Manoeuvring within a Fragmented Bureaucracy: Policy Entrepreneurship in China's Local Healthcare Reform

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Abstract

Policy entrepreneurs play a pivotal role in policy changes in both electoral democracies and authoritarian systems. By investigating the case of healthcare reform in Sanming City, this article illustrates how the fragmented bureaucracy in China enables and constrains local policy entrepreneurs, and how entrepreneurial manoeuvring succeeds in realigning the old institutional structures while attacking the vested interests. Both structural conditions and individual attributes are of critical importance to the success of policy entrepreneurship. Four factors and their dynamic interactions are central to local policy entrepreneurship: behavioural traits, political capital, network position and institutional framework. This study furthers theoretical discussion on policy entrepreneurship by elucidating the fluidity of interactional patterns between agent and structure in authoritarian China. The malleability of rigid institutions can be considerably increased by the active manoeuvring of entrepreneurial agents.

Keywords: policy change; fragmented bureaucracy; policy entrepreneur; Sanming; healthcare policy; China

Policy studies in the past decades has sparked a growing body of literature on policy entrepreneurship. Defined by John Kingdon as individuals willing to invest their resources – time, energy, reputation and sometimes money – in return for future policies they favour, policy entrepreneurs have been thought to play a pivotal role in policy changes.[1] Representing a useful analytical framework for explaining policy changes, the study of policy entrepreneurship has offered numerous empirical investigations in various settings, and the framework is highly portable to multiple contexts.[2] As Daniel Hammond maintains, policy entrepreneurs are no longer confined to electoral democracies.[3] In fact, the study of policy entrepreneurship in authoritarian states has also yielded a

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1 Kingdon 1995.
2 Ibid.
3 Hammond 2013.

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growing body of knowledge, with several studies set in China.[4] Although by definition the term policy entrepreneur applies to a wide range of personnel, including those in and out of government, in elected or appointed positions, in interest groups, think-tanks or mass media, it is critically relevant to focus on government officials when analysing the case of China, as they have the dominant role in policymaking.[5]

As in the Western literature, most studies in the Chinese context focus on analysis of the strategies adopted by entrepreneurs that have led to eventual success and/or the various qualities of successful entrepreneurs.[6] Despite their theoretical contributions, two limitations remain. First, the received wisdom either speaks to the dynamics of agenda-setting in the centre,[7] or focuses on local experiments,[8] without a deeper delineation of the intergovernmental interactions that profoundly influence policy change at the local level. How the established institutions enable and constrain local policy entrepreneurship and how entrepreneurs manoeuvre within China's sophisticated bureaucratic system both warrant closer scrutiny.

Second, most studies – largely owing to the nature of the policy domains examined – provide few clues as to how entrepreneurs manoeuvre in the face of significant opposition from both inside and outside of the bureaucracy. This aspect of policy process has become increasingly critical in China in recent years given the plethora of vested interests obstructing difficult policy reforms. Healthcare policy is associated with multiple parties – hospitals, governments, users, healthcare professionals, insurers and pharmaceutical industries – and as such offers an excellent window through which to examine the myriad of intertwined tangible and intangible interests and to understand how policy reforms succeed or fail in overcoming resistance from the vested interests.

This article examines the case of a famous model of healthcare reform to illustrate how a policy entrepreneur and his team manoeuvred within China's fragmented bureaucracy and among the vested interests whilst pursuing difficult policy changes. It generates deeper insights into the interplay between individual agency and institutional structure in authoritarian China's healthcare policymaking at the local level, especially in regard to the vertical dynamics between central, provincial and municipal governments, as well as the horizontal dynamics between various sectoral bureaucracies. Four factors and their dynamic interactions are central to local policy entrepreneurship: behavioural traits, political capital, network position and institutional framework. This study reveals that the rigidity of established institutions is not as robust as might have been understood. The malleability of the institutional structure can be substantially increased through entrepreneurial manoeuvring. Political capital plays a vital role in strengthening an entrepreneur's position within the bureaucratic network,

4 Teets 2015; Zhu, Xufeng 2008; Mertha 2009; Hammond 2013; Zhu, Yapeng 2012.
5 Zhu, Yapeng 2012.
6 Hammond 2013; Zhu, Xufeng 2008; Mertha 2009; Zhu, Yapeng 2012.
7 See, e.g., Zhu, Xufeng 2008; Hammond 2013.
8 See, e.g., Zhu, Yapeng 2012; Cheng, Joseph 2014.

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which in turn facilitates reforms. This study contributes to theoretical knowledge on the dynamic interaction between structure and agency by highlighting the remarkable fluidity catalysed by entrepreneurial manoeuvres.

The article draws on an in-depth study of healthcare reform in Sanming city 三明市, Fujian province, the success of which has been recognized by the central leadership and international organizations. Wide media coverage has portrayed Sanming as a shining exemplar of healthcare reform that can provide the rest of China with invaluable experience. Empirical data were collected from both primary and secondary sources. Semi-structured interviews were conducted during the author's two field trips to Sanming and Fuzhou, the provincial capital, in 2015. Informants included three senior government officials and five frontline medical staff in Sanming, four officials in related provincial departments and one senior correspondent. A follow-up interview was conducted with an official of the National Healthcare and Family Planning Commission in 2016. Purposive sampling was used in order to not miss any key informant. Secondary data were either provided by informants or collected by the author from open sources such as government websites.

Analytical Framework

The bulk of the literature on policy entrepreneurship concentrates on explaining the success or failure of entrepreneurs, with analytical foci primarily attached to their personal attributes and entrepreneurial activities. According to Kingdon, effective entrepreneurs typically manifest three "traits": readiness, connectivity and flexibility.[9] In a more widely adopted framework, Michael Mintrom and Phillipa Norman summarize four central elements of policy entrepreneurship: displaying social acuity, defining problems, building teams, and leading by example.[10] Nissim Cohen further identifies three main characteristics that policy entrepreneurs share: the desire to promote personal goals, a lack of resources needed to influence policy outcomes, and the existence of an opportunity to do so.[11] It is argued that, all other things being equal, entrepreneurs who exhibit more of these qualities are more likely to achieve success than those who do not.[12]

Despite the insights offered by these studies, it has been increasingly recognized that the analytical emphasis on an individual's traits, motives and strategies often serves as an inhibitor of theorization, as most policy entrepreneurs appear rather idiosyncratic.[13] To break this theoretical impasse, policy entrepreneurship studies must pay attention simultaneously to structural factors and individual actions, and examine how the structural factors shape individual actions.[14] As Cohen

9 Kingdon 1995.
10 Mintrom and Norman 2009.
11 Cohen 2016.
12 Mintrom and Norman 2009.
13 Cohen 2016.
14 Mintrom and Norman 2009; Oborn, Barrett and Exworthy 2011.

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elucidates, the key to success lies not just in the entrepreneurs' attributes and strategies or the structural environment; success always depends on a combination of both factors. While the institutional arrangements certainly enable and constrain reforms, this environment itself cannot explain entrepreneurial success or failure, because it is ultimately people and not institutions or structural conditions that make decisions. Hence, the analysis must take into account variables that are both endogenous and exogenous to entrepreneurship.[15]

The analytical framework of this article draws from studies by both Dimitrios Christopulos and Jessica Shearer.[16] Separately, they suggest that a policy entrepreneur's effectiveness can be explained by the convergence of four domains: behavioural traits, institutional constraints, network position and political capital. It is argued that all four domains are necessary for successful entrepreneurship.[17] Behavioural traits are intrinsic attributes of the entrepreneur, independent of the institutions or networks; these qualities may include foresight, persistence, rhetorical ability and negotiation skills.[18] Institutional constraints refer to formal and informal rules of the game, organizational structures and social norms.[19] Existing policy practices that constitute barriers to reforms are also understood as institutional constraints. Network position captures an entrepreneur's specific location in the network of bureaucratic or social relationships, and how that position affects the entrepreneur's relative power to make a change.[20] Political capital denotes an entrepreneur's stock of political assets and his or her willingness to invest it.[21] Policy entrepreneurs are posited to have greater access to political capital, which may not necessarily pre-exist but may also be accumulated in the reform process.

Diagrammed in Figure 1, the analytical framework illustrates the dynamic nature of policy entrepreneurship. While these four factors were not necessarily connected in a sequential manner in the original model, iterative evolutionary relationships exist among them (presented in the solid lines). As suggested by many previous studies, entrepreneurial attributes of individual reformers and the strategies adopted facilitate difficult reforms, most of which involve the alteration of existing institutions. Changes in institutional frameworks will ultimately change the network position by determining who participates and how resources are distributed, which in turn influences access to and distribution of political capital.[22] A favourable position within the bureaucratic network helps to amass greater political capital, which further empowers policy entrepreneurs in their continuous reform efforts.

15 Cohen 2016.
16 Christopoulos 2006; Shearer 2015.
17 Christopoulos 2006.
18 Shearer 2015.
19 North 1990.
20 Shearer 2015.
21 Ibid.
22 Ibid.; Christopoulos 2006.

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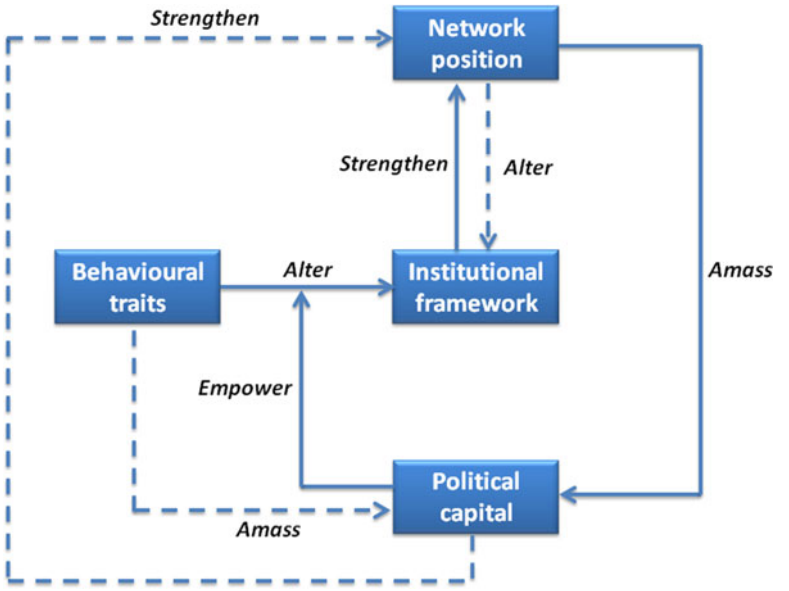
Figure 1: **Analytical Framework**



Source:
Adapted from Christopoulos 2006.

This study further develops the framework by illustrating a parallel set of interactional dynamics, as presented in the dashed lines. First, it cannot be assumed that the amassment of political capital is necessarily the result of a strengthened network position, because the possession of essential capital is often the prerequisite for reforms, especially in political systems characterized by a rigid bureaucratic hierarchy. Second, political capital, often represented as political support from key decision makers, may also be directly gained through an entrepreneur's exceptional qualities, such as foresight and an insider perspective. Eager to solve some persistent policy problems, senior decision makers may generously grant prior political support to capable policy entrepreneurs. Third, stronger political capital enables policy entrepreneurs to strengthen their position in the network, which further enhances their capacity to tweak the established institutions. This modified conceptual framework approaches the study of policy entrepreneurship from a dynamic rather than static perspective by considering alternative interactional patterns between structural variables and individual variables pertinent to authoritarian systems.

Healthcare in China and Recent Reforms

China had an excellent healthcare system under the planned economy. The urban and rural healthcare systems were embedded into the *danwei* 单位 system and agricultural communes, respectively. Together, three healthcare insurance programmes provided the majority of citizens with essential financial protection

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until the 1980s. The delivery system was predominantly publicly funded. Healthcare workers in the cities were state employees, receiving fixed salaries, while barefoot doctors in the countryside were paid by communes. This system provided the Chinese people with basic but cost-effective care at a modest cost until China's embarkation on marketization reforms in the 1980s. Following the drastic decline in government funding, healthcare facilities had to fill the financial shortfall by significantly increasing user fees. Public hospitals received a mere 10 per cent of their income from government and so had to draw deeper from patients' pockets for financial survival.[23] Linking physicians' incomes to their performance in generating revenue became common practice in hospitals.[24] The incentives driving physicians' behaviour were shifted towards profit seeking.

Exacerbated by the fee-for-service method of paying providers and a poorly set fee schedule, a whole battery of misaligned incentives has led to the widespread delivery of unnecessary care. It has become common practice to over-prescribe pharmaceuticals and high-tech diagnostic tests, and to abuse expensive medical procedures.[25] Worse, major healthcare insurance schemes were either dismantled or significantly reduced in the 1980s and 1990s, leaving many Chinese, especially rural residents, uninsured. Out-of-pocket expenditures skyrocketed while *kanbing nan* 看病难 (expensive access to care) and *kanbing gui* 看病贵 (medical impoverishment) became the leading causes of social dissatisfaction.[26]

Reform efforts started in the late 1990s, although most were unsuccessful with the exception of the Urban Employee Basic Medical Insurance (*chengzhen zhigong jiben yiliao baoxian* 城镇职工基本医疗保险, hereafter UEI). Today, following the introduction and rapid expansion of the New Cooperative Medical Scheme (*xinxing nongcun hezuo yiliao* 新型农村合作医疗, hereafter NCMS) and the Urban Resident Basic Medical Insurance (*chengzhen jumin jiben yiliao baoxian* 城镇居民基本医疗保险, hereafter URI), social healthcare insurance now covers close to 99 per cent of the population, although the protection it offers is limited.[27] The national healthcare reform, launched in 2009, vowed to build a universally accessible system by 2020, with the role of the state reasserted. However, an interim evaluation suggests mixed results. While accessibility to care has improved as a result of expanded insurance coverage, the rapid inflation of costs has continued, mainly owing to the vast inefficiencies of the hospital system.[28] Out-of-pocket spending remains a heavy burden for many people.[29] There has been a growing recognition that the ambitious reform efforts will be in vain unless the profit-driven hospital system, the ultimate factor behind

23 Hsiao 1995.
24 Qian and He 2018.
25 Li et al. 2012; Qian and He 2018.
26 National Bureau of Statistics 2008.
27 He and Wu 2017.
28 He and Meng 2015.
29 Wang et al. 2014; Cheng et al. 2015.

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China's double-digit medical cost explosion, is overhauled.[30] Realigning the perverse incentives that have been embedded in the hospital system for decades is, however, a rather formidable mission and one which faces strong resistance from the vested interests. The central government has therefore encouraged local pilot schemes to try out different reform initiatives.

Sanming and its Healthcare Reform

Located in the hinterland of coastal Fujian province, Sanming is a young city, established in the 1950s to house heavy industries. In 2016, this prefectural city had a population of 2.54 million. A large number of its urban residents are employed by state-owned enterprises (SOEs). Sanming's state-owned and heavy industry dominated economy enjoyed relative prosperity under the planned economy but did not fare so well in the transition to the market economy. There has been a significant drop in the SOEs' revenues and many workers have been laid off. The annual per capita disposable income of Sanming residents in 2015 was 10,454 yuan, whereas that of the provincial average was 13,197 yuan.[31]

Mainly owing to the legacies of its state-owned economy, Sanming has a particularly large retired population, leading to an elderly support ratio of 1.73 for its UEI. This has exerted an immense financial pressure on its healthcare insurance system. In addition to the aging population, hospitals' strong profit-seeking incentives also fuelled rapid cost escalation. Total healthcare expenditures jumped by 53.9 per cent between 2008 and 2011.[32] The UEI alone ran a deficit of 143 million yuan in 2010, which further increased to 208 million over the following year. Prior to the launch of the reform, the three social healthcare insurance schemes together owed the public hospitals 17.5 million yuan. The government estimated that bailing out the insurance funds would require close to 15 per cent of its annual budget, an amount that was certainly beyond its means.[33]

This danger of bankruptcy triggered a grave healthcare policy crisis that made reform imperative. The mayor and the Party secretary entrusted Zhan Jifu 詹积富, the-then vice-mayor and the central figure of this article, with a leading role. Launched in 2011, the reform has made remarkable achievements in containing medical cost inflation and alleviating the financial crisis in insurance funds. Demonstrating an innovative approach to healthcare reform, the "Sanming model" (*Sanming moshi, Sanming jingyan* 三明模式, 三明经验) has been recognized by the central leadership and international organizations, including the World Health Organization and the World Bank, and has been given extensive coverage by Party mouthpieces such as *Qiushi* 求是, *People's Daily*, Xinhua News Agency and China Central Television, signifying the centre's support.

30 Yip and Hsiao 2009.
31 "2015 shang bannian Fujian renjun shouru paiming: Xiamen di yi Pingtan di si" (Ranking of per capita disposable income in the first half of 2015: Xiamen first, Pingtan fourth), *Lanfang wang*, 30 July 2015, http://fz.lanfw.com/2015/0730/288663.html. Accessed 22 January 2016.
32 Sanming Government 2015.
33 Ibid.

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The Policy Entrepreneur and Political Capital

The central figure on the stage is Zhan Jifu. A Sanming native, Zhan spent the first 25 years of his political career in his hometown before being promoted to provincial level in 2007. He has ten years' experience with the Food and Drug Administration (FDA), first in Sanming and later at provincial level. Prior to his appointment as the vice-mayor of Sanming, Zhan served as associate director of the Fujian Provincial FDA from 2007 to 2011. In August 2013, after two years' service as vice-mayor, Zhan was made a Standing Committee member of the CPC Sanming City Committee, a position he held until August 2016 when he was promoted to the vice-directorship of the provincial finance bureau.

Coming from a poor rural family, Zhan has genuine sympathy for the underprivileged and an understanding of medical impoverishment. As a seasoned insider with a long service in the FDA, he formed his own diagnosis of China's healthcare policy failures and developed a strong reform ambition. Zhan had promoted his vision for healthcare reforms to various senior leaders on different occasions even before he was entrusted to lead the reform. Overhauling China's pharmaceutical system and reducing the enormous unnecessary care costs were both central to his agenda.[34] His appointment as vice-mayor in charge of healthcare reform provided him with an opportunity to turn his blueprint into reality. Zhan recalled:

> I already had many ideas [before he returned to Sanming], but you would need a platform (*pingtai* 平台) to realize your vision. Look at the outcomes of past reforms; apparently, conventional measures didn't work out. In order to fundamentally solve *kanbing gui* and *kanbing nan*, you need something unconventional and aggressive.[35]

The difficulties of healthcare reform often lie in its technical complexities and the expertise required on the part of reformers.[36] Many failed reform efforts are attributable to the reformers' lack of professional knowledge and analytical capacity. The healthcare policy research community is well aware that the poor governance of the Chinese pharmaceutical market is partly responsible for expensive access to care and the rapid inflation of drug prices.[37] Zhan's valuable experience in the FDA equipped him with essential knowledge in this regard, making him an ideal person to take on a central role in the reform. Known for his tough character and rich experience, Zhan was given unprecedented authority to manage this crisis by the Party secretary and mayor. Local leaders, having anticipated the drastic opposition that was to come, made it clear to all related parties that: "[w]e support whatever decision Zhan makes. We listen to his ideas *only* when it comes to healthcare reform!" This granted him the political capital he needed to pursue his reform agenda. As Zhan repeatedly emphasized, "[n]othing

34 Interview with Zhan Jifu, Sanming, 2 November 2015.
35 Interview with Zhan Jifu, Sanming, 1 November 2015.
36 Roberts, Marc, et al. 2004.
37 Sun et al. 2008.

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would have happened without the unconditional political support of the Party secretary and the mayor."[38]

Strengthening Network Position and Attacking Institutional Constraints

Most studies on policy entrepreneurship in China implicitly or explicitly follow on from Kenneth Lieberthal and Michel Oksenberg's seminal model of fragmented authoritarianism.[39] They showed that the country's party-state system is not a monolithic top-down machine, despite its authoritarian nature. The sophisticated horizontal division of bureaucratic functions and the vertical administrative decentralization have created a rather fragmented system under which policies made at the centre often become malleable in order to serve the goals and interests of sub-national agencies.[40] Understanding the fragmented nature of the Chinese bureaucracy is crucial, as it this fragmentation that leaves considerable space within the hierarchy for individual agents at different levels to influence the policymaking process.[41]

This fragmentation is also reflected in the healthcare system. Aside from a dozen or so top hospitals that are directly owned by the National Healthcare and Family Planning Commission, each level of local government has ownership of the public medical facilities within its jurisdiction. Complicating this fragmentation is the existence of private hospitals as well as many healthcare facilities owned by SOEs, the People's Liberation Army and other sectoral institutions. One of the difficulties of healthcare reform stems from the fact that many hospitals are not owned by local healthcare administrations and are therefore not obliged to take orders from them. This institutional legacy is less pronounced in Sanming because the main providers are all public hospitals owned by the municipal government, giving the local administration the authority to demand compliance. In this case, fragmentation has actually provided the Sanming government with a favourable space in which to tweak the system, so long as local leaders are determined to do so. Stuck in a grim financial crisis, as described above, the local leaders were left with little choice other than to launch a radical and tough reform.

Severe fragmentation also exists in the bureaucratic structure governing healthcare, as a multitude of departments are involved in China's healthcare affairs. There is horizontal fragmentation involving the healthcare bureaucracy, the social security bureaucracy, the finance bureaucracy, the planning bureaucracy, the personnel bureaucracy, the civil affairs bureaucracy, and so on. This bureaucratic fragmentation leads to notable difficulties in interdepartmental coordination as not a single institution possesses enough political authority to initiate

38 Interviews, Zhan Jifu, Sanming, 1 and 2 November.
39 Lieberthal and Oksenberg 1988.
40 Ibid.
41 Mertha 2009; Hammond 2013.

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major reforms, and also because there is a certain degree of bureaucratic conflict among the ministries.[42] The "buck-passing" game and policy "deadlock" often result in delayed decision-making or even non-action.[43] The healthcare bureaucracy is supposed to lead healthcare policymaking; in reality, it can barely control agenda-setting as it has a low status and little power.

Among the institutions mentioned above, two are particularly powerful. The finance bureaucracy, as the government's treasurer, always enjoys high status, and it does have a big say in healthcare policymaking, as most reforms have fiscal implications. The social security bureaucracy's power rests on its authority in managing urban healthcare insurance, which has increasingly become the primary source of hospitals' incomes. As one of the biggest funders of hospitals, the social security bureaucracy has significant influence on their behaviour. Any healthcare reform would be extremely hard to implement without its cooperation.[44] Unfortunately, as part of the legacy inherited from the planned economy, these bureaucracies typically belong to different "portfolios" (*kou* 口) within the administrative machinery and are headed by different government chiefs, which leaves policy coordination even more difficult. The "science, education, culture and healthcare portfolio" (*ke jiao wen wei kou* 科教文卫口), to which the healthcare bureaucracy belongs, historically enjoys lower prestige and less power. Understanding this, Zhan insisted on a major streamlining that would bring the municipal healthcare bureau and social security bureau together under the same portfolio, with himself as the vice-mayor in charge. This, to a large extent, overcame any potential bureaucratic conflicts resulting from fragmentation and placed Zhan in an authoritative position within the bureaucratic network to push this administrative consolidation, with the backing of generous political capital conferred by local leaders.

As Marc Roberts and colleagues insightfully write, "[f]ixing the healthcare sector is not easy. Many parts and pieces are interrelated and many consequences occur. Designing a comprehensive healthcare reform is a complex technical process. Reformers often seek to improve many parts of the system at the same time, making both the details and the overall impact of the program difficult for non-experts to grasp."[45] Entrepreneurs in healthcare reforms often need a multidisciplinary team equipped with good expertise and capable of

42 For instance, the healthcare bureaucracy and the social security bureaucracy have long been known for their different organizational pursuits in healthcare reforms. The former is keen to gain greater financial resources for the underfunded hospital system but is less active in harnessing the massive waste created by public hospitals, its major political constituency. The latter's primary concern is to balance the books of the insurance funds and avoid financial risks. Suspicious of the healthcare bureaucracy's ability to manage insurance, the social security bureaucracy has proposed to consolidate and take all healthcare insurance schemes into its own custody. This includes the NCMS, which is managed by the healthcare bureaucracy.

43 Huang 2013; Hsiao 2007.

44 Interview with Q, Fuzhou, 1 December 2015; interview with X, Fuzhou, 2 December 2015; interview with L, Fuzhou, 3 December 2015.

45 Roberts, Marc, et al. 2004.

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formulating and implementing new initiatives.[46] Soon after Zhan was entrusted by the municipal leaders to head the reform, he formed a healthcare reform steering group (*shenhua yiyao weisheng tizhi gaige lingdao xiaozu* 深化医药卫生体制改革领导小组) by inviting on board senior officials of all departments involved.[47] Headed by Zhan himself, this interdisciplinary and interdepartmental team stands at the centre of the reform. A group member noted:

> Except Zhan, all of us represent relevant bureaus and departments. The government has given us substantive authority. This group is an ideal platform for coordination and deliberation. It enables us not only to represent but also to mediate the positions as well as interests of our own line bureaus. All the key policy documents introduced so far have been announced by us [the steering group].[48]

The establishment of the steering group placed Zhan and his team in a very favourable position within the healthcare network and consolidated their power.

Aside from the vertical and horizontal bureaucratic fragmentation, China's healthcare insurance system is also fragmented. Three schemes cover different groups of the population and provide different benefit packages, a situation which has been long criticized as a major obstacle to equity and efficiency.[49] This is complicated by the fact that the urban schemes are governed by the social security bureaucracy, whereas the healthcare bureaucracy was the administrator of most of the rural schemes until 2017. Poor coordination on the part of the insurers has enabled hospitals to game the system with an array of opportunistic behaviours, leading to inefficiencies and cost escalation.[50] Despite the calls for consolidation, progress nationwide was rather slow until early 2016, in part because of the bureaucratic conflicts between the social security bureaucracy and the healthcare bureaucracy, neither of which wished to relinquish control over such enormous insurance funds.[51]

Zhan was determined to change the status quo. He impressed upon the Party secretary and mayor the imperative to consolidate all healthcare insurance programmes. In spite of their support, however, it was difficult to proceed, as there were very few precedents elsewhere in China. Moreover, all healthcare insurance schemes are governed by central institutions promulgated by the National People's Congress and the State Council. Major administrative restructuring would run the risk of violating central policies. In addition, both the municipal healthcare bureau and the social security bureau are answerable not only to the municipal government (their territorial superior) but also to the central

46 Oborn, Barrett and Exworthy 2011.
47 Prior to this assignment, Zhan's duty as vice-mayor was mainly to oversee agricultural affairs.
48 Interview with Zhang, Sanming, 1 December 2015.
49 He and Wu 2017.
50 Because the three schemes vary in breadth and depth of service coverage, providers face perverse incentives to offer differential services for patients with the same condition but insured by different schemes in order to maximize profits. This cost-shifting behaviour is prevalent in multiple-insurer systems, introducing further inequity and waste. More important, the negotiating power of insurers as third-party purchasers is undermined.
51 Interview, Q; interview, X.

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ministries and provincial bureaus (their professional superiors), all of which had expressed strong objections.[52]

An effective policy entrepreneur usually finds it necessary to be flexible and ready to make compromises. Recognizing that the conflicts between the two bureaucracies needed to be resolved, Zhan cleverly found a more powerful middleman, the municipal finance bureau, as a temporary solution. With support from municipal leaders, Sanming established a healthcare insurance management centre (*yiliao baoxian guanli zhongxin* 医疗保险管理中心) and designated the finance bureau as the provisional custodian. The centre took over the management of the NCMS, URI and UEI, and was given considerable autonomy. The advantages of such a consolidation were immediately evident. First, the merging of insurance pools increased the financial protection of insurance against deficit risks. Second, 26 insurance management offices were amalgamated into one, so high administrative costs were substantively reduced. Third, and most important, hospitals now had to deal with a single insurer with stronger negotiation power, so any opportunistic behaviour could be better curbed. Tightening up its grip over the budget, the centre introduced a series of measures, such as case-mix and *per diem* payment, among others, in order to contain costs.[53]

This bold move, however, naturally encountered objections from the social security bureaucracy, whose political interests were vested in its authority to manage insurance funds.[54] In a visit to Fujian, the-then vice-minister of human resources and social security clearly expressed the ministry's reservations concerning Sanming's reform, including the accusation that it had violated the Social Security Law in terms of the statutory managerial authority of urban healthcare insurance.[55] In his encounter with the vice-minister, Zhan firmly defended Sanming's position, arguing that the Social Security Law was not equipped to deal with fast-changing local situations, and that difficult reforms would have only a slim chance of success unless innovative methods were permitted. "Notwithstanding the opposition from the Ministry and the provincial [social security] bureau, we went on steadfastly, thanks to the unconditional support from the Party secretary and the mayor!"[56] It appears that strong political

52 Interview, Zhan Jifu, 1 November; interview with J, Sanming, 3 November 2015.

53 Policy Documents for Public Hospital Reform of Sanming (February 2012 to September 2015), given to the author by the Sanming government. As prospective payment methods, case-mix and *per diem* pay healthcare providers a predetermined, fixed amount, based on diagnosis and a daily rate, respectively. Compared to retrospective payment methods, which are widely used in the Chinese healthcare system, they are better at discouraging cost-inflationary behaviour.

54 Hsiao 2007.

55 The position of the social security bureaucracy is not, however, indefensible. It has argued that the Ministry of Human Resources and Social Security has been entrusted to manage all social insurance schemes since the late 1990s and valuable administrative experience has been accumulated, whereas other bureaucracies are less capable of managing the insurance funds. Moreover, compared to the healthcare bureaucracy, which often is sympathetic to public hospitals, the social security bureaucracy is in a better position to control the behaviour of hospitals and contain costs. Interview, X.

56 Interviews, Zhan Jifu, 1 and 2 November.

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capital boosted the entrepreneur's position within the bureaucratic network enough to endure political pressure from the centre.

Entrepreneurial Strategies: Reframing the Issue and Building Coalitions

For the reasons analysed above, declining government subsidies have forced Chinese hospitals to provide many unnecessary services in order to survive and thrive. Approximately 40 per cent of hospitals' income was earned from drug sales, a situation rarely seen in other healthcare systems. Apart from the ubiquitous profit-driven overprescribing of drugs, the poorly governed pharmaceutical market is another fundamental, but less known, factor behind the chaos. Poor price regulation and rampant corruption at virtually every stage of the production and distribution chain combine to fuel escalating drug prices. The ill-designed price schedule overpriced new brand-name drugs while setting the prices of basic pharmaceuticals low, leaving doctors with stronger incentives to overprescribe expensive drugs. The 15 per cent price mark-up permitted to hospitals further fuelled price inflation. Most government efforts to control drug prices in the past have had limited or temporary impact, or else have resulted in outright failure.[57]

Zhan distinguished himself from other reformers with his firm stance on starting reform with pharmaceuticals. In China, many previous debates regarding the right formula for healthcare reforms were somehow narrowly framed on how to increase government funding and where to spend it. Yet, savvy reformers clearly understand that any additional funds would be soon absorbed by providers' insatiable appetites, unless the fundamental incentives were realigned. In Sanming, the government's shallow public finance could by no means afford any significant budgetary input to healthcare.[58] His long service in the FDA furnished Zhan with an insider's keen understanding of the fundamental problems with the system. In an interview, he offered his diagnosis of the problem:

> Yes, it's true that government funding needs to be increased but, unfortunately, our [Sanming] government is too poor to do that. More importantly, government funding is not the only right key to addressing the root causes of *kanbing gui* and *kanbing nan*. The key is to significantly reduce the waste that is being created in our hospitals every day! You just look, how many unnecessary drugs are being prescribed to patients and how many unnecessary tests are being ordered every day?! Healthcare would soon become affordable again should these wastes be eliminated. How? Two ways. First, we must normalize doctors' behaviour by correcting their incentives for overprescribing. Second, more fundamentally, the chaos of the pharmaceutical market must be cleared up. You outsiders don't know how enormous their profits are. A product costing several yuan in exit price can be easily sold at several hundred yuan in hospitals' pharmacies. All of this is eventually paid for by patients. There is a huge pool of corrupted power in this arena, and our reform is to declare a war against them![59]

57 Meng et al. 2005; Yu et al. 2010.
58 Interview, Zhang; interviews, Zhan Jifu, 1 and 2 November.
59 Interview, Zhan Jifu, 2 November.

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Zhan frequently stressed that it is not an absolute necessity to increase government funding in order to address *kanbing gui* and *kanbing nan*; instead, the key lies in reducing the massive waste. This position was greatly appreciated by the municipal leaders and the finance bureaucracy, all of whom were more than delighted to learn that no additional budget was needed. As a fiscally conservative bureaucracy, the Ministry of Finance (MOF) has in the past shown support for reforms that could protect government budgets. Moreover, the bureau's prominent political status was powerful enough to swat away a great deal of opposition. The finance bureau soon proved to be Zhan's strongest supporter.[60] Zhan's alliance with the finance bureaucracy provided him with a good shield when he and his team were wrestling with the healthcare and the social security bureaucracies. Aligning with more powerful players in the game further enhanced the reform team's position in the bureaucratic network and helped gain additional political capital – recognition from the MOF itself was at least symbolically valuable. While the reform was struggling with increasingly tense disputes in 2013, several supportive policy memos from the MOF helped Sanming to gain the timely attention of top leaders.

A successful policy entrepreneur is adept at framing an issue so as to change the conventional perceptions of the causes of the problem and paint new solutions; this helps to present a new vision and create a larger rhetorical space.[61] Zhan repeatedly asserted that "reducing waste" (*ji chu shuifen* 挤出水分) would soon bring down the excessively high prices of pharmaceutical products, which, in turn, would help to improve the affordability of care. Zhan's framing of the issue is not only reasonably compelling but also appeals to public sentiment that sees the pharmaceutical industry, and especially its sales agents, as "greedy."[62] Given the numerous reforms and disappointments over the past decades, creating a vision of possibilities appealed to top leaders. Built upon his valuable experiences gained in the FDA, this new narrative furnished him with a greater sense of authority. In addition, his framing of the reform as combating corruption further placed him on the moral high ground and pinned a political cloak on to the reform that chimed with the anti-corruption climate of Xi Jinping's era.

Zhan planned to reduce the inflated drug prices by revamping the existing pharmaceutical procurement system. However, the production and distribution chain involves too many processes and players, and most are beyond the control of municipal authorities. In the late 1990s, in an effort to contain the sharp rise in drug prices, the central government initiated a series of reforms to centralize the procurement of pharmaceutical products. To that end, provincial healthcare bureaus were authorized to organize regular bidding exercises. It is through these bidding exercises that public facilities procure medicines. Unfortunately, there

60 Interview, Zhang; interview, J.
61 Roberts, Marc, et al. 2004; Roberts, Nancy, and King 1991; Mintrom and Norman 2009.
62 Prior to the reform, at least eight hospital directors in Sanming had been arrested for corruption in drug procurement.

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is little evidence that central bidding has either increased competition among manufacturers or controlled price increases.[63] Armed with insider knowledge, Zhan contended that provincial bidding was associated with too many corruption risks and ill-equipped to rein in the mounting drug prices. He wanted to set up Sanming's own system.

This attempt was strongly opposed by the provincial healthcare bureau – not only would the move imply the failure of its own system and tarnish its image owing to corruption claims, but it would also undermine its own bureaucratic power if every city were to create its own system.[64] The provincial healthcare bureau cited that no precedent elsewhere could justify this bold move; it was also concerned about violating central regulations.[65] Unable to proceed without the bureau's permission, Zhan embarked on a creative path to circumvent the existing institutions. He named this new strategy "second bidding": while recognizing the pharmaceutical products that won the provincial bidding, Sanming would conduct a second-round selection. Within the provincial basket, the product with the lowest price among a handful of drugs with the same chemical formula would win the contract. One factor behind the drug price explosion in China was the proliferation of intermediaries in the market.[66] As an expert, Zhan was fully aware of this. The new system stipulated that products distributed by more than two layers of intermediaries before entering Sanming would automatically be disqualified from the "second bidding" exercise. Eliminating a significant amount of "waste," this new procurement system resulted in a more than 50 per cent reduction in the average prices of drugs. As the province's bidding results were not disregarded, the provincial healthcare bureau "couldn't openly express opposition any more." Zhan's reform, however, slashed the profits of the pharmaceutical companies and threatened numerous vested interests associated with this line of business. Inevitably, the reform sparked huge controversies, partly abetted by the pharmaceutical industry as well as doctors who had lost opportunities to earn income from drug commissions.[67]

Reform Outcomes

Zhan's reform produced remarkable outcomes. The overprescribing of pharmaceuticals and diagnostic tests was substantively reduced as a result of the new payment formula and tighter regulation. Frontline physicians were provided with a new set of better aligned incentives. Following the significant reduction in the price of drugs, hospitals' revenues earned from drug sales declined from 0.79 billion yuan in 2011 to 0.61 billion yuan in 2014, and their percentage in total revenues dropped from 46.7 per cent to 27.4 per cent in 2014.[68] This loss

63 Sun et al. 2008.
64 Interview, Zhan Jifu, 1 November.
65 Interview, Q.
66 Sun et al. 2008; Yu et al. 2010.
67 Interview with H, Sanming, 2 December 2015; interview, L.
68 Sanming Government 2015.

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of income for hospitals was largely compensated for by the increase in government subsidies and upward adjustment of the distorted fee schedule that had under-priced medical services, so overall, hospitals' revenues did not decline. Table 1 presents average cost profiles from 2011 to 2015. While outpatient costs in hospitals slightly increased because of the price adjustment for medical services such as registration fees (this was intended), inpatient costs saw a significant decrease. In contrast to the continuous cost escalation in the rest of China, the increase in medical costs in Sanming has been remarkably slower.

Table 2 reveals that, in 2014, the average costs of outpatient visits, inpatient stays and pharmaceuticals in Sanming's public hospitals were systematically lower than those for the provincial average, and the average of provincial hospitals, at every level of the facilities. Patients' out-of-pocket burden was also significantly relieved. Most importantly, "reducing the waste" not only helped the healthcare insurance funds break even but actually allowed them to accumulate a surplus of 86 million yuan by 2014, in contrast to the sizeable deficit prior to the reform.[69]

Turning the Tide: Political Capital Matters Again

Opposition regarding the appropriateness of Sanming's reform mounted within the provincial government in 2012, and was further exacerbated by the lobbying of pharmaceutical companies.[70] Initially assuming a suspicious position, in 2013 the provincial government decided to dispatch an interdepartmental auditing team to scrutinize Sanming's reform. This was interpreted by Zhan and his associates as a warning, although the audit did not ultimately discover any irregularities.[71] This signal was further reinforced by the information that a provincial leader had indicated a clear disapproval of the reform in a private conversation. In Zhan's words, the "reform was almost snuffed out in its infancy."[72]

Entrepreneurial success depends not only on the resources and strategies employed but also on entrepreneurs' access to critical decision makers, who are a source of invaluable political capital. The Sanming reform had an unexpected breakthrough when Zhan was invited by the central government's Healthcare Reform Office to a sharing session in October 2013 in Beijing. The session was attended by vice-premier Liu Yandong 刘延东, the top governmental leader steering national healthcare reform. Zhan seized this opportunity to present Sanming's reform directly to Liu. Impressed by this innovative approach, Liu immediately instructed the State Council General Office to schedule a field visit to Sanming. Her visit in February 2014 eventually turned the tide for the Sanming reform. Accompanied on her visit by senior officials from relevant central ministries and

69 Health Development Research Centre, National Health and Family Planning Commission 2015.

70 For example, some claimed that the reform would be detrimental to the development of the pharmaceutical industry, some alleged that low-price drugs might cause adverse effects, and others argued that some senior doctors might leave Sanming because of the loss of drug commission income.

71 Interview, J.

72 Interview, Zhan Jifu, 1 November.

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Table 1: **Cost Profiles of Healthcare Facilities, 2011–2015 (yuan)**

Indicators	2011	2012	2013	2014	2015
Sanming					
Average outpatient costs in primary care facilities	56	61 (8.9%)	55 (−9.8%)	54 (−1.8%)	57 (5.5%)
Average outpatient cost*	120	120 (0)	128 (6.7%)	140 (9.4%)	148 (5.7%)
Average inpatient cost (UEI)*	6,553	5,805 (−11.4%)	5,084 (−12.4%)	5,224 (2.8%)	5,243 (0.4%)
Average out-of-pocket cost per inpatient (UEI)*	1,818	1,721 (−5.3%)	1,518 (−11.8%)	1,636 (7.8%)	1,615 (−1.3%)
Average inpatient cost (URI)*	4,082	4,156 (1.8%)	3,876 (−6.7%)	4,081 (5.3%)	4,291 (5.1%)
Average out-of-pocket costs per inpatient (URI)*	2,194	1,848 (−15.8%)	1,561 (−15.5%)	1,725 (10.5%)	1,757 (1.9%)
National average					
Average outpatient cost*	180	193 (7.2%)	208 (7.8%)	222 (6.7%)	235 (5.9%)
Average inpatient cost*	6,910	7,325 (6.0%)	7,859 (7.3%)	8,291 (5.5%)	8,833 (6.5%)

Source:

Sanming Public Hospital Reform Steering Committee 2016; *China Health and Family Planning Statistical Reports*, various years.

Note:

The reform was launched in late 2011. Annual increase rate in parentheses. *Costs incurred in public hospitals.

Table 2: **Average Cost Profiles of Three Levels of Hospitals, 2014 (yuan)**

Level of facility	Cost indicator	Fujian province	Provincial hospitals	Sanming
Tertiary facilities	Average cost per outpatient/drug cost	230.26/113.65	276.37/139.84	160.24/65.86
	Average cost per inpatient/drug cost	11,826.23/4,586.72	16,875.55/7,171.43	6,806.75/1,647.00
Secondary facilities	Average cost per outpatient/drug cost	140.79/69.61	–	129.19/47.47
	Average cost per inpatient/drug cost	4,236.25/1,613.52	–	3,906.95/787.45
Primary facilities	Average cost per outpatient/drug cost	150.87/68.83	–	119.62/37.19
	Average cost per inpatient/drug cost	5,353.78/1,979.72	–	2,941.33/3,36.66

Source:
Sanming Public Hospital Reform Steering Committee 2016.

provincial leaders, Liu was convinced by both Zhan's framing of the policy issue and the actual steps that had been taken. Most importantly, the self-evident outcome of addressing *kanbing gui* and *kanbing nan* served as Zhan's best testimonial. Liu gave her enthusiastic endorsement and ordered central ministries to provide greater support. Senior officials from relevant central ministries followed Liu's lead in expressing their approval.[73] The politics began to line up favourably.

The fact that Zhan was given this precious opportunity to make a presentation in front of top leaders is again attributable to the MOF, whose recommendation and consistent support were decisive. The alliance with the finance bureaucracy not only strengthened the reformers' network position but also granted additional access to privileged political capital. The amassment of abundant political capital from the top dramatically changed the external environment for Sanming. Thanks to a nomination by the MOF, Sanming was designated as one of the national-level pilot cities for public hospital reform, an initiative directly steered by the centre. This designation was not merely symbolic; it also implied greater freedom conferred by the central government for the city to try "bolder" reforms. A national forum on public hospital reform was held in Sanming in June 2014, during which the city was given a good opportunity to showcase its success. Sanming was lauded as offering "invaluable experiences of comprehensive concerted healthcare reform" for the country.[74] Many of Zhan's core reform ideas have been incorporated into the national policy guidelines for public hospital reform and have been diffused to other localities.

Discussion and Conclusion

By investigating the case of a renowned reform model, this article examines the processes and characteristics of policy entrepreneurship in China's local healthcare reform. The conceptual framework focuses on four important domains of policy entrepreneurship – behavioural traits, institutional framework, network position and political capital – as well as the interactional dynamics among them. This framework enables the analysis of both structural conditions and entrepreneurial activities, as well as the dynamic interaction between them.

It appears that Zhan and his team demonstrated outstanding entrepreneurial ability in strategic thinking, issue reframing, negotiation and coalition building. Their tenacity, persistence and social acuity were defining personal attributes. The policy entrepreneur was clearly an excellent issue framer and persuasive communicator. By changing the perception of the problem and the solution, he was able to identify the root causes of past policy failures and distil them into a portable narrative that provided a new vision of possibilities.[75] Informed by his personal experiences, the entrepreneur's astute framing of the entire issue established

73 Speeches by senior officials from various central ministries in Fujian, February 2014.
74 Speech by Wang Bao'an, the-then vice-minister of finance, at the forum, 13 June 2014.
75 Mertha 2009.

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a fresh and persuasive narrative, which powerfully shaped the context of policy discourse and eventually received recognition from Beijing. Top leaders were convinced that the chronic problems at hand were not irreconcilable and that the policy entrepreneur's solutions were technically feasible.

While these behavioural traits do not necessarily serve as a sufficient condition for the opening of a policy window, they helped to recruit essential political capital. As illustrated in this case, firm political support from local leaders provided the strongest backing for the reform, with which the entrepreneur was able to tactically overcome bureaucratic opposition from provincial authorities and even central ministries. Clearly, fragmented bureaucracy remains a key structural factor influencing local policy innovations in China. While horizontal bureaucratic cleavages tend to impede reforms, vertical decentralization has provided considerable space for entrepreneurial agents to manoeuvre within, as the entire fragmentation is skewed towards local government, making many bold reforms institutionally permissible, providing that local leaders have the political will.

Interestingly, while fragmentation provides fissures through which to manoeuvre, it may also hamper reform in the actual policy formulation and implementation stages. The consolidation of administrative authorities into a steering group with comprehensive power was a practical necessity. This put the entrepreneur in a stronger position within the bureaucratic network and enabled him to better engage stakeholders and broker agreements between various lines of bureaucratic interests. Therefore, the fragmented bureaucracy serves as both an opportunity and constraint for local policy entrepreneurs such as Zhan. The ultimate result of reform largely depends on how agents creatively manipulate the institutional contexts.

Ensuring that healthcare reform is adopted is not just a matter of political commitment; it also depends on effective political strategy and alliance building. Good network strategies matter. Policy entrepreneurs' networks provide a framework within which they can project power, control information flow and attempt to influence institutional changes. As such, there is a mutually reinforcing relationship between their network position and their endeavour to tweak the institutional arrangements. The building of coalitions with powerful bureaucracies was one of the most successful tactics adopted in the case of Sanming. With the change of position of key players (especially the social security bureaucracy and the provincial healthcare bureau), the ability of opponents to block the change was substantively curbed. This strengthened position, in turn, allowed the entrepreneur to further tweak the system.

Policy entrepreneurs are "surfers waiting for the big wave."[76] However, as can be seen in this case study, they do not always passively wait for the wave to come, but rather actively engage multiple networks and innovatively shape the context within the established institutional structure. While operating within the fragmented bureaucracy as the given institutional environment, the entrepreneur did not

76 Kingdon 1995, 225.

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take this setting for granted but rather proactively reshaped it to pave the way for reform. The way in which he continuously pushed the boundaries reveals the malleability of institutional structures at the local level. The fluidity of the interactional patterns between structure and agent can be considerably increased by the agent's entrepreneurial manoeuvrings, with essential political capital and a favourable network positioning.

It must be acknowledged that the eventual opening of the policy window was somewhat opportunistic. The Sanming case seems to suggest that locally gained political capital may not be sufficient to shield innovative reforms from strong opposition. Roland Petchey and colleagues have argued that significant policy change is likely only when "big" windows in the centre match "little" windows locally, especially in countries with multiple layers of government. Given the complexity of such a task, it is unlikely that this conjunction could be facilitated by a single individual.[77] Indeed, had the vice-premier, Liu Yandong, not shown a keen interest in the reform, the story may have had a different ending. While the Chinese leaders have shown considerable tolerance towards radical local policy experiments, innovation still comes with uncertainties and political risks, not to mention attacks from vested interests. China, unlike many Western democracies, has a strong central government that is powerful enough to support, or deny, the aggressive reforms that are deemed necessary. This case study, for example, clearly shows the importance of the veto power that could have been exercised by Liu Yandong. The dynamics involved in aligning national policy windows and local policy windows, and the role played by multiple policy entrepreneurs, merit further scholarly investigations.

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77 Petchey, Williams and Carter 2007.

摘要: 政策企业家在政策变革中发挥重要作用，不但在选举民主国家中如此，在威权政体下亦然。本文透过分析三明医改——中国大陆医药卫生体制改革的 “明星”，揭示了中国条块分割的碎片化官僚体制如何影响地方的政策企业家推动改革。文章尤其关注政策企业家如何创造性地重组既有的体制框架，并冲破既得利益。研究发现，结构性约束和政策企业家的个人特质都对改革的成败起到关键作用，而且具有企业家精神的政策创新是一个动态的过程。四个因素及其动态互动是地方政策企业家改革的关键：个人行为特质、政治资本、网络地位、制度框架。本研究进一步阐明了在中国的体制之下，公共政策改革中结构因素和关键行为者的互动模式，并深化了关于政策企业家的理论探讨。尽管既有体制韧性强劲，但富有企业家精神的政策活动家仍有相当的空间通过各种策略来调整制度安排，推动改革。

关键词: 政策变革; 条块分割; 政策企业家; 三明; 医改; 中国

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