no doubt takes the responsibility of policy design and decision making. The local is always responsible for understanding and specifying central policy goals, policy implementation and daily operation and maintenance.

There is another important part of healthcare policy in which the central and local have quite different roles; raising money for implementation. According to most of the interviewees who discussed this topic, the central always provides start-up funds for major healthcare implementation in local areas. Apparently, the local should be responsible for the daily operation and maintenance. Sometimes the central will subsidize the local governments with limited financial capacity in order to implement policies. For example, an official who works for a county government in Inner Mongolia mentioned in his interview that “the central provides financial support through specific transfer subsidies to motivate our province to implement policies. Some rich provinces such as coastal provinces won’t have this kind of support from

the central” (interview no. 34). Meanwhile, the central will surely have a major role in supervising and regulating the use of this money.

Interviewees also provided some detailed idea about the role of local government in healthcare policy. For the role of provincial government, some interviewees described it as the “main resource allocator” and the “main communicator with the central”. They think the provincial government has the most important role in dealing with resources and building communications between the central and lower tiers of government. However, when talking about the role of specifying central policy plans and goals, interviewees were divided into two camps. Some interviewees thought that the provincial government is the most important in specifying central policy plans and goals. For example, a participant from the Guangdong healthcare department mentioned that “the government and departments on the provincial level have a more important role in resource allocation and specifying central policy plans and goals than government on other levels” (interview no. 26). However, an interviewee who works for the Guangdong finance department insisted that “although the provincial government has a crucial role on coordinating resources, the government on the municipal level takes the most important role in specifying central policy goals and enabling implementation” (interview no. 30). The overall data shows that interviewees from the healthcare system, government and research institutions tend to agree that government at the provincial level plays the most crucial role in specifying and understanding central policy goals and plans.

When asked whether the current role of the central government and local government in healthcare policy was reasonable or not, interviewees at both central and local levels expressed their dissatisfaction. Participants at the local level mentioned that the local has taken on too much responsibility in healthcare expenditure, straining their financial resources. According to an interviewee in a county government in Guangdong, the central provides less than 10% of the funds for healthcare expenditure in Guangdong, but this expenditure consumes more than one-third of government income in Guangdong. An official who works for the national healthcare ministry also pointed out that “local government had undertaken too much

responsibility for social welfare that is far beyond its financial capacity. This may cause a lot of problems when the local attempts to implement policies” (interview no.15). It seems that the placement of too much responsibility on the local without the necessary fiscal resources is the key factor leading to unreasonable roles of the central and local in healthcare policy.

Summary

From the interview data, most of the participants agree that the role of both the central and local is clear on healthcare policy, though there are a few different opinions on the exact role of local government. However, interviewees rarely said that the role allocation is reasonable. Most of them think the local has had to take on more responsibility than it should.

7.1.3 Policy implementation and space for local government innovation

Large or small space?

The political structure of China has great elasticity and the decentralization after 1980 provided space for local governments to participate in policy innovation. During the decentralization, the central government no longer appointed leaders below the provincial level. So the head of a province has the power to appoint or remove senior officers in governmental departments. This created possibilities for the local to independently develop its own strategy and policies. Therefore, local government does have space for policy innovation.

Interviewees were asked about their experience of policy implementation and space for policy innovation by local government during the interviews. Generally speaking, the interviewees who work in the healthcare system in Beijing, Guangdong and Inner Mongolia think the local has a large amount of space for innovation in healthcare

policy. According to an official who works in the Guangdong healthcare department, “healthcare affairs are more regional than other policies, so the central gives the local plenty of space to engage in policy innovation” (interview no. 27). Even Inner Mongolia, which relies heavily on subsidies from the central government, has been granted plenty of space for policy innovation. As a senior officer in a human resources and social security department put it, “the central encourages the local to engage in policy innovation on healthcare policies such as health insurance” (interview no. 9). There is no doubt that Guangdong, part of the reform pilot programme, has much more space for policy innovation. “Guangdong has, by default, policy innovation space as a pilot province for reforms”, said an interviewee who works for the provincial healthcare department in Guangdong (interview no. 27). “The only thing they need to keep in mind is that you do not go beyond the red line set by the central,” said a senior officer in the municipal healthcare department in Shenzhen (interview no. 29).

But there are differing opinions on local policy innovation space. A senior officer in the provincial government of Inner Mongolia said that there is less space for policy innovation since Inner Mongolia relies heavily on the central in terms of finances and policy resources. The central also has very strict supervision and management of the central transfer payment which the local government receives, so there is little space in Inner Mongolia for policy innovation compared with richer provinces. It is worth noting that an official who works for the Guangzhou finance department mentioned that healthcare policy in Guangzhou is complex, constraining policy innovation. He explained that “although Guangzhou has great financial capacity, the healthcare system is quite complicated with many departments and institutions involved in healthcare policy implementation. These departments and institutions can hardly compromise and reach agreement. That’s why Guangzhou cannot perform well in healthcare policy innovation” (interview no. 32).

Supervision by the central government

Based on the opinions of interviewees, the central has granted plenty of power and space to provincial governments on healthcare policy innovation. However, the central government also needs to keep the local government in line with central policy goals. There are three main ways that the central could keep the local on the right track according to some interviewees. A senior officer in healthcare department of Inner Mongolia said that “the central uses the fiscal system and policy projects to achieve ‘control’ of the local. Specifically, transfer payments and the benefits obtained through policy projects will influence the local to keep in line with the central” (interview no. 33). Meanwhile, the central has the power of policy regulation and evaluation and could have more in the current stage, so the central could achieve more and more influence on local policy outcomes. However, policy and finance resources also play a crucial role in achieving these goals since they can help punish or reward local government when the central exercises its power to regulate and evaluate policy. Therefore, policy and finance resources are an effective way for the central to keep the local cooperative in achieving policy goals.

Another way to avoid the local straying too far from the policy plans and goals of the central government is political pressure. This tool is used by the central government very often and is frequently effective. As a senior director of the healthcare policy and management department at Peking University puts it, “the local implements policies under political pressure from the central every day. This pressure could be the most important motivation for the local to implement central policy. Even if the conditions are not right for implementation, the local could be forced to implement policies due to strong political pressure” (interview no. 18). Political pressure is also the key reason why sometimes policy implementation takes the form of social movement.

The Party system is the main platform from which political pressure on local government is generated in order to keep the local in line with central policy plans and goals. An official in the national healthcare ministry pointed out that “when poor implementation or central-local conflict is found in a local area, the central can

influence the local through the party system. Since it is relatively easy to reach an agreement within the party system, the central could convince the local party bureau to keep in line with the central party bureau. Then the local party could help to resolve the conflict or improve implementation” (interview no. 22).

Local policy innovation: On the right track?

When talking about local policy innovation in China, one is reminded of the policy innovation of the 1980s. The phrase “policy innovation” became popular at that time and there are many examples of successful policy innovation from that period. However, when comparing current policy innovation with policy innovation in this period, there are obvious differences. Daring and courage could be observed in the policy innovations in 1980s, which constituted major challenges to existing policies at that time. Today, there is significantly less courage displayed by local innovators than in past decades. A senior officer who works for the county government in Guangzhou expressed her worry in our interview: “Sometimes policy innovation is like gambling. You can only get support when a positive outcome appears. It’s very risky for the local to engage in policy innovation and only those who are brave and have enough resources are willing to try” (interview no. 31). Another difference is that the successful innovation of the 1980s could easily expand to other parts of the country and become part of reform on a national level. However, today even those successful policy innovations have limited influence in local areas and are not implemented elsewhere.

There are several factors that lead to these differences, and non-institutionalized power distribution between the central and local could be one. As mentioned by some interviewees, the current form of power distribution has not been institutionalized. In this context, although the local could have much more power, any local reform and innovation is not protected by law since there is no constitutional basis for local innovation. So uncertainties and risk have been major obstacles that have kept local government from policy innovation.

Another possible reason, as Zheng put it, could be a lack of political protection (Zheng, 2012). Political strongmen can grant plenty of power to local governments to provide strong support for local reforms. Even if problems occur during the reform, strongmen can provide protection for local reforms. This can be clearly observed in the reform of “special economic zones” after the 1980s. Meanwhile, it is also very easy for political strongmen to translate the success of a local policy innovation to the national level and extend it to other parts of the country (Zheng, 2012). Nowadays local reformers have many concerns before they engage in policy innovation because they generally lack full political authorization and support from the central government. Thus local policy innovation hardly extends to the national level. An official who works in the provincial healthcare department in Guangdong mentioned in his interview that “Guangdong can engage in policy innovation more freely because many leaders who had worked in Guangdong eventually became leaders at the national level. It’s easy for local reformers in Guangdong to get political support from the central” (interview no. 27). However, Guangdong is a special example; the majority of local leaders choose to be low-key in terms of local reform since they do not have certain political support from the central government. In addition, after the taxation reform in 1994, there was a selective centralization trend in China. Most of the centralized power became the power of central ministries. In fact, central power was dispersed to various central ministries. This makes it even harder for local leaders to gain support from the central government for policy innovation because it is difficult to gain support from several ministries at the same time.

The mismatch of local financial capacity and administrative responsibility may be a possible reason as well. Power and authority were centralized in the 1990s but not the responsibility, which created a huge gap between the central power and responsibility of local government. As some interviewees mentioned in their interviews, poor local financial capacity makes it very hard for local government to take on its responsibilities. That is why most local policy innovations happen in rich areas during the current healthcare reform. Therefore, limited local financial capacity has restricted the local government’s motivation and ability to innovate policies.

Summary

The paragraphs above have discussed some findings about central-local power distribution. Generally speaking, interviewees tended to agree that healthcare power distribution between the central and local governments is relatively clear and the local body has much space for healthcare policy innovation. However, interviewees rarely agreed that such power distribution is reasonable. When talking about these things in the interviews, interviewees used the word “non-institutionalized” very frequently.

Unlike other countries such as the US and Canada, where their constitutions formally provide for the power distribution between the central and local government, China still has no law or public document clearly demonstrating the distribution of power between the central and local, especially demonstrating what they should not do, even though China has already experienced several rounds of centralization and decentralization. Such a situation has profound historical causes. In 1956, Mao made a famous speech “On the Top Ten *Guanxi* (Informal Relationships)” based on his summary of historical experiences after the establishment of the PRC. In his speech, he advocated that the central government should cooperate with local government through conferment and evaluate the experience periodically (Mao, 1977). It is worth noting that such a principle naturally rejects institutionalizing the central-local relation (Zhu, 2004). When the PRC was newly established, the national leaders did not have experience managing a modern China. If, out of anxiety, central-local power distribution was institutionalized with the leaders’ little experience of modern constitutional separation of powers, once central-local power distribution was configured improperly, no matter if the central power was too centralized or local authority was too strong, it would likely bring disastrous consequences that might even completely ruin domestic peace. From this perspective, the non-institutionalized practice that involves “cooperat[ing] with local government through conferment” and “evaluat[ing] the experience periodically” does not overemphasize the concept of power distribution and principles of institutionalization, but stresses that the institution is a product of practice and experience, which aims at solving specific

social problems (Zhu, 2004). Therefore, it might have been a reasonable choice at that time.

Since then, this principle has become the main rule for central-local relationships in China. It helps China maintain national unity and a peaceful transfer of national authority. On the one hand, it gradually spurred the formation of a national market economy and weakened regionalism and regional economic independence. On the other hand, it enhanced local autonomy and initiatives (ibid.). When I spoke with my interviewees on this topic, I could feel that the principle of “cooperate with local government through conferment” is still influential in the present day. However, its disadvantages have become more and more apparent. The non-institutional factors become the real problem. This means that both the central power and local power can be greatly affected by specific policies, by specific leaders and by shifting political and economic situations. Such non-institutionalized arrangements always lead to uncertain expectations, which limit the courage and initiative of policy innovation in local areas. Therefore, this kind of path dependence may be a reasonable explanation to why the local government has quite limited policy innovation outcomes despite much innovation space.

Section 7.2: Central-local interaction and interest expression

As discussed earlier, there are three institutional factors which have great influence on central-local relations and policy outcomes according to Paul Pierson’s work (Pierson, 1995). How the interests of different tiers are represented at the centre, the second characteristic mentioned by Pierson, can be considered as the extent to which state members can affect the central government. Meanwhile, how the central interacts with the local is important as well since the central government has vested interests in local government. Therefore, central-local interaction is important when exploring how the central and local express and maintain their own interests.

This section will display some interesting data found on central-local interaction and interest expression based on the interview transcripts and public documents. A brief discussion will follow.

7.2.1 Channels for interaction

When talking about interaction channels, I am referring to a platform within the formal or informal political system through which both the central and local can express their interest requests and take certain actions in order to maintain their interests. There is a big issue which needs to be clarified first; there is no set independent and formal mechanism for local interest expression in China. For expression of local demand in all aspects, it can only be done through the relevant systems, for example, the local government can express its interest through its daily reports within the government system or express it during the party conference. Therefore, the discussion below will start from the interaction channel which is embedded in the relevant systems.

7.2.1.1 Internal approval and referral procedure

This procedure includes information and demand exchange between the upper and lower levels, which is the most common and direct way of interest expression in practice in China. Since China has a parallel leadership system (government leadership and party committee leadership) in every single department, the internal approval and referral procedure naturally has two different channels, namely the procedure of the governmental executive body and procedure of party organs. When talking about channels and procedures for local interest expression, interviewees from both the governmental system and healthcare system mentioned that the expression channels for the local body are unobstructed and there are various ways for the local to express their interest to the central within the departmental system (or

governmental system). As an interviewee who works for the Guangdong provincial healthcare department mentioned:

The local can express its demand and interests through many ways, for example, their demand and interests can be expressed through year-end work summaries, through work reports and through central inspections or supervision processes. The local can have direct communication with the central when it has new demands or ideas. For example, our province was trying to remove the limitation on physicians' ability to work in multiple practices (meaning physicians would be able to work in different places such as hospitals or clinics). After communicating with the central authority, we decided to temporarily give up this idea because the central ministry said that it was not suitable to remove this limit at the moment. Generally, when the local body has an idea for a new provincial policy, the local will communicate with the central and ask for instructions in advance. ... Policies in general are always strictly controlled by the central government and local interests have to be subordinated to national interests. The central has broad control on general reform policies, within which local government has more space to achieve its interests (interview no. 27).

This case not only shows how the local healthcare department expressed local interest to the central in practice, but also that the central actually has great influence on the implementation of local policies.

An official who works in a provincial government also shared his opinion:

Generally speaking, when the local is forming a new policy, it will ask the central for advice and feedback. When the central has an idea for a new policy which will involve the local government, the central will also ask the local for feedback and suggestions. These communications take place through daily work processes within the relevant industry's system. Healthcare issues are reported through the healthcare system and general administrative issues go through the governmental system. Interests and ideas are gradually conveyed upwards, level

by level. The process for change goes the same way if any problem occurs (interview no. 5).

According to my interviewees, the internal interest-expression procedure through a sector's system or the governmental system is the most common way local officials present their interests to the central authorities. The procedure goes through the following stages: develop a demand (interest), report, review, reply, result (request accepted or refused). In fact, this kind of interest expression is quite common in administrative executives all around the world. The advantage of this model is that it makes full use of the existing executive hierarchy and hence achieves a relatively smooth process. The disadvantage of this expression model is that the expression can be plagued by excessive administrative levels and the low efficiency of administrative executives. When local interests involve different ministries and departments, it is even more difficult for the local government to get a satisfactory reply from the central government. As an official of a county government in Guangdong put it:

The working conference is an effective way of local interest expression. However, plenty of healthcare issues need coordination between different ministries and the relationships between these ministries are quite independent of each other. Therefore, it is very difficult for the local to get an effective solution even after expressing its interests to the central. Let's take the issue of formulating new policy as the example, in which the human resource and social security ministry, finance ministry, developing and reform ministry and healthcare ministry are involved. If the local is willing to form a new policy of physicians working in multiple practices, it will definitely be difficult to achieve a consensus between all these ministries. Thus, the local can hardly achieve its interest demand via such an expression channel although the channel is relatively smooth (interview no. 31).

From the interview data, the procedure of governmental executive is quite a common channel for the local to present its interests to the central although it is very hard to achieve a satisfactory reply sometimes.

The other important part of the internal approval and referral procedure is the procedure through party organs. This interest-expression channel is full of Chinese characteristics since its formation was based on the combination of superior-subordinate relationship and vertical intergovernmental relations under the rule of the CPC. The current situation of local administration is that the party committee in each level is still at the top position of both the central and the local governments. Therefore, it is possible for the local to represent its interest upwards through the internal superior-subordinate relationship within the party organization and receive a positive response from the central party committee. In fact, expressing interests through the internal organization of the party may help the local authority circumvent a range of institutional and legal difficulties, which often appear when expressing interests within the governmental system. As an interviewee from a county government in Inner Mongolia mentioned,

Sometimes when the local government is faced with some difficulties during its interest expression through the governmental system, the local may choose to present its interest through the party system. Work reports (the documents written by the local government or department to report specific issues to the central government or ministry) or work conferences (temporary conferences attended by both the central and local where specific issues are discussed) are good opportunities for the local party organization to express its interests to the central party organization. The central party organization has great influence on the coordination of different ministries, therefore, if the local interest is approved by the central party organization, it would be relatively easy for the local to achieve its interest (interview no. 34).

Thus, this channel is more suitable for the local to achieve efficiency in interest expression.

Meanwhile, it is also very helpful for the central to express and maintain its interests through the party system. When talking about what the central could do to effectively implement central policies, especially when the local did not perform well, an official from the national healthcare ministry pointed out that,

When the central finds that the local implementation cannot satisfy the central government, it is very useful for the central to reach an agreement on the implementation with the local through the party system and then pursue the local to improve its implementation. The party system can provide an effective way for the central to express its attitude and maintain its interests (Interview no. 21).

This kind of interest expression is possible because of the party committee's presence at the central and local levels. However, the formation of such an actual position of the party committee has to be cross-examined by a series of laws and the constitution, even by normative documents (Zheng, 2011). Therefore, such an effective way of interest expression has flaws in its legitimacy, which is harmful to the institutionalization of central-local relationships.

7.2.1.2 Procedure for formulating local policies

The general programme for national policy implementation in China is that the central government produces the guiding principles and policy framework while the local government adapts the policy and its details according to the actual local situation. Thus, the local plays a big role in the accomplishment of national policies. In fact, the local is involved in three stages of the whole policy procedure. Firstly, when the central has a desire to make a new policy, a draft will be sent to the local to gather comments and feedback, through which the local can express its interests. Secondly, when the draft of the policy has been confirmed, the central will produce specific policy guidance and send it to the local for implementation. The local will refine the policy guidance and make it more detailed to be implemented locally. The local government could express its interest during this process as well. These two

stages are parts of the policymaking process. After the policy has been implemented, the local could express its interest through the examination or assessment of policy outcomes. This is the last stage in which the local could express its interest during the whole process of policymaking and implementation. The power to refine such policy, which is taken up by the local, provides local government or departments with significant influence on the making of national policies. When talking about this topic in interviews, interviewees from healthcare departments were quite familiar with this process. As an official who works for the healthcare department in Inner Mongolia put it:

For healthcare policies, the central usually provides policy guidance which includes the overall plan and policy goals. For example, the central produces a national policy of public hospital reform, which includes the policy goal of cancelling the medicine price addition (increases in medicine fees) in public hospitals. The local needs to refine the policy and make it detailed so as to implement it according to its actual situation. So the local will make quite detailed policy on how to cancel the medicine price addition in public hospitals. Some local governments have instituted policy in which the government will provide subsidies for all the loss the public hospital will experience because of the cancellation. Some local governments choose to let the hospital increase its service fees to fill part of the loss and subsidies from the government will cover the rest. Some local governments may choose another way to achieve the policy goal. ... such policy refining procedure indeed makes the local powerful in policymaking (interview no. 6).

Many interviewees mentioned that the local has a lot of power to refine the guiding policy provided by the central. Therefore, it is obvious that the local could take advantage of the policy-refining power to protect and express their interests to the central government or ministries through the upward approval and promulgation process of specific policies and regulations. Moreover, due to the abstract nature of central policy guidance, the local could interpret and refine the central policy guidance to fit its own interests and benefit as much as possible during the refining

process. The top-down pressure mechanism which exists in the current policymaking and implementation process, together with the ineffective formal means of expressing local interest, has made the refining power of the local greater and more important (Zheng, 2012). On the surface, such an interpretation meets the requirement of relevant political mechanisms. In essence, it may conflict with the spirit of the rule of law, but in practice plays an effective role in the expression of local interest.

However, relevant laws and existing political mechanisms provide a range of serious approval, recording and supervision procedures on local policymaking. Therefore, this channel of interest expression may be an effective one. But for interest maintenance, the outcome is quite restricted in practice since the initiative is tightly held in hands of the central government and the central possesses strong veto power (Zheng, 2012).

7.2.1.3 The People's Congress system

In March of each year, all the representatives of the NPC gather in Beijing to attend the annual conference, review the annual work report of each national authority and flag up national affairs for the coming year. According to the "Election Act of the National People's Congress and Local People's Congress", the representatives who have the right to attend the NPC are elected from provinces, autonomous regions, municipalities and People's Liberation Army units. Most of these national representatives comes from provincial units so they represent the interest of their province. Meanwhile, representatives in the People's Congress at a certain level are elected by the representatives at the lower level. Thus, each national representative is not only present on behalf of the interest of their province or autonomous region, but also on behalf of the interest of cities, counties, towns and even smaller communities. Therefore, the interest of local government at all levels is gathered in the proposals and comments of the representatives of the NPC and expressed at the central during the annual conference. Central leaders will attend some group discussions of

provincial delegations during the annual conference, which makes this kind of interest expression more direct. For example, during the annual NPC conference in 2015, Chairman Xi attended the group discussion for Jilin Province while Li Keqiang, the Premier of the State Council, attended the group discussion concerning Heilongjiang Province (China News, 2015). Expressing local interest through the annual conference of NPC could make the expression more direct and efficient and since this channel offers the possibility of direct expression at the central level, it could avoid the inefficiencies caused by multiple levels of bureaucracy.

From the feedback given by some of interviewees who work in the provincial People's Congress, the People's Congress Channel plays a major role in expressing local interests and sometimes it is the most effective and efficient way for the local to represent their interests at the central. A senior official of the People's Congress in Inner Mongolia provided a typical example:

Since the ecosystem of the grassland in Inner Mongolia had been devastated, the central had launched a ten-year protection project in 2002 in order to restore the ecosystem of the grassland. Under this project, both central and local [provincial] governments would offer subsidies for those who plant and restore the grass in Inner Mongolia. The outcome of this project was good and the ecosystem has recovered a lot. At the end of this project, local government and herdsmen were willing to let this project continue, but the central didn't make any comments on whether to continue or cancel the project. The local government had reported such issues and their desire to keep the protection project going along with the central government, but there was no positive reply. In 2009, when the official from the NPC standing committee came to Inner Mongolia, the local government reported the issue of the grassland protection project. The report got the attention of the Chairman in the NPC standing meeting and he instructed the State Council to review and research the issue. Then the provincial People's Congress was authorized by the NPC standing Committee to do further research on relevant issues. The result of the research had been reported to the NPC on behalf of the provincial People's Congress.

Then during the annual conference of the NPC in 2010, the delegation from Inner Mongolia provided a proposal for improving grassland protection. This proposal had been selected as one of the top ten focus proposals of 2010. Then the NPC reported to the State Council concerning this proposal and the State Council issued a new policy of grassland protection. The local government and pastoralists in Inner Mongolia benefitted from this new grassland protection policy (interview no. 12).

This example is quite typical of the way in which local governments express and maintain local interests through the People's Congress. This channel helps the local government directly express their interest at the central level and leads to a more efficient solution for the local. However, the disadvantage of this interest expression channel is also obvious since the conference is held only once a year and the tight schedule makes the scale of local expression inadequate. The NPC can only pay attention to very few proposals in a single year, so this channel might be an unstable way for the local to express and maintain their interest.

Summary

In this section, we have discussed three channels for the local to express and maintain their interest. The internal approval and referral procedure is the most common channel for the local government, which can make full use of the existing political system. But local government has to face the inefficiency and pressure caused by multiple levels of administration. The procedure of formulating local laws and policies could be another useful channel of expression for the local. It is commonly used in practice to help the local express and maintain interest and benefit through specific policies or laws. When using this channel, the local has to face the serious approval, recording and supervision procedure set by the central for refining the central policy guidance. The People's Congress channel could help the local express interest more directly at the central and sometimes get unexpected attention and results. However, this channel is full of uncertainty because of the working principle

of the People's Congress. Due to the current status of China's NPC in practice (nominally the government is responsible to the People's Congress), the People's Congress in actuality has limited influence on the government in daily political life in China and thus the effectiveness of this channel of expression is quite limited.

7.2.2 Interaction during the policy process

As mentioned above, it is quite common for the local to represent its interests to the central government through the policy process. This section will mainly discuss how the central and local interact with each other in the policymaking and policy implementation stage based on the information given by interviewees.

Interaction in policymaking process

In China, most policies are made under the guidance of the central government or ministries except for those that come from policy innovation at the local level. The policy outcome is usually a consequence of cooperation between the central and local. When talking about the policymaking process, an interviewee who works in the development and reform department at the provincial level said the following:

Most of the policymaking experience is a "top-down" process. The central will initially have a policy idea or plan. Then the central will announce a policy draft internally and collect comments and feedbacks from ministries and the local. After several drafts improving the proposal and collecting feedback, the policy will be formally published and sent to the local to be implemented (interview no. 11).

When talking about their experience of policymaking, most interviewees described a similar process to the example just mentioned above. The local sufficiently

participates in the process of policymaking and has the chance to express its ideas and interests. Some interviewees reckon that the local government has a significant space for interest expression when offering comments and feedback to the central policy draft. Since the healthcare policy is more regional than some other policies, as an interviewee who works for a provincial healthcare department pointed out, the local gets even more space to represent its own ideas and interests. When interviewing an official who works for the national healthcare ministry, he confirmed the local has many chances to express their interests from the perspective of the central ministry. An official who works in the healthcare department in Inner Mongolia pointed out the following in his interview:

When the central is willing to make a new healthcare policy, the central will essentially collect comments and feedback from local governments, especially the provincial government. This has provided significant space for the local to express their interest to the ministry. Let's take the social medical policy as an example. When the ministry has a draft of this policy, they send it to all the provincial governments and healthcare departments and ask us to give comments and feedback. Since Inner Mongolia is sparsely populated, the population within hospital service radius is much less than it in other provinces. So we told the ministry that we'd like to reduce the entry standard and investment restrictions for social capital because of our special case. The central then approved our request. When the central was willing to equip ambulances for the Centre for Disease Control (CDC) in the local area, we told the central ministry that it is difficult to meet actual demand if we use the population to vehicle ratio that is used other provinces since our province is sparsely populated. Eventually the central made several modifications when implementing this policy in our province (interview no. 6).

The examples mentioned above are quite typical for central-local interaction in the policymaking process. When the central is willing to make a new policy, there will be several rounds of feedback collection and discussion between the central and local, which provides plenty of chances for the local to represent interest. From the

examples mentioned above, we can observe that the central is likely to modify the policy draft in light of the requirements of the local when making healthcare policies.

Interaction in the policy implementation process

After rounds of discussion between the central and local, the formal policy will be ready for implementation. The local plays a major role in implementing policies since the local does a lot of work to refine central policy and make it detailed enough to be implemented in a particular local area, as has been discussed in a previous part of this chapter. This refining process is another chance for the local to express its interest because the result of local refining needs to be approved by the central. When interviewing an official in the national healthcare ministry, he told of an example that he had been involved in:

When we were implementing the centralized medicine procurement bidding policy, we [the national healthcare ministry] asked each province to report their detailed policy plan on centralized medicine procurement bidding. The local expressed their interest through their refined policy. The ministry's job is checking whether the local detailed policy conforms with the central. Only if the local policy goes against the central principle will the local policy will be rejected by the central and require modification. Therefore, the local has plenty of space to express their interests and a high probability of maintaining these interests as well (interview no. 21).

This example demonstrates that the local has broad power in refining central policy since the local only needs to be careful that they do not go against the central principle and go beyond the line set by the central, such as in issues which are politically sensitive.

Another interaction stage during the process of policy implementation appears when the local finds something wrong after the implementation of a specific policy. After a period of time, the local may find the outcome is different from their expectation or it

is hard to continue implementation of the policy, at which time the local needs to communicate with the central to report the issue and ask for central help or central approval in modifying policies. An official who works for a provincial healthcare department in Inner Mongolia had this to say in his interview:

After two years of implementing the Physician Law and physician training and working policy, we found that we could hardly attract and retain high-quality physicians. This is because our province is a less-developed province and the wages and benefits we can offer are not competitive in attracting high-quality physicians. So we reported this issue via a work report to the healthcare ministry. We asked for a lower entry standard for those who want to be physicians in our province. The central then conducted fieldwork in our province to investigate whether it is necessary to reduce the entry standard for those who want to be a physician. The investigation was quite smooth and we expressed our concern and will to the central officials during the investigation as well. Eventually we got central approval on modifying admissions for physicians in our province (interview no. 6).

The central-local interaction in this stage is much more difficult when compared with interaction in the policy refining stage. When the local reports a problem in implementing policy, the central would be very careful and always be alert as to whether this is an excuse of local government for not implementing central policies. Normally the central will conduct an investigation to carefully check the situation in local area and then make a final decision. As a senior official in county government pointed out the following:

Generally speaking, implementation has priority in the local area. Although there might be problems during the implementation, the local is always told to first of all ensure the implementation. For example, when we were implementing the remote settlement policy on healthcare insurance for urban residents, we found our fiscal capacity was unable to support the implementation. When we reported this to the central during their regular investigation on policy implementation, they told us to ensure the implementation first since the central

ministries had measured local fiscal capacity before the implementation and it would be rare for the local to be unable to afford the cost of implementation. Therefore, we had to prioritize implementation (interview no. 34).

This example has shown the difficulties that the local faces when interacting with the central in the policy implementation stage. The central will hardly be convinced by the local to make changes in policies which are under implementation. Although there are some successful examples of appeals, it is unlikely that the central government will relent and the local has to endure a long period of careful investigation by the central according to the comments given by interviewees.

In the above paragraphs, some interesting findings relating to how the central and local interact with each other has been demonstrated. The local is highly involved in both the policymaking and implementation processes. The local has a great deal of space to express its own ideas and interests on specific policy during policy processes. However, the difficulty for the local in maintaining its interests is quite different in different processes. It is easier for the local to achieve its interest in the policymaking and policy refining stages, but it is very difficult for the local to maintain its interest in policy implementation because changes at this stage have to face rounds of rigorous investigation by the central. A notable issue among these central-local interactions is that the central always holds the initiative, because the central is always the one to make the final decision.

Summary

When I was analysing the interview data, a very interesting point came to light. I found that the central always takes the initiative and final decision-making power in the interaction between the central and local. From the perspective of protecting local interests, this might not be a wise choice. However, looking back to the development of local economy and politics, we may find some explanations for the gradual

formation of the current central-local interaction mechanism. After 30 years of economic reforms, China has experienced profound, intense, and lasting differentiation in social interest structure, which has led to a boom in the formation of different interest groups. When the central government decentralized power to local governments in the 1980s, these governments grew as entities which have strong political, economic and social reform interests. The local has developed more and more as an independent unit which has more independent interests. When the local government and interest groups, such as local banks and local enterprises, find that they have shared interests, an alliance becomes inevitable. With economic and social reforms, these alliances of interest groups became more and more powerful and have great influence on local public investment, fiscal resource allocation, local policymaking and even local official appointment (Ouyang and Wu, 2008). Motivated by increasing local autonomy, local governments are keen on “institutional innovation experiments”, which aim at promoting the local economy. On the one hand, this kind of innovation promotes sustained and rapid economic development in China. But on the other hand, it induces local government to distort central policies. Local fiscal and policy resources tend to be configured according to the interests of local alliances rather than by market mechanisms (ibid.). The local government also tends to interpret and implement central policy according to their own interests, and thus central macro-control policy cannot achieve its intended purpose. Meanwhile, a local government who mainly focuses on pursuing economic interests is unable to always provide public goods as they should. This might be a reasonable explanation of why the central government carefully maintains the initiative in interactions and final decision making. When facing the distinct possibility of misinterpretation or improper implementation of central policy by the local government, maintaining the initiative seems to be a frustrating but necessary course of action for the central government.

Section 7.3: Fiscal relations between the central and local governments

Fiscal capacity and approaches of local government have long been regarded as key institutional factors influencing the outcomes of social policy. How government income and fiscal resources are distributed really matters in the attitude of the local government towards specific social policies. According to Pierson, the local government whose income mostly relies on revenue redistribution usually has more passion and motivation for expansive social policy innovation. Other local governments who gain their income through local taxation tend to hold more conservative attitudes on social policy or even block welfare reform to protect the interests of local businesses, which is the main source of their fiscal income (Pierson, 1995). In addition, Pierson has argued that the local governments which rely on local taxation also tend to advocate for more decentralized systems during the implementation of social policies in order to help them gain more power to protect their fiscal capacity (Pierson, 1995). During the interviews, many interviewees pointed out that the fiscal capacity of both the central and local, together with the fiscal relationship between the central and local, could determine the interaction model between the central and the local. Therefore, this section will mainly discuss some of the interesting findings on the fiscal relationship between the central and local and try to find out whether fiscal relations affect social policy in China in the same way as Pierson mentions.

7.3.1 The context of the central-local fiscal relationship

When talking about the fiscal relationship between the central and local, taxation reform may be the most crucial context. Since entering the era of “open and reform” in 1978, China has gradually disposed of the planned economy and experienced a significant decentralization in terms of both economy and politics. During this period, the local government in China received a lot of fiscal management power which they did not have in the pre-reform period. The local government started to have

independent budget-making powers and was granted some fiscal autonomy, such as independent powers of budget and expenditure (Oksenberg and Tong, 1991). From 1978 to 1993, there was a “fiscal responsibility system” between the central and local where the central provided specific targets for the revenue and fiscal expenditure of every single province. Once the local had reached the target set by the central, the remainder of the revenue became part of the local government’s own fiscal resource. Under this system, the fiscal flow was actually from the local to the central government, which could be described as the transfer of payment from the local to the central (Lou, 2012). The fiscal decentralization trend reached its peak in the late 1980s and was then replaced by the tax-sharing system in 1994 (Cai and Treisman, 2006). The central government initially launched this taxation reform in order to adjust the fiscal relationship formed in the 1980s and recapture the power of economic management in important areas (Zhang, 2006). After this reform, the central government succeeded in regaining most of the power over fiscal revenue, which was decentralized from the central to the local in the 1980s. The taxation reform in 1994 changed the fiscal relationship between the central and the local and eventually also changed the direction of transfer payment into central to local (Lou, 2012). The portion of central fiscal revenue within the national fiscal revenue significantly increased from 22% to 55.7% in the first year of the taxation reform, which produced a great influence on the fiscal relationship between the central and local governments and even on the political environment (Zhang, 2006).

Twenty years after the taxation reform, the tax-sharing system still has a great deal of influence over central-local fiscal relationships and even policy outcomes. It affects the specific fiscal relationship between the central and the government of every single province. For example, Inner Mongolia may receive plenty of central transfer payments, which can be up to 30% of its fiscal revenue, while Guangdong rarely receives the transfer payment from the central government (interview no. 34). The transfer payment initiative actually plays a crucial role in central-local fiscal relations. As an interviewee who works for the Institute of Fiscal Science of China (an institute under the Ministry of Finance) pointed out:

Fundamentally, the fiscal system of a country is determined by its political system and political objectives. As a component of the fiscal system, transfer payments in many cases should firstly meet the requirements in the political aspect, followed by the consideration of economic efficiency. From the perspective of fiscal power, the transfer payment system allows higher-level government to have a larger share of the fiscal resource and makes lower-level government more dependent on it [under the tax-sharing system]. The larger the transfer payment is, the greater the influence the government can achieve on lower-level governments. Therefore, the central can regulate and supervise the behaviour of the local government to a certain extent through transfer payment. In other words, transfer payment is not only about technical issues but also an effective tool for the central to achieve its political goals (interview no. 14).

This example has provided insight about transfer payment from the top towards the bottom. The transfer payment system can regulate the fiscal relationship between the central and local to strong political effect. Such political aims could be observed during the process of taxation reform before and after 1994. The decentralized fiscal system before 1994 was designed to let the local assume more expenditure responsibility and have enough motivation to increase local revenue and pursue economic development. As mentioned above, the initiative of transfer payment was not utilised by the central government in this period (Lou, 2012). However, since the central could not truly grasp the information on local economic operation, the local had incentive to hide tax sources and reduce tax collection (because more taxes meant that the central would share more of its revenue). Thus, the central fiscal revenue in proportion to national income experienced a rise from 24.5% to 40.5% from 1980 to 1984, but dropped to 22% in 1993, which was even lower than the situation at the beginning of the reform in 1979 (Chen and Gao, 2012). This in fact shows that the transfer payment flow was going from the local to the central, and the central lost its influence on the local when it gave up the initiative of transfer payments.

This section has discussed the context of the fiscal relationship between the central and local governments in China. From the change of the fiscal system and

central-local fiscal relationships, transfer payment may be observed as a key factor which exerts great influence on the fiscal relation between the central and local. From the perspective of the central government, that it holds the initiative of transfer payment is very important in terms of both the economy and politics. Such an initiative indicates how much influence the central can have on the local government as well. Therefore, it is reasonable that the central has held onto the initiative of transfer payment and has not given it up since 1994. Thus, the transfer payment system may be the key to analysing the central-local fiscal relationship and will also be emphasized when analysing fiscal relationships and policy outcomes in the following parts of this chapter.

7.3.2 Fiscal relationship and policy innovation

As Pierson claims, local governments who rely on redistributive revenue have more passion for expansive social policy. As mentioned above, Inner Mongolia is a province which relies much on redistribution revenue from the central government, while Beijing and Guangdong are quite independent from central transfer payments. When interviewing officials in these provinces, I asked some questions about their experience and attitude towards local policy innovation in order to find some differences and possible motivations.

7.3.2.1 Space for policy innovation

Most of the interviewees who work in the healthcare sector agreed that the local has enough space for healthcare policy innovation when asked about their work experiences. As an interviewee working in the healthcare department of Guangdong province explained,

Guangdong in fact has plenty of space for healthcare policy innovation. Firstly, Guangdong has long been the pilot province of reform in China. So Guangdong

has plenty of default space for policy innovation or experiment. The central government has a high level of tolerance on Guangdong's policy innovation. It seems that Guangdong has the space to do almost everything except what goes against the baseline of the central government. Secondly, healthcare policy is much more regional, which means that the outcomes of healthcare policy are highly related to the specific conditions and situations of a specific place. Therefore, the central tends to give more space to the local for healthcare policy innovation in order to maintain the relevance of the policies (interview no. 27).

It is not surprising that Guangdong has so much space for policy innovation. It has a very special status which may be regarded as the laboratory of policy innovation since the 1980s. However, for Inner Mongolia, which has no tradition of policy innovation and relies much on central transfer payment, the feedback on this topic is quite interesting. Interviewees from the healthcare sector in Inner Mongolia also provided positive feedback when asked about the space for local policy innovation on health care. A senior officer who works in the Human Resource and Social Security Department in Inner Mongolia mentioned that:

The central government actually really encourages us [local government and departments] to engage in policy innovations ... That central document mentions that "the central encourages each province to actively study and explore the new model and payment approach on this policy". The central ministry also encourages us to report our new practical experiences of this policy in a national working conference. It is obvious that the central provides a certain space for the local to engage in policy innovation (interview no. 9).

It seems that Inner Mongolia, which receives significant central transfer payments, similarly has plenty of space for policy innovation. The interview transcripts reveal that the central government plays a key role in that. The central "gives space to" and "encourages" the local to engage in policy innovation. For Inner Mongolia, the central government gives policy space but retains the power. For Guangdong, it seems that they have more space to pursue their own policies, even when the central government somewhat disagrees, because they are more fiscally independent. Thus

the central government seems to be the most relevant factor of the space for local policy innovation in these two provinces.

Later on, I interviewed some officials and experts on the top level in order to explore why the central provides so much space for the local. When interviewing this interviewee, who is a senior specialist of the expert group on the healthcare reform in China, she explained why the central provides so much space for local policy innovation on health care:

The central is no doubt giving the local a large space for policy innovation or experimenting on healthcare policies, because the healthcare reform has entered a critical stage where most of the problems have no ready-made solutions. Many issues need new exploration. To be honest, the central is not particularly sure which direction the healthcare reform should go. Therefore the central government and ministries encourage local governments to actively engage in research and innovation, which may help the central to sum up the practical experiences and explore the direction of healthcare reform (interview no. 23).

These three examples all indicate that the local has much space for innovation on healthcare policies no matter if it is a province that relies much on redistributive revenue, such as Inner Mongolia, or a province like Guangdong, who rarely receives transfer payments from the central. These examples provide practical experiences of those from the top level and bottom (lower) level. Guangdong does have more space for policy innovation than Inner Mongolia, however, the fiscal autonomy is not the only cause. Here we can notice that the fiscal independence of Guangdong is only part of the reason for its large space for policy innovation, beyond the central government wanting to see local innovation. Ultimately, Guangdong has more autonomy on policy. Therefore, the specific fiscal relation between the central and the local has quite limited influence on the space for local policy innovation according to the interview data.

7.3.2.2 Attitudes towards policy innovation

Although the local has much space for healthcare policy innovation regardless of the extent to which it relies on redistributive revenue or transfer payments from the central government, when asked about their attitude towards policy innovation, interviewees gave quite different feedback from the previous question “Does the local have much space on policy innovation?”. In Inner Mongolia, an official who works in a county government told me that:

Generally speaking, when the central is wanting to implement a healthcare policy, it will publish its policy plan to each province. The policy plan usually has two parts. One is the compulsory part, which means the policy goals in this part are compulsory for the local to achieve. The other is the selective part, which means it's up to the local whether it wants to implement this part or not. The selective part probably has very brief policy goals and encourages the local to engage in policy innovation in certain policy fields. Since our province has relatively poor fiscal capacity and relies much on central transfer payment, we do not have enough resources to fulfil the selective part. The central does provide fiscal support for some local policy innovation, but the opportunities are quite limited: most of the policy innovation in local areas needs fiscal support from the local government itself. Therefore, we have always fulfilled the compulsory part and have had low desire for policy innovation due to our limited fiscal capacity (interview no. 34).

According to this interviewee, although the central government has provided many transfer payments to Inner Mongolia, it was still not enough for the local government to engage in policy innovation in the healthcare sector. Central subsidies are quite limited and it is very hard for Inner Mongolia to obtain sufficient funding. If the local government wants to engage in policy innovation, it has to fund the innovation itself. Thus, its low local fiscal capacity has made Inner Mongolia more unwilling to explore policy innovation.

If Inner Mongolia is inactive on policy innovation due to poor fiscal capacity, will provinces that have strong fiscal capacity be more passionate about policy innovation?

I put this question to some officials in Beijing and Guangdong, and their feedback was quite impressive. Regarding this topic, an official who works in the healthcare sector of Beijing told me:

We usually conduct our pilot innovation with internal resources since we seldom receive much support, especially fiscal support, from the central ... But the process is not smooth. We need to cooperate with so many different departments if we want to engage in some policy innovation. We have been trying to innovate our policy on separating medical services from pharmacies system [Yi Yao Fen Kai] for more than two years, but we still cannot achieve the outcome we want. We have tried to push the innovation through the Group for Healthcare Reform [the most important organ which is responsible for the overall issues on healthcare reform at the centre and the local; here it refers to the municipal group of healthcare reform] but the effect is quite limited. The requirement for successful policy innovation is support from the [local] major leaders. It is only through them can we achieve the overall cooperation of different departments. However, healthcare issues are not regarded as a priority in the eyes of our major leaders. They devote more attention to political stability and the economy. Therefore, there is a big obstacle in our way of healthcare policy innovation (interview no. 19).

An official who works in a municipal finance department in Guangdong provided quite a similar experience on healthcare policy innovation:

When funding a policy, the governments on the municipal and county level provide about 60% [of the funds], the provincial government provides about thirty per cent and the central government may provide at most ten per cent. Local government has to offer the most fiscal support for healthcare policies ... [and] healthcare policy innovation is more difficult than for other policies because too many departments are involved in healthcare issues. The department of health care is not strong enough to push the policy innovation through. Even the commissioner from the Ministry of Health Care is ineffective on these issues. We can only push through the policy innovation smoothly and

achieve overall cooperation if the move has been endorsed by the major leaders. When Wang Yang [a former major leader of Guangdong who was promoted into the central government] was in Guangdong, he held a conference with provincial leaders and some leaders from the Ministry of Finance to convince the ministry to provide more fiscal resources for the reform of public hospitals. After that, the reform of public hospitals went about much more smoothly and received 600 million yuan in fiscal support from the central government in 2009. However, when a new leader who does not care about healthcare issues too much is in power, reform and policy innovation face trouble again (interview no. 32).

These examples show that in provinces which rarely receive redistributive revenue from the central government, such as Beijing and Guangdong, the local government does not have much passion for healthcare policy innovation. This confirms Pierson's point that local government whose income is mostly gained from local taxation tends to hold more conservative attitudes on social policy (Pierson, 1995). Even if the healthcare department tries to push for policy innovation, the local government as a whole still holds a relatively conservative attitude towards healthcare policy innovation. The innovation has to overcome plenty of difficulties and it is hard to reach the finish line if it cannot attract sufficient attention from the major leaders in the local government.

While conducting interviews in Shenzhen, Guangdong, I discovered an impressive example of local leaders supporting innovation. Shenzhen is very famous for its policy innovation as well as its economic performance. Many advanced models were produced by Shenzhen during the healthcare reform. When asked about the fiscal source of healthcare policy innovation, an official who works for the healthcare department in Shenzhen said that "we actually rarely have fiscal interaction with the central. All the policy innovation is supported by our own fiscal resources. We do not even need fiscal support from our province" (interview no. 29). When asked why Shenzhen has such strong motivations on healthcare policy innovation, the interviewee pointed out:

The motivation for policy innovation comes from ourselves [the local government]; we do not receive pressure from the higher levels. The most important factors which lead to the success of policy innovation are support from the upper levels and abundant attention [on the issue] from our local government. Support means the central government giving us the freedom to engage in policy innovation, so we rarely face obstruction from the [central and local] institutions. Abundant attention means that the major leaders of our municipal government place a lot of attention on healthcare reform and policy innovation. They help different departments cooperate with each other to ensure the policy innovation has enough policy and fiscal resources (interview no. 29).

We may thus observe that the local government, especially the opinions of major leaders within it, really plays a crucial role in policy innovation. Although the situation and conditions in Guangzhou and Beijing are no doubt more complicated than those in Shenzhen, for example, the hospital system is very complicated in Beijing and Shenzhen such that military hospitals and university hospitals involved in the system and the department of health care are unable to direct it, we can still tell the difference between the local governments of Beijing, Guangzhou and Shenzhen towards policy innovation. Hence, although Pierson's argument that more fiscally autonomous provinces will have less motivation to expand social policy is confirmed, their increased policy space means that they can innovate if local leaders are prepared to push for this.

The paragraphs above have discussed the fiscal relationship between the central and local, along with local policy innovation. We may observe that the central government provides certain freedom for the local to engage in policy innovation, but the attitude of local government towards policy innovation is quite passive. Provinces which rely greatly on redistributive revenue such as Inner Mongolia have little passion for policy innovation because the local government cannot afford the cost of policy innovation. If they receive more resources for innovation, according to Pierson, they will do it. But they do not, because central fiscal support for innovation is limited. Provinces which are quite independent from central redistributive revenue such as

Beijing and Guangdong are passive about policy innovation (with Shenzhen being the exception) because their leaders pay less attention to healthcare issues than to economic issues. It thus seems that Pierson's statement on local governments who gain their income through local taxation applies similarly to China, where those local governments hold relatively conservative attitudes towards healthcare policy innovation.

Political stability and economic growth are much higher priorities for the provincial government than health care. It is interesting that Inner Mongolia, which relies on central transfer payments, is not passionate about healthcare policy innovation. According to Pierson, this kind of local government should be active in policy innovation because the central can offer some help and the local government does not have to worry too much about affecting local businesses since a big part of its revenue comes from the central transfer payment (Pierson, 1995). We can observe that the main reason is that Inner Mongolia does not have enough fiscal capacity to support policy innovation.

7.3.3 Transfer payment as the main tool of central government

In interviews about the fiscal relationship between the central and local governments, the term "specific transfer payment" (Zhuan Xiang Zhuan Yi Zhi Fu) appears quite frequently. In general, transfer payment includes general transfer payment, which the central has not limited its use and the local has autonomy over this money, and specific transfer payment, where the local has to use in certain areas following the guidance of the central government. When asked about fiscal interaction with the central, many interviewees mentioned that special transfer payment is the commonest way through which the central could get involved in local affairs. An interviewee who works in the department of finance in Inner Mongolia told me that:

the central government provides much fiscal support to Inner Mongolia on social security, health care and environmental protection, which can be up to forty per cent of the whole expenditure on these issues. Most of such fiscal support comes

as specific transfer payment. For example, the central fund for healthcare insurance and building cost of public hospitals all came to us as special transfer payment. The central has strict limits on the use of these transfer payments and there is a full set of regulations and a supervising system to secure the use of the payment. Meanwhile, many of these specific transfer payments come with specific policy projects. These policy projects are all advocated by the central government and usually include detailed policy goals and policy progress. Only by fulfilling what is required of the policy project can the local government obtain the relative specific transfer payment. ...The basic progress is: firstly, the central publishes a policy project to the provincial government to inform the government. The publication will clearly describe how much the central government will subsidize for this project. Most of the project is open to the government on the county level or even lower. Secondly, the provincial government informs the government at the lower level about the project and those who are willing to attend the project can add their names to the application list together with relevant materials such as their detailed policy implementation plans. The provincial government reports the application list to the central government. Then the central decides on the participants of this policy project after several rounds of investigation and discussions. Finally, the central distributes the relevant resources to each participant through a dedicated system and starts the internal supervision system to ensure that the central transfer payment is used in the right ways (interview no. 33).

From this interviewee's description, it seems that the central transfer payments come to Inner Mongolia mostly by way of specific transfer payments together with specific policy projects. But what is the attitude of the local government towards such transfer payments? An official of a county government in Inner Mongolia told me that "the policy projects really motivate our initiatives. Each district [county] is willing to be included in the projects. We always make the effort to be involved in the projects; it is a chance for development for us." When asked what benefits the county government can receive, he replied: "If we are included in the project, we can receive a certain amount of transfer payment from the central. That's really attractive to all

governments. For example, for the policy project of research on and prevention for brucellosis [a kind of disease], our province received about 2 billion yuan from the central. That's quite a lot of money" (interview no. 34). It seems that such transfer payments, from the perspective of the central's policy implementation strategy, are quite popular in Inner Mongolia and are pursued by county governments. In fact, even in Guangdong, this kind of transfer payment still works well. A senior official who works in a county government in Guangzhou told me that:

when the county government wants to develop a certain sector, for example, health care, it will always seek the relevant policy project published by the central government and try hard to be included in the policy project. It is because we can get specific fiscal support [related special transfer payment] if we are involved in the project. We can integrate our specific development goals with policy goals of the policy project and achieve both the development and fiscal benefit (interview no. 31).

From examples mentioned above, it is obvious that the combination of specific transfer payments with specific policy projects is quite popular in the area of local government. The local governments, particularly those on lower levels, are quite passionate to take on the project in order to obtain the fiscal benefit (specific transfer payment from the central) attached to the policy project. Thus, the central can effectively motivate the local to implement specific policies through this way. However, it is also obvious that the local government, especially provincial government, loses some autonomy on the usage of transfer payments. This is because the use of specific transfer payments is quite restricted; they can only be used in the fields that the central wants. Most of these specific transfer payments goes directly to the county government, which means the provincial government loses out on a big part of such a fiscal resource. The more specific transfer payments there are within all transfer payments, the less autonomy the local government has in using transfer payments. This may be a reasonable explanation for why Inner Mongolia does not have enough fiscal capacity to conduct policy innovation. Since a big part of the transfer payments that Inner Mongolia have received from the central government are

specific transfer payments and these go directly to the county government, if the goal of a policy innovation is the same as a specific policy project, the county government of Inner Mongolia might have enough fiscal resources to carry out the innovation.

Summary

This section has discussed central-local fiscal relations and policy innovation. After the establishment of a tax-sharing system in 1994, the central held tightly onto the power to distribute fiscal resources to the local. Since then, the central has held the absolute initiative of transfer payment distribution and come into a strong position in the fiscal relationship between the central and local. Such an institutional setting causes the central to occupy a larger share of the financial resources and makes the local more dependent on the central. The more transfer payments are distributed to the local, the more influence the central can achieve over the local. Due to the unclear distribution of administrative power between the central and local (see section 1), local governments always take too much responsibility for social expenditure, which is specified by the central. Together with the strong fiscal control of the central government, this ultimately forms a phenomenon of “central treats, local pays” (Qiao and Liu, 2014). Meanwhile, since the local government lacks independent fiscal space, the local can hardly respond to the variety of its residents’ public service needs. The situation is exacerbated by the extensive use of special transfer payments by the central authority. The local government possibly loses the freedom to arrange the priorities of its expenditure based on the exact needs of its residents. These problems can be observed in the case of Inner Mongolia. The local government of Inner Mongolia is more dependent on central transfer payments, hence its expenditure preference is highly guided by the central government. When the local government wishes to spend according to its own will or the exact needs of its residents, such as policy innovation in certain areas, the limited fiscal expenditure freedom is the biggest problem that has to be overcome.

Furthermore, the most impressive thing I discovered during the interviews is that specific policy projects combined with relevant special transfer payments play quite a crucial role between the central and local governments. These policy projects appear everywhere from Inner Mongolia to Guangdong, and have become quite popular among local governments, especially governments on the county level. This kind of policy-implementing strategy has provided a way for the central to give detailed policy guidance directly to the government at the lower levels, and from the fervour of the local governments, it seems that the central has found an effective way to implement central policies or even obtain control of the local governments. As an interviewee mentioned, “when the county government wants to develop a certain sector, for example, health care, it will always seek the relevant policy project published by the central government and try hard to be included in the policy project” (interview no. 31). Nevertheless, provinces which have more fiscal capacity, such as Guangdong, do have more policy freedom. On this point, Pierson is right that they tend to be more conservative when it comes to the expansion of social policy, unless this is funded by the central government through specific policy projects. However, how effective such policy projects are and how far the local will act in concert with the central should be questioned. Will these policy projects become an effective tool for the central to obtain influence on the local or become a cause for tension between the central and local?

Chapter 8: Discussion

The central-local relationship, as an important form of political-economic institution, produces a variety of influence on social policy in different countries. Pierson pointed out that there are three institutional characteristics, namely constituent units' power, the interaction model between the central government and state governments, and fiscal relations between all constituent units, all which have great impact on social power process (Pierson, 1995). From the perspectives of historical institutionalism, Zheng had examined how these institutional characteristics of the central-local relationship are embedded in political unit regimes and economic-political organizations over recent decades, and then developed “de facto federalism” to explain the central-local relationship in China. In de facto federalism, reciprocity has replaced coercion and bargaining as the most common mechanism within interactions between the central and local governments. The central government has to seek cooperation with the local, since local governments have become less dependent on the central and obtained institutional settings and legitimacy to intervene in economic activities in their jurisdiction from intergovernmental decentralization (Zheng, 2007). Although the decentralized power has not been institutionalized, the central has little possibility to retake those powers because the local has become the main force for economic growth. Thus, according to Zheng, de facto federalism, which had been conducted in a historical intuitionist way, may be a reasonable descriptor which captures the current features of how the central and the local act with each other in political and economic arenas.

Under the fieldwork of three distinctive dynamics mentioned in Pierson's research the researcher interviewed 35 officials in relevant departments in China to explore how the central-local relationship affects social policy in China. After reviewing the data from perspectives of power distribution, central-local interaction and fiscal relations, a comprehensive understanding of the central-local relationship in practice has been obtained. Features that support de facto federalism have been found through

interview data, however; I discovered that the central-local relationship in China has been in the process of transformation, and there are new features, which are different from de facto federalism. Based on this understanding from the interview data, this chapter will primarily try to answer the main research questions: what best captures the nature of the central-local relationship in China, and what is the impact on healthcare policy? There will be two sections; the first will mainly discuss whether de facto federalism captures the nature of the central-local relationship in China. The second section will discuss what best captures the nature of the central-local relationship from a historical perspective. A discussion of how the “dynamism” nature of the central-local relationship influences healthcare policy will also be included in this section.

Section 8.1: Does de facto federalism capture the nature of the central-local relationship?

De facto federalism has been used to describe the central-local relationship in China by Zheng (2005), in which reciprocity acts as the main mechanism in the interaction between the central and local. From the interview data, we could observe that local governments in China do have more power than they used to have, especially in the policy refining process, which makes the local more powerful than the central in policy implementation. However, the rise of the project mechanism has brought new changes to the central-local relationship and a new channel for central-local interaction. This section will discuss whether de facto federalism captures the nature of the central-local relationship in light of the new changes in China.

8.1.1 Dilemmas of central-local relations

As Pierson mentions, how local interest is expressed at the centre is quite influential to the extent to which the local may affect the central government (Pierson, 1995). How the central government expresses its interest to the local is important, since the

stronger and more direct this expression is, the more likely it is that the interests (whether central or local) will be respected (ibid.). From the data collected from interviews, it is obvious that either the governmental system or the industrial system is used to express central and local interests to each other most of the time. Meanwhile, such a policymaking process and implementation process have made the local quite powerful, because the local has freedom to refine central policies. As mentioned by an interviewee, “the local expressed their interest through their refined policy. The ministry’s job is checking whether the local detailed policy conforms to the central. Only if the local policy goes against the central principle will the local policy will be rejected by the central and require modification” (interview No. 21, see Section 2 in Chapter 7). According to the formal political structure, China is a centralized unitary country where all the power belongs to the central government in principle and local government is only the executive body of the central authority; the local government should thus fully implement laws, regulations and policies made by the central. However, the decentralization which started in the 1980s introduced market and societal factors into the political and economic system and achieved a re-division of power between the government, enterprises and social organizations. Plenty of central power was decentralized downwards to the market and government at lower levels. Such decentralization granted the local significant autonomy on economic affairs and strongly stimulated the local economy. As such, the economic situation completely changed in just 20 years. The local governments played a more crucial role in the development of a national economy and local governments gradually found their own interests which are different from that of the central government. Meanwhile, the decentralization was also a process of shedding central power at the local level. After the contraction of central authority, the local has actually been growing as a quasi-autonomous body (Zheng and Wang, 2001). It is harder and harder for the central to collect in-depth information from local government and have its policy implemented in line with its original intention. Maybe the political tasks assigned by the central could be resolutely implemented, but for the majority of economic and social tasks, the local has significant space to refine and implement these policies with a view towards their own interests. Such

phenomena lead to duplicity in the central-local relationship; there is the formal centralized system and the local should rarely have autonomy. In fact, the assigned central authority and tasks are often accommodated by practical local implementations, and the local seems to be autonomous and flexible (Zhu, 2009).

The situation in the healthcare sector is a typical reflection of this phenomenon. The local healthcare department belongs to the local government system and only receives professional guidance from the central healthcare ministry. The delivery and implementation of central policy has to rely on local government and departments, since there is no central organ to deliver healthcare policy to the local. When the policy implementation comes down from central to local, it gradually loses its centrality and becomes more and more locally oriented based on certain local interests. Since the local has power to refine central policy, the so-called strong central power or authority has been carved up by local government and departments. Although the central holds the initiative of interaction and final decision making in the central-local interaction on healthcare (see Section 2 of Chapter 7), it is more likely to be a last resort rather than an effective solution to misinterpretation or improper implementation of central policy by the local. In most cases, local government could “make up” refined policy in line with the central requirements to get approval. The central has little capacity to do in-depth investigations on dozens of locally refined policies in a short time. Thus, the local actually has a great deal of power in policy implementation rather than the central government.

However, local governments hardly feel secure with such decentralized power. Many officials have expressed their concern about local policy innovation in their interviews (see Section 1 in Chapter 7). Local officials, especially those who are at the lowest levels of government, are often initially unwilling to engage in policy innovation, since some of the local innovations are choice-made with an idea to survival. Most of them were afraid that non-institutionalized local power cannot provide protection for their reform and innovation. The local also feels that they may need more power to get their innovation and work protected by law. Meanwhile, the

central government may also feel “unsecured”, since nomenklatura has played more and more limited role on achieving central control upon local governments.

8.1.1.1 Effect of the nomenklatura system

The nomenklatura system has long been used as an effective tool to insinuate the will of the central government into the local area and overcome localism (Zheng and Wang, 2001). When the local becomes increasingly powerful in economic and social affairs, it seems that only the power of appointment is still held tightly by the central government. Such power also maintains the expression of the central at the local level. From the interview data, whether the leader of local government is prepared to push the reform could make a major difference in the outcome of the reform, especially in governmentally complex provinces or cities, such as Guangzhou and Beijing. Thus, it is quite important to have local leaders who are in line with the central, especially when the central is willing to push reform.

Based on this principle, many central officials were sent to the local to take certain positions every year and the practice has proven advantageous in the past. Firstly, those officials were appointed by the central and their power comes from the central, so they must take orders from the central government. Secondly, sending central officials to the local level is a good way to promote reform in that area since these officials could decrease the inconsistency in central reforms at the local level. But the limitations of such an approach are obvious. A crucial purpose of the nomenklatura system is to locally implement central policies, but the selection of an official may be a challenging process since there are different local interests competing against the central interest. The choice may often be to either appoint an official who follows central interests and will suppress local interests, or appoint an official who will follow local interests and distance themselves from central interests. In the former case, it is difficult for the sent official to obtain the cooperation of the local officials, which results in poor implementation. Some of the local officials who are appointed by the central regard their local position as a path leading to higher positions of power,

and they are therefore trying to keep the peace during their term rather than striving to develop the local economy. This has also limited the outcome of policy implementation. In the latter case, obeying local interests means inevitably moving away from central interests. Most of these officials rarely get the opportunity to be promoted, so pursuing local interests rather than central interests could be an obvious choice for them (ibid.). Moreover, according to Zheng, in the matter of selecting local officials, the provincial leader has an important say because the central could hardly make a personnel change without information on individual leaders provided by the provincial leaders (Zheng, 2007). In other words, personnel control by the central cannot function well without local cooperation. The province is no longer the one who has no impact on central personnel decisions, although it is still formally in the subordinate position. Susan Shirk also suggested that there is a so-called “mutual accountability” between central leaders and provincial leaders since provincial leaders make up the largest part of the Central Committee of the Party, a body that elects central leaders (Shirk, 2007). On the one hand, provincial officials hope to be promoted and central leaders can threaten dismissal as a negative incentive to mobilize local officials to support the reform. On the other hand, provincial officials constitute the majority of the Central Committee, and their support is necessary for any central leader. They have the strength to persuade the central leader to implement policy which is conducive to local interests. This also tells us that reciprocity, the most important characteristic of the central-local relationship in de facto federalism, becomes the most common and important mechanism in the political and economic relation between the central and the local rather than coercion and bargaining (Zheng, 2007).

Another feature of the nomenklatura system is selecting local officials for positions in central leadership. This approach has historically been commonly used and has had a profound impact on China’s political operation. Moving local officials into central leadership has strengthened the exchange of information between the central and local, which in turn helps to maintain relative stability in the political system. It is necessary for the central to have full and accurate information concerning the local in order to achieve effective governance at the local level, but China has long lacked a

modern system of information collection, such as free media or periodic elections. The central collects local information either by sending central officials to investigate the local or by asking local officials to collect information for them. But local officials often modify and even fabricate information in order to protect local interests. So placing local officials into central leadership can, to a certain extent, help the central to collect useful local information. However, because the size of central leadership is limited, the number of central officials who are chosen from the local is definitely small. Therefore, the function of nomenklatura system becomes more and more limited along with the growth of local interest. Central power is not as strong as it once was and it is harder and harder for the central to maintain control over the local.

Such a situation reminds us of the famous “federal dilemma”, which consists of two major issues. Firstly, if the central power is too great, there will be abuses of power, which may not only lead to corruption but will also undermine local initiative. Secondly, if the central power is too weak, local government will take a position of opportunism and have very little willingness to cooperate with the central, which could strengthen localism and separatism (Zhang, 2009). The “federal dilemma” on one hand could reduce national economic performance and on other hand undermine political stability and threaten the national unity. This problem firstly appears in countries with a federal system, but has become a major problem for each modern country. The United States spent nearly 100 years struggling with the “federal dilemma”, and ultimately resolved it through military means, with Lincoln establishing the federal government as the highest authority based on federal sovereignty (Wang, 2000).

China has faced this same dilemma. Central power or initiatives are always accommodated by the local and the central government feels that there is not enough power to keep the local in line with the central; but the central must react very carefully to make sure not to undermine the initiative of the local. However, the situation in China is yet more complex. Although the local received a great deal of power during decentralization, these decentralized powers have not been

institutionalized and the local always has to face the possibility that decentralized power could be retaken by the central. So the local also feels a level of uncertainty in their use of power. Both the central and the local feel they should have more power, or as Zheng and Wang put it, “everyone [the central and the local] knows the power is draining off, but no one knows where the power goes” (Zheng and Wang, 2001, p.67). In such a context, Zheng has pointed out that the central government no longer has strong control over local government to keep them in line with the central, while reciprocity has replaced political coercion and bargaining as the most common and significant mechanism to keep the interaction between the central and local operating smoothly (Zheng, 2007). In other words, *de facto* federalism seems makes an appropriate description of the great dilemma of the central-local relationship that China faces. The future of the central-local relationship could be institutionalized and a formal federalist system might be a possible consequence according to Zheng’s prediction (*ibid.*).

However, the recent changes and the interview data discussed in the Findings chapter seem to indicate that the central-local relationship in China is moving in a different direction from Zheng’s prediction. The central has held on to the absolute initiative of distributing transfer payments and come into a strong position in the fiscal relationship between the central and local through a series of reforms, such as the establishment of a tax-sharing system and a national banking system. The central government packages specific transfer payments and specific policy projects together and sends them to local governments, while local governments (especially county governments) are “trying hard to be included into such projects... because we can get specific fiscal support [attached transfer payments]” (interview no. 31, see Section 3 of Chapter 7). Such a policy tool is called a “project mechanism” and gradually plays a more important role when the central is dealing with policy implementation at the local level.

8.1.2 The project mechanism – the central solution to resolving the dilemma

The importance and popularity of the “(central) project” has been mentioned many times during the interviews when talking about fiscal relation interactions between the central and local. The “project” discussed here is different from the ambitious social construction and development planning projects and is also distinct from technical and construction projects. It specifically refers to the arrangement and management of transfer payments from the central to the local (Zhe and Chen, 2011). Specific policies are the catalysts for such transfer payments and come in two forms. The first is assigned to provincial governments by central ministries. Provincial governments or departments organize lower governments and their departments to accede to the project. All those who agree to participate will compete in the relevant central ministry. The second is through open competition projects that enterprises and appropriate departments could declare. Local governments or their departments will help to write project proposals, and submit these to the central ministries (ibid.). Declarers not only have to compete at the top level (the central ministry), but also have to compete at the local level (usually on the county level). The approved project only passes through the provincial and municipal governments without being subject to intermediate approval. Once the project declaration has been approved by the central, the transfer payment goes straight to the group that made the proposal (usually county governments or enterprises). In the whole process of the project, the central government occupies the most important role and is the driving force, particularly because it holds the power of project release. Firstly, the central government expresses its policy intent and payment goals by setting a specific project. The central government also decides the focus of the transfer payment on this project and the division of the whole transfer payment. Secondly, the ministry which set up the project will issue project guidance which includes goals, project conditions, the declaration and release program, funding, payment allocation, responsibilities of government on each level, an organization and implementation plan and so on. Finally, the central will mobilize local governments at the county level to compete for the project.

Another important role is that of the county governments, which are the main players competing for the project during the process and which have shown enthusiasm for central projects. As mentioned by many interviewees who work in county government or healthcare departments, chasing central projects is a big part of their daily work (see Chapter 7, Section 3). An official from a healthcare department on the county level in Inner Mongolia pointed out that “many improvements in the healthcare sector are achieved by implementing central projects. The county government actually has a strong will in competing for projects” (interview no. 34, see section 3 chapter 7). This is because certain payments are attached to the central project, which is clearly attractive to the county government. Moreover, county governments always deliberately overstate the project budget in order to obtain more money from the central (Zhe and Chen, 2011). Sometimes government budget management is quite loose; some county governments will propose a small project budget to get approved and then claim that the project could not be completed and apply for additional funding (ibid.). The government usually agrees to transfer additional funds in order to get the policy project implemented and avoid wasting money by stopping the project halfway (Qu, 2012).

In fact, the project mechanism is commonly used and has gradually become a new type of governance tool in China (Zhou, 2006). According to the report of People.cn, the proportion of specific transfer payments reached 53.3% of the total transfer payment in 2012 and increased to 57.1% in 2013 (People.cn, 2015). The project mechanism, as the main catalyst for specific transfer payments, undoubtedly plays an important role in central-local fiscal relations. Interview data has also demonstrated such a phenomenon. Moreover, the project mechanism has a major impact on the general central-local relationship in China. The project mechanism could help the central to eschew the limitations of massive government structures. The central government can centralize its policy goals such as economic growth or welfare promotion into specific projects and these projects go directly to the county level and provincial government becomes less important than in more traditional modes of governance. When the project mechanism starts to operate, the central-local relationship gradually changes from the central in relation to dozens of provinces to

the central in direct relation to numerous county governments. Originally, big provinces were divided into pieces by project mechanisms and the central became more powerful since it held the absolute power of project release and rule-making. Central policy became more easily implemented by the local since the project is quite attractive to county governments, and the provincial governments can hardly obstruct the functioning of this mechanism. Meanwhile, the project mechanism also enhances the effectiveness of central fiscal management. Since projects are sent to a single county and with a set of funding rules, it becomes easier for the central government to track and control the use of central transfer payments. In addition, most of the project requires the local government to provide a certain amount of supporting funds and the central government can also guide and control local fiscal expenditure to some extent. Therefore, the project mechanism helps the central government bypass provincial government and gets its policies implemented directly by government on the county level. Project mechanisms, as a mode of governance, on the one hand, could complete the implementation of specific policies in local areas. On the other hand, they could help the central government to establish typical examples based on ideological norms, which in turn makes it easier to widely spread central policy goals. Since the central government sits in the leading position within the project mechanism, it becomes easier for the central to keep the local in line with the central on aspects of policy implementation and fiscal expenditure within the project mechanism than under de facto federalism. The project mechanism seems to be an effective tool to help the central government regain its power and authority over local government.

The local governments, especially on the county level, could benefit from the project mechanism. Central projects have become an important source of improvement for local economies and social policies. For those counties in west China, for example, Inner Mongolia, central projects equals local development (interview no. 31, see Section 3 of Chapter 7). Central projects always focus on very specific issues and the attached transfer payments and management rules are all exclusive. However, all these specific issues are a part of the local government's work and each of them needs to be planned and coordinated with other local issues. For example, the multi-site physician practice policy is related to public hospital reform and the reform of

staffing levels in the healthcare sector. Thus, for the local government, it is necessary to break the boundaries of various central projects and have overall planning and coordination capability. This also means the local government tries to pack as many economic and social affairs into each project proposal as possible and grasp these project opportunities (Qu, 2012). Therefore, the local government prefers to mobilize and integrate local resources based on its development plans and aggregate a set of local policy targets to take advantage of central projects and turn them into a viable force to promote the local economy (ibid.). If such a proposal is approved, the attached transfer payment becomes a big part of local income. Stimulating the local economy through a central project has thus become a popular choice for local governments. Although the design of a central project is specific and may not meet the local's overall interests, it still provides a legal channel for the local to invest in specific areas led by a central project. The local can therefore expand its financing scale under the title of a central project (Zhe and Chen, 2011). By combining local development goals with the requirements of central projects, local governments obtain both fiscal resources and political resources (that is, legitimacy provided by the central government) and gain the capacity to make concentrated investments and rapid constructions based on local development strategies (ibid.).

Governments on the provincial level play different roles compared to county governments. Most central projects are open for government on prefecture-level or even lower level. Provincial governments usually act as “organizers” rather than “players”, which helps to convey information about project release and gather application materials from lower government and report to the central ministries. Provincial governments could not “touch” those transfer payment since they are directly transferred to those applicants who have been successfully included in projects. However, their attitude toward projects could be optimistic because provincial governments could benefit from central projects. When counties and prefecture cities get developed on economy or social welfare through central projects, it could be regarded as the achievement of provincial government. Moreover, the economic development brought by projects could be an important resource for leader officials on the provincial level to get promoted (Zheng, 1994).

Therefore, the project mechanism seems to have become a new type of governance and has penetrated all aspects of the economy and social policy in China. Improving social affairs and implementing national policies through the project mechanism has become a consensus between the central and local. The project mechanism is different from the original administrative system, as it is a process that goes from the top down to the bottom level. The whole process is full of technical and detailed planning, which gives rise to a tendency of technocracy. The central government publishes major issues and conveys its economic, political and social intentions and responsibilities through the release of projects. The central government tries to maintain a stable and rapid economic growth through investment-led projects and mobilizing local fiscal expenditure towards specific policy fields by requiring local governments to contribute supporting funds for a central project. The distribution and management of project-specific transfer payments mean the central government is able to attract different local governments to compete for a project and eventually achieve control over local protection and even localism (Qu, 2012).

Meanwhile, a central project provides transfer payments to the local, which is important for local development. Local governments can pack multiple projects into a comprehensive local development strategy or plan based on local interests. The central project thus grants the local government legitimacy to fully mobilize the local economic and political resources. The projects which focus on social welfare can also help the local government to establish a positive image and enhance its bank credit rating by the qualification of a central project. Since central projects offer the chance and resources for local development, the local government is quite motivated to compete for such projects.

However, the project mechanism also negatively affects the central-local relationship. On the one hand, since the transfer payment is divided into different smaller pieces and then attached to specific projects, the usage of certain amounts of money by the local is quite limited to specific projects. Thus, the policy capacity of local government is weakened and the effect it causes may be more serious especially when the local is encouraged to engage in more policy innovation on specific policy

areas such as healthcare. This may be a reason why Inner Mongolia could not conduct much policy innovation (interview no. 34). Both the central and local may not be willing to see this happen. On the other hand, since the approval power is held by central ministries, the power which was centralized from the local has in fact been “decentralized” to the ministries. Ultimately, the authority and policy capacity may be weakened by these powerful ministries.

Therefore, we can observe that the central-local relationship in China has experienced some changes caused by this project mechanism. Much of the policy-planning and policy-releasing power has been centralized to the central government and the policy implementation and organizing power has been decentralized to provincial and municipal governments. Moreover, the project mechanism deliberately leaves space for local governments to compete for their inclusion in the projects. Such competition among local governments in turn becomes an auxiliary force to enhance centralization. The power of the central government is obviously enhanced with the project mechanism. Although the project-releasing and implementation processes seem to be full of reciprocity (both the central and local get what they want), it is much easier for the central to keep the local governments (especially county governments) in line with its goals and have central policies properly implemented at the local level through the project mechanism than it is under de facto federalism, because the central has the absolute guiding power in the project mechanism. However, such an absolute guiding power seems to be “decentralized” to many central ministries, who hold the actual approval power on specific policy projects. The authority of the central government could thus be weakened if there is a conflict of interest among different central ministries.

Summary

De facto federalism has made a clear description of the dilemma that China faces, in which reciprocity plays a crucial role in central-local interactions and central government no longer holds strong control over local government. However, the rise

of project mechanism gradually changes the central-local relationship from the central in relation to dozens of provinces to the central in direct relation to numerous county governments. Central government holds the dominate power on project planning and project releasing, which makes it easier to drive local governments (especially county governments) to keep in line with goals of central government and have central policy “properly” implemented. Thus, the project mechanism, as a new kind of governance of central government, offers an important solution for the central to resolve the dilemma. In fact, it helps the central to reduce the refining power of local government and brings the central back into a powerful position to obtain a certain degree of intervention on local policy implementation. In other words, the rise of the project mechanism has changed the “relatively balanced” situation between the central and local which is described by de facto federalism, and leads the central-local relationship in China to another stage. Therefore, de facto federalism probably does not capture the nature of central-local relationship in China.

Section 8.2: What best captures the nature of the central-local relationship in China

After examining whether de facto federalism captures the nature of the central-local relationship in China, the next issue is what *does* best capture the nature of the central-local relationship, or in other words, what is the nature of central-local relationship in China? When studying institutions such as the central-local relationship, according to Pierson and Skocpol (2002), the context could be examined since it influences political settings and policy outcomes. The behaviour and strategic choices of political actors are always born within specific socio-economic and cultural context in history and shaped by history, therefore, examining the central-local relationship in an historical context could help build a better understanding of the central-local relationship (Steinmo, 2008).

Power possession and policy responsibility, as Pierson mentions, is a crucial element that affects the central-local relationship and outcomes of social policy, since it not only involves constituent units' power but also determines the potential restrictions on policy intervention put in place by the central government (Pierson, 1995). Meanwhile, the institutional development of power distribution is also important, rather than the institutional origins themselves, when discussing the central-local relationship because it provides insight into how the relationship, actor, and institution are shaped in the social process and helps to determine their meaning (Pierson, 2004; see Chapter 3). Therefore, placing the discussion of power possession and policy responsibility in the particular context of institutional development could be a better way to understand the formative process and its internal logic for current central-local relations, which in turn could help to more accurately grasp the nature of the central-local relationship. This section will mainly discuss the power distribution between the central and local from the perspective of institutional development and its context. It will focus on how the central-local relationship has been formed through the changes in power distribution in China in order to find out what best captures the nature of the central-local relationship in China.

8.2.1 The tradition of non-institutionalized power distribution as a key to understand the central-local relationship in China

The power distribution between the central and local, which clarifies the power boundary on both sides, is the crucial basis of the central-local relationship. The central and local government gain their rights, responsibilities and their distinct interests from a particular power distribution. However, as presented in Chapter 7, many participants in interviews used the words “unclear” and “indistinct” when talking about their ideas of power distribution between the central and local. According to these interviewees, in the current system of non-institutionalized power distribution, the local government not only has to face the uncertainty caused by unclear power distribution but also has to deal with the risks of engaging in local policy innovation (see Section 1 of the previous chapter). In fact, we can observe that

non-institutionalized power distribution is quite common during the developmental process of central-local power distribution in practice. The paragraphs below will discuss the formation of such a tradition and its influence on the central-local relationship via several rounds of decentralization and recentralization in China.

Since China has long been a totalitarian state, decentralization has a particularly important meaning for central-local relations in China. The decentralization launched during the reform and opening, as the biggest decentralization involving sectors and powers that have not been involved before in recent decades, is no doubt the most crucial issue which helped to form the current central-local relationship. In 1978, the central government thought that there was excessive concentration of power in the economic system, so there should be a bold decentralization in order to help local government and enterprises obtain more management autonomy under the national economic guidance (Wu, 2013). Since then, state-owned enterprises started to experiment with expanding management autonomy, termed “the decentralization of management power of enterprise”. Local governments started to gain management power over most state-owned enterprises, and could in many cases actually run the enterprises independently. Meanwhile, the property rights of collectively-owned enterprises have been held by local governments since after the reform. In 1981, the central government set a new institutional arrangement which let all the provinces except Beijing, Tianjin and Shanghai take full responsibility for their finances. The fiscal power of local revenue and expenditure was decentralized to local governments and such an arrangement was vividly called “eating in separate kitchens”. Several years later, a large number of economic decision-making powers were devolved to local governments. Many economic functions such as economic planning, taxation and banking were no longer under the control of central ministries and were incorporated into the purview of local government. After these rounds of decentralization, the local government was granted discretionary power within the local economy and was able to control local wealth and economic resources. Local government has gradually become a relatively independent authority on local economy and its initiative and enthusiasm for economic development has increased

rapidly. Therefore, stimulating economic growth and expanding local GDP have become inherent demands on and source of power for local government.

The international economic situation also offered some development opportunities for the local government in China. After the second oil crisis in 1980, traditional manufacturing moved from the US, Europe and Japan to new up-and-coming economies, which was the most important globalization movement since the 1950s. China was very sensitive to these developments and seized this economic opportunity by actively implementing the policy of opening up in order to achieve greater economic development based on its advantages in labor and property costs, as well as in taxation and environmental regulations (Wu, 2013). China is undoubtedly one of the earliest, the most active and most successful beneficiaries among those new economies, others of which include Russia, India and Brazil. Both the internal and external conditions provided a good environment for economic growth. Thus, after 1990, the total number of township enterprises reached more than 15 million. Their industrial profit had reached 26.53 billion yuan and accounted for one-third of the country's total industrial output and this was the first time that the private sector recorded greater profits than the state-owned sector (24.6 billion yuan in 1990) (ibid.). China seems to have become a secular society overnight along with the rapid increase of private wealth. Citizens became more and more concerned with the pursuit of material wealth. By 1992, at least 100,000 government officials had left the government to run businesses (ibid.).

In the 1980s, the initiative of civil society and local government was fully activated. However, the recurring phenomenon of decentralization of authority (local force became quite powerful, threatening the central authority; see chapter 3) would undoubtedly repeat again in China. In 1992, national fiscal revenue reached 350 billion yuan, of which the central income was about 100 billion yuan, only twenty-eight per cent of total revenue, while the annual expenditure of the central government was about 200 billion yuan, racking up a 100 billion yuan deficit. Liu Zhongli, the Minister of Finance at that time, recalled that some central ministries had to borrow money to pay wages (Wu, 2013).

After the political crisis in 1989, national ideology tended to be conservative. Deng Xiaoping made a significant effort to establish the market economy, however, liberalization had frightened many national leaders and they were vigilant against anything that could threaten unity and stability. The dissolution of the Soviet Union and the socialist nations of Eastern Europe in 1990 made the Chinese Communist Party feel that they were facing an unprecedented crisis. Within this context, the move towards a strong local government at the expense of the central in the 1980s was seriously questioned, and centralization reasserted itself. Since then, China's economic policy objectives have experienced a subtle shift. In the 1980s, the main goal was to revive the economy and solve the problem of insufficient production capacity. The central government allowed local forces and civil society to do whatever they could to bolster productivity and the economy, even if it crossed the line set by laws. After 1989, the goal of the reforms had been transferred to strengthening the ruling group's leadership and enhancing control on the local (Wu, 1999). Therefore, 1989 and 1990 are pivotal points in time for power distribution in China, as the central government started to think about retaking the decentralized powers from the local and the government competed for profit with the private sector. Many people, especially liberal researchers, started to worry that the return of totalitarianism was around the corner (ibid.).

In 1994, the shared-tax system was established by the central government in order to reverse their passive position on income distribution. In the view of the central government, if the central government reacts slowly in the reform, active local forces who strive to expand their own power and wealth could pose a threat to central leadership and authority. Under the new tax system, the central government took control of taxes which have stable sources, such as VAT and customs duty. The central also made several compromises in order to convince the local to accept the new tax system. When the new tax system was successfully established, the outcome was significant. In 1994, the first year after the implementation, central fiscal revenue soared by 200% over the previous year and surged to 56% (as opposed to 22% in 1993) of total fiscal revenue. But the proportion of expenditure increased by only 2% from 1993 to 1994 (Xu and Wang, 2013).

The implementation of the new tax system was a turning point in the history of central-local relations. The most important consequence that it brought was repossession of the initiative in the distribution of economic power and interests by the central government. From 1995 to 2004, central fiscal revenue accounted for 52% of total fiscal revenue on average, while expenditure only accounted for 30% of the country's total fiscal expenditure on average (Xu and Wang, 2013). The shared-tax system is widely regarded in principle as a federal taxation institution which most countries with market economies have as their main taxation system. However, such an institutional arrangement was varied in China and has become a tool for the central government to achieve centralization. The premise of the implementation of the shared-tax system in other countries is the clear division of powers and expenditure responsibilities between the central and local, but these two issues were deliberately left unclear (Wu, 1999). The first problem is the unclear nature of responsibility for expenditure, especially by the central government. Most of the expenditure on public services was shifted to the government at the prefecture and county level. For example, in 2004, the local fiscal revenue accounted for about 45% of the national fiscal revenue but expenditure accounted for about 72% of total fiscal expenditure. On education spending, the central government spent 1.964 billion yuan, while local fiscal expenditure was 3.146 trillion yuan. In social security spending, local fiscal expenditure was nearly seven times more than central spending (Wu, 2013). The provincial government has also adopted this mode to deal with tax-sharing with governments on lower level. As a result, governments on the county level gave away about 80% of their powers of taxation to government on a higher level but are responsible for 80% of spending for public services and social welfare (ibid.). Such a phenomenon is also shown clearly in the responses of some interviewees and is probably a reason why they think the power distribution between the central and local is not reasonable. Many interviewees who work in both local government and the local healthcare system mentioned that they think that local expenditure is not commensurate with fiscal capacity. A high burden of expenditure and poor fiscal capacity makes it quite difficult for local government to marshal enough resources to engage in policy innovation (see section 1 of the previous chapter).

The second problem is the inappropriate transfer payment system. The central government holds most of the tax in hand but there are no dialogue and consultation mechanisms between the central and local government. The central rarely discusses the money that should be transferred to the local with the local. Most of these transfer payments are made in the form of projects at the local level and investment and decision-making power is concentrated in the hands of central ministries, which will be discussed in more detail below. Since the local basically has no say in the transfer payment, local governments tend to set up lobbying offices in Beijing to express and maintain their own interests. When the local tries hard to lobby the central, the central inevitably asserts its authority over the local. The two primary problems, plainly speaking, are that the local has given up most of its tax revenue to the central but needs to spend more and the central takes most of the money but never discusses how to spend it with the local.

It seems that these two institutional defects are still influential in the present day. The response of my interviewees also proves a similar point; officials below the provincial level always feel that the power distribution is not clear and the central takes a great deal, but never spends. The local was granted more powers and space than before and took an active role in economic resource distribution and economic development in the 1980s, but why was the situation shifted so easily by the central and returned to a centralized process from 1994? The key point is the form of the decentralization itself.

In fact, decentralization has long been used as a primary tool to activate the local in China. Decentralization in China has been launched as policy-oriented power distribution (non-institutionalized power distribution), which is far from standardized and legalized power distribution, which requires the power distribution to be confirmed by law or a constitution and must go through complicated legal procedures to be revised. After the establishment of the PRC, it has been used quite often. In Mao's time, he used decentralization as a tool to activate both the central and the local. He required the central to cooperate with local government through conferment (Liang Ge Ji Ji Xing, see Chapter 7, Section 1). Deng also used it to encourage the

local to develop the economy and implement reform policies. Such power decentralization was always implemented in the form of policy in practice and was likely to be an agreement or consultation between leaders on different levels. In fact, the power distribution between the central and local in China has not been provided clearly by the constitution or relevant laws and has long been a consequence of negotiation and compromise. It means that both the central power and the local power could be easily affected by policy, by the authority and determination of an individual leader, and by the political and economic environment. Therefore, it has a strong character of the “rule of man” rather than the rule of law (Wei,2011). The local power could be unlimitedly expanded in order to protect local interest or could be deeply limited by constraints set by the central, because there is no statutory provision on local power.

Following will be an example that shows how such policy-oriented power distribution influences on the central-local relationship through different political and economic situations. In the 1980s, the central government encouraged the local government to develop their economies and provided more space for the local to participate in policy innovation. Many government officials established town-owned enterprises and could deploy regional public resources, especially land and tax incentives. This model was called “local government corporatism” and was quite common in Jiangsu and Guangdong (Zhang, 2009). Another typical model is the “Wenzhou model” which occurred at the end of the 1970s. The private economy development model was, to some extent, implausible because it is defied the laws and ideology of the time. But after rounds of investigation and the support of central and local leaders, this model has been accepted and retained. These two models were phenomena that occurred in particular times and their existence deeply relied on the acquiescence of the central government and protection by political strong men such as Deng Xiaoping. Due to the lack of legal provision for local power, the local government took on economic powers which were meant to be decentralized to enterprises and civil society and they often used these powers arbitrarily. Local government was “granted” autonomy on a large scale under such circumstances. The autonomy could help to create a better environment for the developing local economy,

but also put the local government into the role of a special interest group with has different interests from the central government. Therefore, the local government acted extremely self-interestedly during the pursuit of economic growth and its behavior showed corporate characteristics (Xu and Wang, 2013). The local government gradually became a kind of “predatory state” and developed an inconsistent benefit structure with regard to the central, which resulted in economic competition for profit with the private sector and with citizens (Zheng, 2010a, p. 161). Such a unique role for local government is not only the major force in improving the local economy, but is also one of the fundamental causes of economic and social problems that China has faced in the past thirty years (Zhou, 2008). But when the local developed away from the political goals of the central government and problems resulted, the central started to adjust the power structure between central and local government. The central recentralized power in several important areas, including quality inspections, audits, environmental protection, land management, statistics and production safety. These departments were separated from local government and have been put under the vertical management of central government.

After the financial crisis in 2008, China’s economy entered a new period of structural adjustment; the contradictions between the central and local in the economic field had intensified. The ability to maintain the benefits of more than a hundred central enterprises grew stronger and stronger while local revenue heavily depended on land-based financing. Along with the implementation of urbanization strategy and the improvement of the social security system came the need to significantly increase local expenditure. Therefore, the central started to adjust its fiscal relations with the local (Zheng, 2010a). For example, the central started to adjust the structure of tax sharing and the amount of general transfer payments in order to suppress the use of land-based financing and enhance local fiscal capacity. Meanwhile, the central government started to decentralize several administrative approval powers to expand the administrative competence of local governments. In other words, a new round of decentralization seems to be around the corner.

From the processes of decentralization and recentralization shown above, it can be argued that under the tradition of non-institutionalized power distribution, decentralization is more likely an administrative tool of the central government to activate the local to develop the economy. Undoubtedly, the central government will hold onto the initiative and stay at its current position under such an institutional arrangement, as we have observed in the example presented above. The 1980s were a golden era for local governments who were quite powerful and were once a threat to the central authority, or even a potential critical juncture to finish the centralized system. However, as soon as the central government realized that the power distribution mode had to be changed, the central authorities recentralized several decentralized powers from the local by establishing new rules and regulations. Most of these adjustments were done on the level of policy, which means the adjustments could be changed by revising the relevant policy, and the local rarely had veto power. From Mao's "cooperate with local government through conferment" to Deng's "decentralize and transfer the profit" (Fang Quan Rang Li), the recentralization which started in 1994 was still a non-institutionalized one, which was implemented through governmental or party documents rather than laws and the constitution. The strong tradition of non-institutionalized power distribution comes with every big moment of economic growth and political development in the PRC and keeps on producing influence on central-local relations in China.

The tradition of non-institutionalized power distribution does not mean that the local has no influence on the adjustment of power distribution. The local did actively strive for some power from the central government during the decentralization of the 1980s; for example, the "Wenzhou model" helped local government gain the permits to develop local private economies. However, as the decentralized powers and rights were not institutionalized by law, the central government could always find a way to adjust the power distribution structure to favour its goals based on its vantage. It seems that the central government has actively kept central-local power distribution in a non-institutionalized status in order to maintain its capacity to deal with different political and economic situations. This tradition is like a central strategy that keeps influencing local behavior such as policy innovation till now.

Through the development of institutions and the discussion presented above, we can observe that the non-institutionalized power distribution tradition is a crucial context of central-local relations in China. Only by understanding this tradition can we accurately grasp the nature and features of central-local relations in China.

8.2.2 Culture of unity – the boundary of reforms in China

Zheng (2007) has mentioned that local government, in practice, has great power under de facto federalism even though local power is not formally institutionalized. He also predicts that such local power or de facto federalism will be institutionalized in the future (see Chapter 5). However, under the tradition of non-institutionalized power distribution, on one hand, China currently still lacks clearly institutionalized power distribution between the central and local, which is the basis for a federalist institutional arrangement. On the other hand, local power has not been fully secured by the law or constitution, so it is possible for the central to retake the decentralized power when faced with a tough situation, like what happened in 1989 and 1990. Now that a new round of decentralization has come, the central has given some positive signals, for example, Chairman Xi Jinping said that governmental power would be caged and the CCP could accept the most incisive criticism (Wu, 2013). Will this round of decentralization bring in new elements that can help form the institutionalization of power distribution or will it just be a continuation of institutional inertia?

When looking at the long history of China, we find that China wavered between centralization and decentralization many times. There was great decentralization at the very beginning of the Han dynasty, and then came centralization 60 years later. There was great decentralization too from 1916 to 1927, but the country experienced recentralization only a few years later. In 1951, local power was highly centralized. In 1956, central power was decentralized. In 1962, local power was recentralized but experienced a great decentralization only four years later. In the 1970s, the economy experienced systematic disorder, so recentralization happened again. Another big

round of decentralization took place between 1978 and 1989, when excessive decentralization had led to a “weak central, strong local” situation. In 1994, the central government recentralized power through the establishment of a tax-sharing system. It is quite interesting that the local experienced decentralization so many times and it has had a handful of chances to fight for institutionalized power distribution when the central government was relatively weak. But the local has not succeeded even once. Is this a historical coincidence or is there a special force controlling the change of power distribution between the central and local?

We may find the answer in the differences between Eastern and Western history. In 360 BC, China had its first great centralization, the Shangyang reform, while the empire of Alexander the Great appeared in 336 BC. The Han dynasty was testing a centralized system around 100 BC; several decades later in Europe, Julius Caesar replaced the republic system with a centralized monarchy. From the second century BC to the third century AD, there was a unified Han dynasty and a unified Roman Empire in the East and the West respectively. In 184 AD, the Han dynasty descended into civil strife, nearly 400 years after China had entered a great secession period, while the Western Roman Empire crumbled under the pressure of external migration. After that, the histories of China and Europe suddenly went their separate ways. China went back to being a united country in 589 AD and secession has rarely appeared (Wei,2008). Since then after a long period under the feudal system, Europe has not been united again till now. Although Europe achieved unity in a monetary sense when the Euro appeared in 2000, abolition of the Euro was widely discussed after the financial crisis of 2008. Several years earlier, the Greek crisis has undoubtedly cast a shadow on the future of the Euro and the EU (European Union). Recently after the Brexit referendum in the United Kingdom, many candidates for president in West European countries such as France and Netherland flaunt the banner of “Quitting the EU” on their campaign trail. Therefore, the question is, why did China and Europe go in such different directions after the collapse of the Roman Empire and the Han dynasty? This seems to be an outstanding historical question for which it is quite difficult to give a standard answer. We can provide explanations from the perspectives of geographical conditions, the national psychology, religion

and language, but there might be a simple answer that still seems really convincing. Wei Feide pointed out that “unity is a culture in China” (Wei, 2008). Secession is the most feared, hated and intolerable issue for the Chinese while unity is a fateful feature of Chinese culture with ultimate meaning (ibid.). Although unity itself cannot guarantee the development of the economy and politics, as Toynbee points out, the rise of a united nation successfully ends the troubled times caused by secession; the generations who have experienced such a process would naturally be grateful and yearn for unity (Toynbee, 1939).

Due to the natural and ultimate demand for national unity, China has maintained a centralized political system for more than 2,000 years despite periods of fragmentation. There has been no other political mechanism that can maintain unity for such a long time in history. In this sense, China’s tolerance for a centralized or authoritarian system is much higher than that of other countries and nations (Wu, 2013). This kind of state governance logic obviously inherently goes against the principles of free trade and the market economy, which formed after the Industrial Revolution in the Western world. This is because a market economy and free trade require a more decentralized and institutionalized system to ensure the interests of each player are protected by formal rules. Liberalized economic reform is bound to weaken the power or authority of the central government. The most recent decentralization experiments in China (one from 1916 to 1927, the other from 1978 to 1989) stimulated the private economy to develop very rapidly. However, these two decentralizations did not find a good solution to maintaining social stability. If decentralization had gone out of control and pro-independence events occurred in some of the border provinces, it would have been too heavy a price for any reformer to afford (Wu, 2013). Therefore, these two experiments were stopped by the central government and the authorities turned to recentralization again. Perhaps we have to acknowledge that the culture of unity is the boundary of any liberal reforms in China. In this light, it is not difficult to understand why China has a tradition of non-institutionalized power distribution under the culture of unity. From the central government’s perspective, such an institutional tradition has granted the central government the ability to readjust central-local relations when the power distribution

had threatened the unity or central authority of China, where central authority is highly related to unity. Thus, the formal institutionalization of central-local power distribution can hardly be achieved and the signs of the institutionalization are not observed now within the context of a culture of unity.

China has been developing at high speed for 30 years within the context of national unity. However, when its GDP per capita reached \$3,400 in 2008, social problems became acute and China seemed to have stepped into the “middle-income trap” (Zheng, 2010a). When faced with these difficulties, which direction would China’s future reform go? Will the central be brave enough to jump out of those institutional traditions and bring in more liberal or institutionalized elements in order to solve social problems? As Zheng points out, “in the West, the rise of the bourgeoisie and other social forces finally tamed authoritarian state power, but in developing countries it is the government itself that helps to build up a capitalist system to promote economic development” (Zheng, 2010a). If the rise of social forces tames authoritarian state power, when economic and social developments need to be promoted by state power, who can tame that state power (ibid.)? The road of reform may be much harder for China than it was with neighbouring countries, since the reform experience in these countries can hardly apply to China. Reform in the Philippines failed, reform in Singapore is full of controversial debates and reform in South Korea is hard to duplicate. Taiwan achieved democracy but its economy has fallen into stagnation. As a huge country, China will face difficulties during its reforms that will be much more serious than all these countries and regions (Wu, 2013). Extreme populism in left-wing politics and extreme liberalism in right-wing politics add so many uncertainties to the reforms in China. If mistakes from China’s reforms lead to turmoil, its impact on the global economic and political situation would be absolutely serious. The world is probably not ready for that. Therefore, a conservative conclusion would be that in the visible future, economic and political reforms in China are likely to be market economy-oriented and within the boundary of a culture of unity. The reforms will be in a non-Western style that will try to find a balance between the centralized system and democracy. This may be the inherent

conflict in China which calls for a “gene mutation” solution, and the amount of time that this change may take is very likely to exceed the length of our generation.

In summary, China has taken the centralized unitary system over 2,000 years and receives abundant “positive feedback” from such a political system in the historical process. The culture of unity has been formed during the long history and gradually become the boundary of reforms in China. Under the context of this, it is not difficult to understand that why the power distribution between the central and local has not been institutionalized over hundreds of years. It indeed reflects a certain degree of institutional stickiness on the central-local relationship under the culture of unity.

8.2.3 Dynamism: the nature of the central-local relationship in China

When we expand our vision to look at the changes to central-local relationships from 1949 to the present, we can observe that the central government has experienced rounds of centralization and decentralization. Under the context of China’s culture of unity, de facto federalism is more likely to be a description of a stage of dilemma, which has appeared in earlier rounds of decentralization, rather than a description of a long-term balanced situation. When placing the central-local relationship in the context of time according to Pierson (2004), it is notable that the central government is always able to find a way to readjust the central-local relationship when the local force seems to be getting too big, which may threaten the central authority and even national unity. This time, the project mechanism, as a new mode of governance, has been picked as the strategy or institutional tool used by the central government to prevent excessive local power.

From the repeated rounds of centralization and decentralization, it is not difficult to find that in fact central-local relations in China have been kept in a dynamic balance, in which there is a certain extent of flexibility and space to have central-local relations changed according to realistic demands. The culture of unity may be a crucial reason for the formation of such feature of central-local relations. On the one hand, maintaining national unity has long been a significant task for the central

government. In almost every dynasty, the central government has always been quite vigilant towards local forces. Sometimes the central government needs to launch centralization to protect the country from localism. On the other hand, since China is a huge country with broad territories, local government is absolutely significant in developing the local economy and social welfare such as health care. The central government has to grant a certain extent of local autonomy and try not to hurt the local government's enthusiasm for local development too much. Therefore, the tradition of non-institutionalized central-local power distribution is understandable. It is precisely such an institutional arrangement which leaves plenty of flexibility and space that can allow both the central and local government to reach a relative balance when facing different national and international environments. Such an arrangement can also possibly reduce the limitations upon the development of the national economy and politics that are caused by fixed central-local relations. Therefore, de facto federalism here is not so much a feature or nature of central-local government in China as it is a state of relative balance. By contrast, dynamism, which results from a culture of unity and non-institutionalized central-local power distribution, is more likely to be the nature of central-local relations in China.

Dynamism here means that there is a certain degree of flexibility within the central-local relations such that both the powers of the central and local can be more easily transferred from one to the other than under institutionalized central-local relations. As seen many times throughout history, power transfer always takes the form of centralization and decentralization. It is also notable that the central government seems to have a relatively powerful position within dynamism because the centralization and decentralization are always initiated by the central government. The powerful position of the central government is also a requirement of the culture of unity, which allows the central government to secure its capacity to adjust the central-local relationship if necessary.

Because of the flexibility granted by the dynamism within central-local relationships, China has much more space to adjust the power distribution in response to national and international political and industrial changes. Flexibility can help China to

achieve an efficient adjustment of central-local institutional arrangements when facing internal and external difficulties, however, flexibility can also lead to inappropriate responses which may result in development difficulties and maybe, even economic depression.

8.2.4 How the dynamic central-local relationship affects healthcare policy

Under the dynamic nature of the central-local relationship, its influence on healthcare policy is full of temporary features. Central-local relations are currently in a stage where the central government is gradually centralizing some power through the project mechanism and other ways such that it has had increasing influence on healthcare policies through central guidance. The central government has also set clearer boundaries for local healthcare policymaking and policy innovation. Local governments have been encouraged to engage in policy innovation on specific policy fields as chosen by the central government. In terms of policy implementation, the project mechanism has driven the local to become passionate about implementing central policies in order to obtain the transfer payments attached to policy projects. More and more local resources have also been channeled to specific policy fields chosen by the central.

Under the dynamism nature, the central-local relationship in China significantly affects healthcare policy through the three institutional characteristics mentioned by Pierson. From the perspective of reserved power for constituent units, as there is no institutionalized power distribution between the central and local, there could be frequent changes on who should be responsible for a specific healthcare policy. On the one hand, the consistency of healthcare policy may be challenged by the change in central-local relations. For example, the provincial leadership team on healthcare reform has experienced a change from being embedded in the Department of Development and Reform to being embedded in the healthcare department, which has changed the focus of the healthcare reform (interview no. 27). On the other hand, under dynamic central-local relationships, the passion local government has for local

policy innovation is relatively little. From the history of centralization and decentralization, we can observe that only in the initial stage of the central government launching decentralization can local governments get plenty of space and freedom to engage in policy innovation. For example, in the early 1980s, when the central government started a new round of decentralization of many aspects, there was a trend of local innovation. Local government was granted the power to use as many local resources as possible for policy innovation and the innovation was easily accepted by the central government and spread to other parts of China (see Section 1 of Chapter 7). When the central government felt the threat from the local government and started to centralize power, space for local innovation shrank and local innovation became guided by the central government towards specific policy fields chosen by the central government. Other local policy innovations were rejected by the central government because it was not in line with the central government (for example, the multi-site physician practice policy in Guangdong; see Section 2 of Chapter 7) or became unsustainable because of a lack of resources from the central government (for example, the innovation in Inner Mongolia; see Section 3 of Chapter 7). Thus, as a result of the dynamic nature of central-local relations, local policy innovation can hardly achieve continuous support from the central government. The fuzzy central-local power distribution also makes it impossible for local governments to secure permanent institutional protection on its innovation capacity and freedom. Accordingly, local governments have to be very careful to keep the direction of their policy innovation in line with the central government in order to avoid unnecessary trouble. Therefore, such dynamism within central-local relations keeps the local innovation initiative at a relatively low level because of the lack of permanent institutional protection.

From the perspective of interest express and central-local interaction, since maintaining unity has been recognized as the fundamental responsibility of central government and local governments are always regarded as potential threat to unity, the dynamic central-local relation in China has grant central government more

powerful position than local government and more capacity to “guide” local interests. For example, project mechanism provides a good play field for the central and local government to express interest and cooperate. Central government could express interest through releasing specific projects which indicate the emphasis and value of central government. Local Governments have become much more active in combining central projects with their own development goals in order to achieve development using central power and resources. However, as the central project had been set specific, local government faces relatively clear boundaries in central projects, therefore the capacity and space for local government to combine local interest with specific central project is limited. In practice, provincial government are actually bypassed in project mechanism, central government achieve certain degree of direct interaction with government below provincial level. The big refining power of provincial government has been weakened as project mechanism become a kind of governance and commonly used. Therefore, the healthcare policies are greatly guided by the central and reflect more interest of central government rather than interest of local government. Meanwhile, too much central guidance can be harmful to healthcare policy innovation and implementation at a local level. Since the innovation and implementation are highly guided by central projects, they can be easily restricted by those central projects. Only when the direction of the policy innovation is line with the central can the local receive the innovation space or resources provided by the central. It means that the absolute innovation capacity of local government has not actually been enhanced. If the central guidance has not captured the actual needs of local societies, provinces which rely much on central transfer payment such as Inner Mongolia will have little capacity to meet actual local social needs (see Section 3 of Chapter 7). Even in provinces which do not rely on central transfer payment, central guidance has more and more influence on local policy innovation. For example, Guangdong has failed to implement a policy of multi-sited physician practices because the central ministry was opposed to it based on its consideration of the uniformity of the policy across the country (see Section 2 of Chapter 7). In fact, more central guidance may mean reduced self-adjustment capacity for the local because of the strong guiding effect of the project mechanism.

The local may be more likely to be misled by the central if the central project has not adequately targeted the actual needs of the local and it will be more difficult for the local to adjust relevant projects to their needs.

From the perspective of fiscal relation between the central and local, as central government is at initial position within dynamic central-local relation, the power to distribute national fiscal resource is always held in the hands of central government. The project mechanism, for example, is a new tool to distribute and mobilize fiscal resource. Since a certain amount of transfer payment is attached to specific projects, governments on the county level have become more passionate in engaging in healthcare policy innovation or implementing specific central policies, which are required by specific projects. It helps the central to guide local government and make it easier for the local to input fiscal resource on the specific policy field which the central wants it to focus on. In light of this, healthcare policy processes and innovation present increasingly more features of central guidance. Meanwhile the local has also gained more legitimacy for its healthcare innovation through being included into central project, which offers protection to the local's innovation results to some extent. Furthermore, the competition among the local government for being included in central projects objectively helps to improve the quality of local innovation and the implementation of central policies.

Summary

In summary, dynamism could be the main nature of central-local relations in China. Such a nature results from the culture of unity which was formed through thousands of years. The non-institutionalized central-local power distribution, as the main presentation of such a nature, has granted plenty of flexibility within the central-local relationship, therefore, the power distribution can be adjusted when facing different situations. Meanwhile, the culture of unity requires the central to be at a vantage point where the central government can adjust the central-local relations when the local force grows too big. The central government can initiate centralization to restrain the

early signs of localism. Such a flexible central-local relationship makes it easier to achieve the continuity of development, but also brings challenges to the consistency of healthcare policies. Local innovation initiatives may be at a relatively low level because of the lack of permanent institutional protection.

From the perspective of long-term development, such a nature of central-local relations makes China less likely to be inhibited by the fixed institutional arrangement of central-local relations. This in turn helps to ensure the long-term vitality of this kind of dynamic central-local relations. However, such a model of central-local relations implies a defect where the continuity of dynamic central-local relations requires significant capacity and political wisdom from the central government. If one day the central government cannot find an appropriate solution to make the dynamic central-local relations sustainable when facing the expansion of local forces, there may be the start of a new era, such as of institutionalized federalism, or dysfunction of the entire country or even a new period of secession which all central government in most of previous dynasties is keen to avoid.

Chapter 9: Conclusion

China's spectacular achievement on economic growth has attracted exhaustive academic attention while its intensive changes on social and political sphere over past 30 years seem to be far less "attractive". Little attempt has been made to explore the central-local relationship during the reform period from a social policy perspective (for the exception see Zheng, 2007). There is a significant gap in the study of the central-local relationship in China and its impact on social policy. This thesis attempts to bridge this gap and offer an understanding of the nature of the central-local relationship which has its roots in a long-lived history and political culture.

This chapter aims to provide an overall statement of the contribution of this thesis to the existing literature, and to identify the main strengths and weakness of this research. An exploration of avenues for further study is also provided.

Section 9.1: Theoretical and empirical contribution

The main aim of this thesis is to attempt to reduce present complex knowledge of the central-local relationship in China to manageable proportions and understand the nature of the central-local relationship and its impact on healthcare policy. Firstly, it draws lesson from historical institutionalism in order to establish an overall theoretical foundation and analytical approach to explore the nature of the central-local relationship. Secondly, it reviews both Western and Eastern perspectives on the central-local relationship, and how it affects social policy; Zheng's de facto federalism and Pierson's three institutional factors that affect the social policy process. The outcome from this step is an understanding of de facto

federalism which combines an historical institutionalist analytical approach with empirical data on the central-local relationship over 20 years. Thirdly, it applies this theoretical framework to present data in China and tries to find out whether it captures the nature of the central-local relationship in China.

Zheng combines structural, procedural and cultural approaches to explore the central-local relationship which has changed over the past 20 years since 1978. He argues that the central-local relationship in China has stepped into “de facto federalism”, in which “a relatively institutionalized pattern which involves an explicit or implicit bargain between the center and the provinces, one element in the bargain being that the provinces receive certain institutionalized or ad hoc benefits in return for guarantees by provincial officials that they will behave in certain ways on behalf of the center” (Zheng, 2007, p. 39). Local governments obtained institutional settings and legitimacy to intervene in economic activities in their jurisdiction from intergovernmental decentralization. According to Zheng, central government could no longer eliminate any localistic development in the practical structure of central-local relations in China. Central government has to seek the cooperation of local governments to have policy implemented. In other words, reciprocity has replaced coercion and bargaining and has become the most common mechanism in the interaction between central and local government as the decentralization progressed.

The de facto federalism theory is one of the most sophisticated attempts to reflect the change of the central-local relationship in China over the last few decades. It offers a systematic understanding of the practical operation of the central-local relationship in China. In order to determine the extent to whether the de facto federalism has captured the nature of the central-local relationship in China, the power distribution between the central and local, the interaction and interest express between the central and local, and fiscal relation between the central and local have been examined in this research. The mixed evidence shows that some changes in the central-local relationship have taken place in recent decades and led to a more powerful and autonomous local government. Although those powers reserved during decentralization for the local government are not institutionalized by law, as Zheng

stated, since there is so-called “mutual accountability” between central leaders and provincial leaders, and the nomenklatura system is no longer the most efficient way to guarantee the central government’s control upon the local. Thus, the central-local relationship in China operates in the way of de facto federalism even without institutional guarantee.

However, the rapid changes in China are not only seen in economic growth; it is also visible in institutional transformation. The research of de facto federalism was conducted based on the data of 20 years’ “opening up and reform”. After Zheng’s research has been finished (2007), new changes which may affect the central-local relationship has taken place. There has been a new round of healthcare reforms, and a rapid rise of the “project mechanism”; new factors in how central government and local government interact with each other particularly in fiscal perspective. Rather than presenting a blow-by-blow account of complex and new reforms in China, this research aims at providing an insight into the operation of the central-local relationship with reforms taken place in the past 30 years and even its developing path roots in history.

The empirical contribution of this research comprises a series of study on relevant documents and interview data that has been obtained from those who are highly involved in the operation of the central-local relationship and healthcare policy process, including officials who work for governments on the county level and provincial level, officials who work in healthcare and financial departments in sample provinces, and officials who work for central ministries such as the Healthcare Ministry and the Financial Ministry. All these interviews provide substantial evidence on changes and practices of central-local interaction. However, the key question remains as to how these changes impact on the central-local relationship and healthcare policy.

The study on power distribution between central and local government presents that there is no formal institutionalized power distribution between the central and local especially demonstrating what they should not do, even though China has already experienced several rounds of centralization and decentralization. In fact, the

principle of “cooperate with local government through conferment” has been used by Mao after the PRC was newly established, and it is even influential in present daily politics according to the response of interviewees. It may indicate that the non-institutionalized power distribution might be a result of path dependency on political arrangement and traditions.

The study of central-local interactions and interest expression suggests that local government has developed more and more as an independent unit which has more independent political, economic and social reform interests along with the process of decentralization. Local government has been granted power and space on policy refinement, because central government tends to release principle plans on social development and even economic affairs. Thus, the local government has space to interpret and implement central policy according to their own interests. This may be an indicator that illustrates that the central government no longer has strong control over local government to keep them in line with the central, and reciprocity mechanism might be increasingly used to keep smooth interaction between the central and local.

The study on fiscal relations between central government and local government demonstrate that local government lacks independent fiscal space. The local governments who rely on central transfer payment such as Inner Mongolia can hardly respond to the variety of its residents’ public service needs, and expenditure preferences could be guided by the central to a certain degree. It also suggests that central policy projects attached with specific transfer payments play quite a crucial role between the central and local governments particularly in social welfare area. Local governments at the county level, the most common applicant of such projects, are passionate to be included in projects. The attached transfer payment is regarded as important source for local developing. Therefore, central government enhances its capacity on mobilizing local fiscal resource and policy implementation in local area because the central holds the dominant power on project release. The project mechanism has become a new type of governance and profoundly influences the central-local relationship in China.

To sum up, it has been observed that de facto federalism is more likely to be a description of the power dilemma that the central government used to face after two decades of decentralization. However, the rise of the project mechanism has changed the position of central government in central-local interactions. The provincial government could be a “bypass” in the operation of the project mechanism and the central is put in direct relation to numerous county governments when implementing policies in local areas. The central becomes more powerful because of the power of project release. Therefore, central government has sought to obtain a certain degree of intervention on local policy implementation, and de facto federalism may be inappropriate to reflect the nature of the central-local relationship in China.

When we expand our vision from recent changes in the central-local relationship to the repeated rounds of centralization and decentralization that took place after the PRC was established, it could be observed that the central-local relation has been kept in dynamic balance in which there is certain extent of flexibility and space to have central-local power distribution and possession changed according to realistic demands. The tradition of non-institutionalized power distribution could be a key reflection of this feature. Non-institutionalized power distribution is more likely to be an intentional choice to keep flexibility to adjust the settings between the central and local in response to internal and external difficulties. Central government is in a relatively powerful position which can initiate decentralization and centralization in this dynamic relation.

The basic logic behind this dynamic central-local relationship is the culture of unity. Maintaining unity has received profound positive feedback during the long living history of China and become a cultural context for daily political operation. Central authority is emphasized because it is highly related to unity. Therefore, it is not difficult to understand why central government has a relatively powerful position in the dynamic central-local relationship and why there has formed a tradition of non-institutionalized power distribution between the central and local government. The culture of unity could be such a crucial factor in China that it not only set boundaries for reforms, but also helped to form the basic interaction model between

the central and the local, in which central government has been granted flexibility and an advantageous position to initiate changes in power possession between central and local in order to looking for a solution when realistic difficulties.

Section 9.2: Limitations

The research objective of understanding the nature of central-local relations and its role in the healthcare system in China has been achieved through a qualitative research method. However, there are still several shortcomings that should be identified. Firstly, in order to understand the nature of central-local relations in China and their impact on healthcare policy, documentary and interview analysis was employed to provide an insight into the daily operation of the central-local relationship and how it influences healthcare policy. However, regarding its data validity and appropriateness, we can not necessarily generalise from the healthcare field to other areas of social policy, which may display different dynamics.

Secondly, Beijing, Guangdong and Inner Mongolia were chosen as the sample provinces to be studied with regard to their differences on healthcare performance and “province type”. However, this research only provides a starting point for understanding the research questions and a broader study of provinces could potentially lead to different conclusions. It would benefit from a broader empirical exploration on more provinces in China for the theorization of the research question.

Thirdly, the qualitative interviews played an important role in collecting data from sample provinces. Although I have tried my best to contact and secure a large number of the key officials who are highly involved in the healthcare policy process and central-local interaction from county level to national level, however, this research would have benefitted from a broader range of interviews with more senior officials from the central and local government. In addition, as some of the interview questions involve cases and processes that have spanned several years, the precision of some part of the data could be vulnerable to criticism. Hence, multiple sources of

evidence such as documents and archival data were employed as triangulation in order to strengthen the reliability and validity of the interview data.

Lastly, this thesis also suffered from trying to stay on top of political developments. As I mentioned, the central-local relations in China are a rather dynamic affair that change frequently. When I was collecting data via interviews in China, specific transfer payments were widely used and were a part of a new kind of governance. However, by the time of writing up the discussion chapter, the central government had released a new document to control the scale of specific transfer payment. This new development was included in this thesis at a later date and demonstrates the dynamic nature of the central-local relationship in China.

Section 9.3: Avenues for further study

While China has experienced significant changes in central-local relations, scholars have been slow to develop their distinctive voices on this issue. It is because the tradition of social policy research is quite limited in China and the ability to engage in serious evidence-based research is circumscribed by jealously guarded access to government organizations – the preserve of a privileged few. Little attempt has been made to either combine Chinese scholarship with Western theories or develop authentic Chinese theories to study how intergovernmental relations affect healthcare policy. Moreover, very few researchers examine central-local relations based on current changes such as the rise of the project mechanism.

This research has been produced to make sense of the nature of central-local relations through qualitative comparative research. Zheng's and Pierson's research were used to explore the research question. However, more comparative study is needed, and perhaps a more quantitative research method may be used to explore the nature and changes of central-local fiscal relations in an evidence-based way.

Furthermore, as central-local relations develop in a relatively rapid way, there should be more emphasis on the details of the latest changes to central-local relations, such

as the rise of the project mechanism in different policy areas and the extent to which it does (or does not) constrain de facto federalism in China. Lastly, as China has a very long history and has been greatly affected by it, it may be better to explore the topic more from the perspective of history. A broader historical horizon will be helpful in discovering the true factors or elements that affect central-local relations.

List of abbreviations and acronyms

BE	Bureaucratic Enterprise
CAQDAS	Computer-Assisted Qualitative Data Analysis Software
CPC	Communist Party of China
CPPCC	Committee of the Chinese People's Political Consultative Conference
GDP	Gross Domestic Product
MPF	Market-preserving federalism
NDRC	National Development Reform Committee
NPC	National People's Congress
PLA	People's Liberation Army
PRC	People's Republic of China
PSC	Politburo Standing Committee
ROC	Republic of China
SAR	Special Administrative Region
SOE	State-owned enterprises
TSS	Tax Sharing System
UK	United Kingdom
US	United States
WTO	World Trade Organization

Appendix 1: Details of Interviewees

No	Date	location	Working Department
1	2014 08 21	Hohhot, Inner Mongolia	General Office Of Provincial Government
2	2014 08 25	Hohhot, Inner Mongolia	Healthcare Department
3	2014 08 27	Hohhot, Inner Mongolia	Municipal Department Of Healthcare Insurance
4	2014 08 28	Hohhot, Inner Mongolia	Provincial Healthcare Department
5	2014 08 28	Hohhot, Inner Mongolia	Policy Research Office Of Provincial Government
6	2014 08 29	Hohhot, Inner Mongolia	Medical Affair Office Of Healthcare Department
7	2014 08 29	Hohhot, Inner Mongolia	Administration Office Of Provincial Government
8	2014 09 10	Hohhot, Inner Mongolia	Policy And Regulation Office Of Healthcare Department
9	2014 09 15	Hohhot, Inner Mongolia	Healthcare Insurance Office Of Provincial Human Resource And Social Security Department

10	2014 09 16	Hohhot, Inner Mongolia	Agriculture Affair Office Of Provincial People’S Congress Senior Officer
11	2014 09 18	Hohhot, Inner Mongolia	Investment Office Of Provincial Development And Reform Department
12	2014 09 18	Hohhot, Inner Mongolia	Representative Office Of Provincial People’S Congress
13	2014 10 15	Beijing	Research Office Of International Poverty Reduction Centre Of China
14	2014 10 15	Beijing	Institute Of Fiscal Science Of China
15	2014 10 16	Beijing	Development Research Centre Of The National Healthcare Ministry
16	2014 10 23	Beijing	Analysis Centre Of Beijing Complaints Bureau
17	2014 10 29	Beijing	Department of Sociology Of Peking University
18	2014 10 30	Beijing	Department of Healthcare Policy And Management Of Peking University
19	2014 11 02	Beijing	Beijing Municipal Administration of Hospitals

20	2014 11 03	Beijing (Telephone interview)	Sun Yat-Sen Hospital Of Fudan University
21	2014 11 06	Beijing	Pharmaceutical Affairs Office Of National Healthcare Ministries
22	2014 11 06	Beijing	Pharmaceutical Affairs Office Of National Healthcare Ministries
23	2014 11 07	Beijing	Institute Of National Development In Peking University
24	2014 11 13	Guangzhou, Guangdong Province	School Of Government, Sun Yat-Sen University
25	2014 11 20	Guangzhou, Guangdong Province	Reform Office Of Guangzhou Healthcare Department
26	2014 11 24	Guangzhou, Guangdong Province	Policy And Regulation Office Of Guangdong Healthcare Department
27	2014 11 25	Guangzhou, Guangdong Province	Policy And Regulation Office Of Guangdong Healthcare Department
28	2014 11 25	Guangzhou, Guangdong Province	Administrative Office Of Guangdong Healthcare Department

29	2014 11 26	Shenzhen, Guangdong Province	Reform Office Of Shenzhen Healthcare Department
30	2014 12 03	Guangzhou, Guangdong Province	Budget Office Of Guangdong Financial Department
31	2014 12 03	Guangzhou, Guangdong Province	Government Of Haizhu District In Guangzhou
32	2014 12 09	Guangzhou, Guangdong Province	Budget Office Of Guangzhou Financial Department
33	2014 12 12	Hohhot, Inner Mongolia	Budget Office Of Provincial Financial Department
34	2014 12 16	Hohhot, Inner Mongolia	County Government Of Saihan District In Huhhot
35	2014 12 22	Beijing	Reform Department Of National Healthcare Ministry

Appendix 2: Question list

Warming up:

When did you enter this working field?

How long have you been working for this department?

To what extent you deal issues with the central/local department in your work?

Power distribution:

Is there any clear division of responsibility between your department and the central/local one? If so, please give some detail. If not, how you deal with the central/local in practice?

How is the power of policy-making divided between your department and the central/local?

How is the power of policy implementation divided between your department and the central/local?

Have you ever experience working difficulties (for example disagreement or bargaining) in your work when dealing with the central/local? What form does it take?

How is this resolved in practice?

To what extent does the manner in which disagreements are resolved and policies are made and implemented in practice reflect formal rules?

Is relationship you just described a common phenomenon in your working field? Does it work in a similar way in other relevant department? Please give some examples

Interest expression:

How do the local/your department express interest to your department/ the central in practice?

Have you experience any difficulties in such expression? If so, what is it?

How is the difficulty resolved?

How does such expression affect policy making and implementation?

Fiscal relation:

What is the division of responsibilities concerning money raising and expenditure powers between your department and the central ministry/ local department?

Have you experienced any difficulties on this fiscal relation with the central/local? If so please give some examples.

How is the difficulty resolved?

How do these affect policy making and implementation?

Personnel power

How are relationships between central and local officials in your work field formed and sustained over time?

What is the promotion mechanism between your department and the central/local?

To what extent does this promotion mechanism affect decision-making and policy implementation?

Province diversity

For interviewee on the local level: What are the specific factors related to this province that affect the central-local relation? Please give some detail.

For interviewee on the central level: What are the specific factors related to particular provinces that affect the central-local relation? Please give some detail

For interviewee on the local level: How do the factors impact on healthcare outcomes in your province?

For interviewee on the central level: How do the factors impact on healthcare outcomes variation between provinces and localities?

End up:

Are there any other things about the central-local relationship and policy making or implementation that you want to share?

Who do you recommend to be interviewed next about this topic?

Appendix 3: Information sheet

Date:

Dear X:

Title: **“Understanding the role of central-local relation in healthcare system in China”**

Name of Researcher: **Xiaoyu Zhai**

Invitation to Participate:

I am writing to invite you to participate in an in-depth interview that I am conducting to help me understand better the ways in which the central-local relation in China affects healthcare policy. The research has several objectives: (a) to generate new approaches for understanding the nature of current central-local relation in China. It is in types of federalism, unitary or neither (b) to explore how this relation affects the healthcare policies. How the central-local relation affect the process of policy making and policy implementation (c) to contribute this knowledge to the field of social policy as a way to further understand the relation between institutional arrangement and social policy .

I have included two copies of the consent form in this mailing. If you decide to participate in the proposed research, please sign both copies and return one signed

copy to me. Please keep the Information sheet and the other consent form for your records.

Participation is voluntary; Right to Withdraw without Negative Consequences

Prospective research participants are under no obligation to participate in this research project; there are no negative consequences to deciding not to participate.

If you do agree to participate, you are not obliged to answer specific questions or to provide information you do not wish to give. You have the right to not answer specific questions but continue as a participant. If you choose to participate and have agreed to have the interviews audio recorded, you may at any time ask that the audio recorder be turned off. Indeed you can withdraw from the interview by stating that you have decided to withdraw.

In addition, you can withdraw from the project up until the point when the interviews have been transcribed. There will be no negative consequences to withdrawing from the research project. You can state your intention to withdraw from the project by contacting me, the researcher, Xiaoyu Zhai (contact information is provided on both of the enclosed forms). If you choose to withdraw from the project please indicate whether you want the previously collected data destroyed or returned to you.

Purpose and Description of the Research:

The interview that I am inviting you to participate in will be a discussion of your experience of being an official or expert in healthcare system or in a relevant aspect of the policy process. I would like to ask you questions about your experience of the

policy process and what kind of the influence that the central-local relation have in your working field

What will be required of participant, including time commitment?

The interview will be private and will take place in a mutually agreed upon location. I would like to make audio-recordings of the interviews and have them transcribed later. Also, if you would like to have a summary report of the research finding please indicates that on the consent form.

Confidentiality and Anonymity

Your participation in these interviews will be kept in confidence. Pseudonyms will be used for all participants. Confidentiality of your data is assured. All data will be transcribed by me and/or a professional transcriber and we will both be bound by confidentiality. We will keep all data tapes and transcripts in a secure and locked place until the project is complete. No identifying information will be included in any document resulting from this study.

Storage of the data

Tapes and transcripts and any other data will be kept for 1 year after the completion of the project and then destroyed.

Contact information

Xiaoyu Zhai

Department of Social policy and Social work

The University of York

Heslington

York, YO10 5DD

UK

Email: xyz500@york.ac.uk

Mobile: (0044) 7517268440

Thank you for considering this request.

Signature of Researcher: _____

Date: _____

Appendix 4: Consent form

If you agree to participate in this research, please read these following statements and tick *YES* or *NO* next to each based on your will. It should then be signed and returned to Xiaoyu Zhai

I have read the information sheet and had the opportunity to ask questions Yes/No

I understand that I can withdraw voluntarily from the research Yes/No

I understand that data will be used in the research project entitled “Understanding the role of central-local relation in healthcare system in China”

I give permission for the interview to tape recorded Yes/No

Data anonymity

I would like my *full name* appears in the quotations of the research report Yes/No

I would like my *job title* appears in the quotations of the research report Yes/No

I would like my *working place* appears in the quotations of the research report Yes/No

Accessibility to the research data and result

I would like a copy of the transcripts of my interview Yes/No

I would like a copy of the summary report from the research data Yes/No

Signature

Date

Return to:

Xiaoyu Zhai

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The University of York

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