

**Institutional Flexibility and Business-Government Ties in China: A  
Comparative Study of Subnational Online Ride-Sharing  
Policymaking in Chengdu and Jinan**

by

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## Abstract

This thesis explores the puzzling subnational variation of policymaking for the online ride-hailing industry (ORS) in China. Chengdu and Jinan are two similar cities on many economic and political levels. They are both capital cities of their provinces, new first-tier cities in terms of their economic size and both have a large population. Yet, they adopted significantly different ORS policies. This thesis asks why two similar cities in China have diverging policy outcomes. Using a method of difference (MOD) strategy to compare these two similar cases with diverging outcomes, the thesis evaluates three potential explanations. They are as follows: (1) historical legacies and political communities, (2) the cadre evaluation system (CES), and (3) government-business relationships. Using a historical institutionalism theoretical framework with comparative capitalism and economic sociology roots, this thesis finds that a mixture of CES incentives and government business relationship patterns has had a determining impact on diverging outcomes in Jinan and Chengdu. There have been two phases of ORS policymaking in China until now. In phase 1, Chengdu had a laxer ORS policy than Jinan. A comparison of historical legacies and political communities tells us that Chengdu has been a more market-oriented city than Jinan. More importantly, Jinan's government had a more intimate relationship with local taxi agencies, which proved to be the major cause of subnational differences. In phase 2, Chengdu's ORS policy was found to be more stringent than Jinan's. In this case, the significant variable leading to Chengdu's tightened policy was the target-setting of the cadre evaluation system (CES). The CES specifically required Chengdu's government to ban non-green vehicles from the ORS market while Jinan did not encounter the same requirement. Moreover, Jinan can exclude non-green vehicles from its environmental protection plan while Chengdu cannot. This thesis observes a structural distortion caused by the CES. Throughout the two phases of ORS policymaking, both governments play a

consistently dominant role. However, the government-business relationship remains flexible. If the relationship is viewed as an institution, it is composed of informal procedures, conventions, and orders where actors accommodate each other. The largest privately-owned ORS enterprise, Didi, has declared that their preferences are taken into consideration by the government. Some questions remain as to how the government processes those preferences and how much importance it attaches to them, but this illustrates the mutual accommodation of the government and an enterprise within an informal institution. By some unwritten but conventional procedures, they coordinate with each other. This thesis furthers the study of the government-business relationship in China. It not only unearths the institutional factors of subnational variation for ORS policymaking, but also verifies the presence of institutional flexibility in China. This thesis is an important addition to the literature on government-business ties in China because it does beyond the study of rent-seeking to evaluate the multifaceted ways in which the Chinese government can build relationships with enterprises.

## Résumé

Cette thèse explore la variation infranationale déroutante de l'élaboration des politiques pour l'industrie du transport en ligne (ORS) en Chine. Chengdu et Jinan sont deux villes similaires à de nombreux niveaux économiques et politiques. Ce sont toutes deux des capitales de leurs provinces, de nouvelles villes de premier rang en termes de taille économique et toutes deux ont une population importante. Pourtant, ils ont adopté des politiques d'ORS très différentes. Cette thèse se demande pourquoi deux villes similaires en Chine ont des résultats politiques divergents. En utilisant une stratégie de méthode de différence (MOD) pour comparer ces deux cas similaires avec des résultats divergents, la thèse évalue trois explications potentielles. Ils sont les suivants : (1) les héritages historiques et les communautés politiques, (2) le système d'évaluation des cadres (CES) et (3) les relations entre le gouvernement et les entreprises. En utilisant un cadre théorique de l'institutionnalisme historique avec des racines de capitalisme comparé et de sociologie économique, cette thèse constate qu'un mélange d'incitations CES et de modèles de relations d'affaires avec le gouvernement a eu un impact déterminant sur les résultats divergents à Jinan et Chengdu. Il y a deux phases d'élaboration des politiques d'ORS en Chine jusqu'à présent. Dans la phase 1, Chengdu avait une politique d'ORS plus laxiste que Jinan. Une comparaison des héritages historiques et des communautés politiques nous apprend que Chengdu a été une ville plus orientée vers le marché que Jinan. Plus important encore, le gouvernement de Jinan entretenait des relations plus intimes avec les agences de taxis locales, ce qui s'est avéré être la principale cause des différences infranationales. Au cours de la phase 2, la politique d'ORS de Chengdu s'est avérée plus stricte que celle de Jinan. Dans ce cas, la variable significative qui a conduit au resserrement de la politique de Chengdu était la fixation d'objectifs du système d'évaluation des cadres (CES). Le CES exigeait spécifiquement que le gouvernement de Chengdu interdise les

véhicules non verts du marché des ORS alors que Jinan ne rencontrait pas la même exigence. De plus, Jinan peut exclure les véhicules non verts de son plan de protection de l'environnement alors que Chengdu ne le peut pas. Cette thèse observe une distorsion structurelle provoquée par le CES. Tout au long des deux phases de l'élaboration des politiques d'ORS, les deux gouvernements jouent un rôle constamment dominant. Cependant, la relation entre le gouvernement et les entreprises reste flexible tout au long du processus. Si la relation est considérée comme une institution, elle est composée de procédures informelles, de conventions et d'ordres où les acteurs s'accommodent les uns des autres. La plus grande entreprise privée d'ORS, Didi, a déclaré que leurs préférences sont prises en considération par le gouvernement. Certaines questions subsistent quant à la manière dont le gouvernement traite ces préférences et à l'importance qu'il y attache, mais cela illustre l'accommodement mutuel du gouvernement et d'une entreprise au sein d'une institution informelle. Par certaines procédures non écrites mais conventionnelles, ils se coordonnent les uns avec les autres. Cette thèse approfondit l'étude de la relation gouvernement-entreprise en Chine. Il met en évidence non seulement les facteurs institutionnels de variation infranationale pour l'élaboration des politiques d'ORS, mais vérifie également la présence d'une flexibilité institutionnelle en Chine. Cette thèse est un ajout important à la littérature sur les relations entre le gouvernement et les entreprises en Chine, car elle va au-delà de l'étude de la recherche de rente pour évaluer les multiples façons dont le gouvernement chinois peut établir des relations avec les entreprises.

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## **List of Abbreviations**

ABS	the anti-skid brake system
CES	the Cadre Evaluation System
CMTC	the Chengdu Municipal Transportation Commission
CNY	Chinese Yuan
CPC	the Communist Party of China
ICTs	information and communications technologies
KPI	the Key Performance Indicator
MOD	the Method of Difference
ODM	on-demand mobile
ORS	Online Ride-hailing Services
P2P	Peer-to-Peer
PRC	People's Republic of China
SCR	the System of Contract Responsibility
SOE	State-Owned Enterprise

# 1 Introduction

## 1.1 Research Questions

The online ride-hailing services (ORS) industry has grown in China since 2010. It refers to services of tailored taxi, express taxi, and carpooling. It is a new business mode using mobile Internet technology for ride-hailing and commuting. Its development can be representative of other emerging sharing economies in China. The central state legalized the services in 2016 by issuing a document named *the Interim Regulatory Measures for the Online Ride-hailing Industry* (《网络预约出租汽车经营服务管理暂行办法》, 2016). In this document, it is stated that the municipal governments are allowed to make their own decisions on how to regulate the ORS industry according to local situations. A subnational variation arises in terms of the policymaking for the ORS industry. It is not surprising that a third-tier city makes regulatory policies different from a first-tier city. However, Chengdu and Jinan implement completely different policies even though they are similar in many other economic and political areas. There are two versions of ORS policies since the central government legalized the ORS nationwide. Chengdu was once recognized as the friendliest city for the ORS industry while Jinan was the opposite (Xiong 2018; Ma & Li, 2019). However, Chengdu tightened its ORS policy in the second edition while Jinan did not. Enterprises, especially private enterprises, encounter a great deal of uncertainty since they have to accommodate various municipal regulations accordingly.

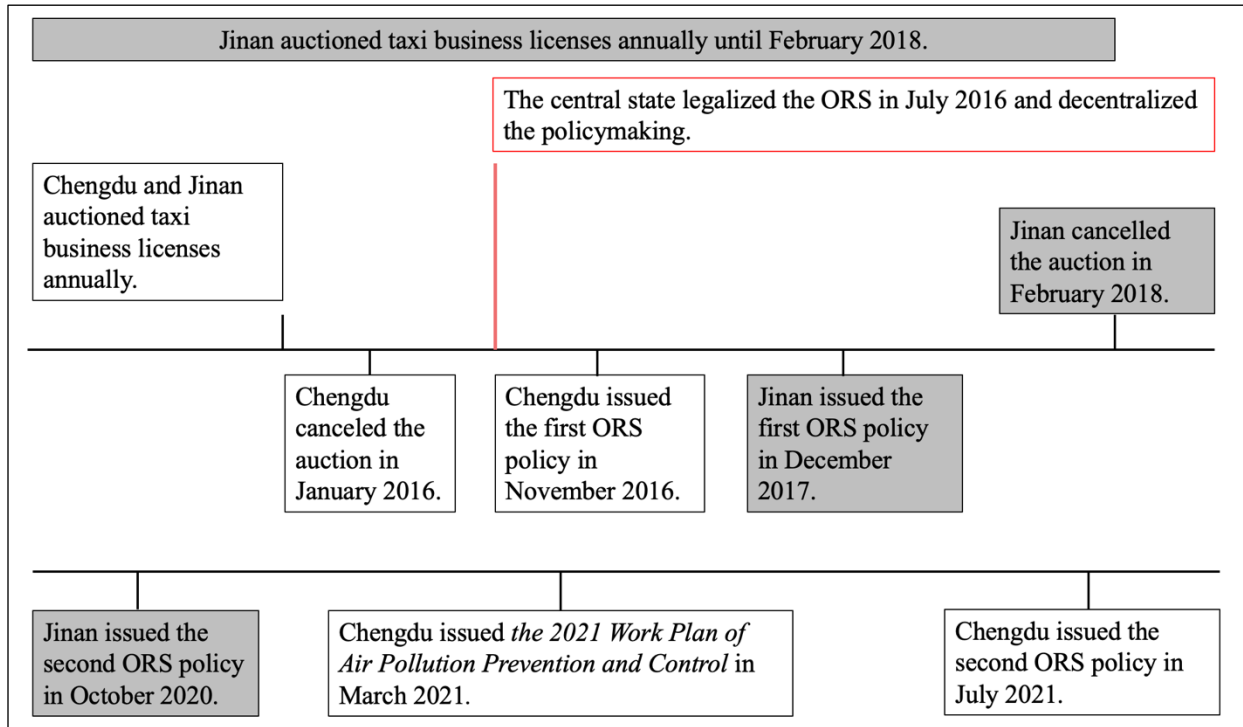
This study first asks why Chengdu and Jinan, two similar cities, implement different regulatory policies for the ORS industry and why it is easier for the ORS enterprises to do business in Chengdu rather than Jinan for the first edition of ORS policy and then the situation reversed.

Jinan's government eased its second ORS policy while Chengdu tightened the policy in the second edition. To answer those questions, we need to figure out whether it is the state or private enterprises taking the initiative in the industry, and how other actors accommodate different interests during the process of creating new order. At its broadest, this thesis not only aims to unearth the roots of China's subnational variations but also tries to verify whether different patterns of business-government ties make a difference in local policymaking. The local state, the taxi agencies, and the enterprises running ORS platforms are three key actors. Their interaction mechanism and its influence are the main subjects of the study.

This thesis argues that ORS policy outcomes are mainly driven by the state rather than the market. Decentralization allows the emergence of subnational variations, but it is not sufficient to explain the variation of policy stringency. The thesis found solid support for the hypothesis that a combination of the cadre evaluation system (CES) and the business-government relationship is associated with the local regulations of the ORS industry, while there is less support for historical legacy and political community variables in comparing the differences of Chengdu and Jinan in two periods: (1) before the first policies are made, and (2) before the second policies are issued (See Figure 1). The CES and different modes of government-business ties specifically covary with the policy stringency. The CES and the government-business ties cause the differences of ORS policy outcomes between Chengdu and Jinan. Furthermore, the CES is a clear and perceptible independent variable to the policy outcomes while the government-business tie is less observable and more subtle. In a broader sense, the two independent variables (IVs) indicate the state (both local and central) has a disproportionate access to the decision making. The access is based on an informal institution selected collectively by key actors, the state, the enterprises, and the workers.

For the first released version of the ORS policy, Jinan's is more stringent than Chengdu's. Before the first ORS policy was made, Jinan's government had preference for the taxi industry. The local government had made profits from the auction of business licenses for the taxi agencies, so the government had a more intimate relationship with them. Jinan's intimacy with its local taxi agencies has gone since the government canceled the auction in February 2018. As a result, for the second edition of the ORS policy, Jinan relaxed its ORS policy relatively. By contrast, Chengdu tightened its ORS policy and made it harder to do ORS business there than in Jinan for the second edition. Only green-energy cars are allowed to register legally in Chengdu. It aims to reduce the pollution caused by cars, following the specific requirement in *the 2021 Work Plan of Air Pollution Prevention and Control* (《大气污染防治工作方案》, hereafter "*the 2021 Work Plan*"). *The 2021 Work Plan* requires Chengdu's government to revise the ORS policy by the end of December 2021 and all added ORS vehicles since then should be driven by green energy (p.5). Therefore, the ORS policy outcomes result from priorities and business ties of these municipal governments. Probing into the policymaking procedure and different actors' participation, the thesis finds the institution in China is featured with flexibility.

Figure 1 The Time Order of Governments' Involvements



## 1.2 Research Design

The research adopts qualitative methods to study the Chinese subnational variations on policymaking. It focuses on the subnational variation of policymaking for the online ride-hailing industry. It considers subnational state agencies as the unit of analysis and explains economic outcomes sector-specifically. Reasons are as follows. First, decentralization is ongoing in China. Subnational variations make it difficult to draw a general conclusion of China's economic development. This thesis first limits the scope of analysis within the ORS industry and then probes its representativeness of other similar industries in the sharing economy carefully. According to Yin (2009), a case study is an all-encompassing method. This section introduces the logic of the research design, data collection techniques, and the approaches to data analysis of the case study.

## **1.2.1 Case Selection Rationale**

### **1.2.1.1 The ORS Industry**

First, the puzzle of interests lies within the ORS industry. The ORS industry is a representative industry of China's emerging sharing economy. The sharing economy has grown by more than 100 percent annually from 2016 to 2017. It is expected to grow annually at least by 40 percent and to take over 10 percent of the GDP (Gross Domestic Product) growth by 2020 (*The Report of the Chinese Sharing Economy*, 2016; 2017). 36.19 percent of the Internet users are ORS consumers (*The Report of the Chinese Sharing Economy*, 2020). The ORS typically represents sharing industries that have been evolved from being illegal to legal and finally have been taken into the regulatory framework by the central government. It is the first specific sector of sharing economies being regulated officially. It is informative about the experiences of the other industries of sharing economy. Following the legalization of the ORS, other sharing economies such as live broadcasting and peer-to-peer (P2P) lending have been legalized and regulated by the government.

Another rationale for selecting the ORS industry is the relatively revelatory business-government relationship in the industry. Martin (2016) finds, "government capture is by definition a secretive phenomenon, and China's policy process is hard to penetrate (p.24)." However, his study focuses on the mining industry. The government considered it one of the pillar industries. As Eaton (2011) puts it, the Chinese government is concentrating in some industries and largely retreated from others. The ORS industry is neither key to national security nor a pillar to lifeline. It is counted as the "Other industries or areas" (Eaton, 2011), which means it is not as prior as mining or other lifeline-related industries for the central government. A sector-specific analysis is essential since the state's involvement is various according to how much importance it attaches to that sector. The ORS policymaking is relatively more transparent and more accessible. Governments of the central

and the local levels have different levels of transparency on how regulatory policies are made. Moreover, the business licenses are issued by municipal governments. One-stop licensing is not applicable to a nationwide scale. Thus, their strategies are made upon local situations.

### **1.2.1.2 An MOD Comparative Model: Chengdu and Jinan**

Chengdu and Jinan are selected as two comparative cities. The method of difference (MOD) setup fits in the comparison between Chengdu and Jinan. Mill (1851) introduces the method and argues, “if an instance in which the phenomenon under investigation occurs, and an instance in which it does not occur, have every circumstance in common save one, that one occurring only in the former: the circumstance in which alone the two instances differ, is the effect, or cause, or a necessary part of the cause, of the phenomenon (p.457).” In the purest form, the chosen pair is similar in all aspects except the variables of interest (Gerring, 2007, p.131). The dependent variable of the study is the policy stringency in the two cities. The IV is the difference related to the ORS policymaking. The IV is assumed to be the cause of the different policy stringencies. Chengdu and Jinan are selected because of their political-economic similarities and difference of lax and stringent policies for the ORS enterprises, drivers, and vehicles as Table 2 and Table 3 in Chapter 4 demonstrates. They differ on the outcome of research interest but are similar on various factors. Intensive study of these two cities can reveal the factors that differ across them. As mentioned in the section of literature review, we focus on the institutional factors. This thesis evaluates three possible IVs as potentially leading to the policy differences. They are historical legacies and policy communities, the cadre evaluation system (CES), and business-government ties. While these institutional factors are sorted out to probe the institutional cause of the subnational variation, the thesis remains open to other explanatory factors.

### **1.2.2 The Dependent Variable: The Subnational Variation of ORS Policies**

The dependent variable of the study is the policy differences between Chengdu and Jinan. The study adopts an MOD comparative framework. The empirical investigation first measures the ORS policy stringency in the two cities. The policy stringency should be measured by content analysis rather than by counting the number of regulatory items. There is a ranking of 25 cities' openness of doing ORS business conducted by *People's Daily* and reported by Xiong (2018) (See Appendix 1), but the raw data and how the institute processed the data remain unknown. Ma and Li (2019) also measure the policy stringency of different cities in China. Nevertheless, this thesis finds the method they used, which is called Fuzzy Set, has a major disadvantage. They grouped cities according to different pressures endured by the government. The indicators of the pressures are neither uniform nor standardized for all sampling groups, as cities are compared by selected indicators rather than all proposed by the researchers. Some cities are compared by Indicator 1 (public demand for taxis) and 2 (public transportation situations), while others are compared by 3 (congestion situations) and 4 (occurrence of strikes). There is biased selectivity of indicators for grouping the cities. Thus, this thesis investigates details of regulatory items of the policies in Chengdu and Jinan and compares them qualitatively with a uniform parameter.

Having confirmed the dependent variable, the thesis next puts forward possible independent variables (IVs) and tests them separately. The verification of the relationship between dependent variables and possible IVs must be conducted by distinguishing causal relations from spurious ones. As Johnson and Reynolds (2012) put, "a correlation is simply a statement that two things are systematically related...a causal declaration, by contrast, communicates much more... [It refers to] a change in the state of one thing brings about (in full or in part) a change in the state of another

(p.167).” The thesis goes through the three assumed causes, the historical legacies and political communities, the CES, and the business-government relationship one by one. Chapter 2 uses the analytical framework of historical institutionalism to discuss why these three IVs are proposed.

The first IV is the historical legacy and the political community (call it IV 1). In terms of the historical legacy, the thesis investigates ideological and cultural aspects. Secondary literature is used to define the ideological or cultural differences between Jinan and Chengdu, or between the two provinces they belong to. It is then necessary to examine whether they are in related or causal relationship with the policy stringency. If they have not changed significantly over time and the ORS policy stringency of the two cities has changed in the second issue, then they are not the causes of the policy stringency. The second versions of the ORS policy issued by the two cities in 2020 and 2021 are available to verify this. In terms of the political community, the thesis looks at the regional and the methodological aspects of it. According to the time order of issuing the ORS regulatory policies, there might be a regional community within a province. Chengdu and Jinan might have different approaches for economic development as Huang (2008) and Thun (2006) point out in their studies. If one is found more state- or market-oriented than the other, the different approaches might be one of the causal factors. It is necessary to compare the variations of IV 1 in the time order to verify their validity to cause policy variations.

The second potential cause of subnational policy stringency variation is the difference embedded in the CES (IV 2). The thesis compares the targets or priorities set in different time for Chengdu and Jinan to see if there is a covariation of IV 2 and the dependent variable. While the thesis reviews all released government documents with target setting, it remains open to the possibility

that the government has not published some targets due to sensitivity. This would be one of the limitations of the research.

The third independent variable to be tested is the business-government tie (call it IV 3). The thesis will evaluate if IV 3 is found different in Chengdu and Jinan. If it covaries with the policy stringency of the two cities and there is a more complicated relationship between the changes of dependent variables and IV 3, this factor is the cause of the different policy outcomes. Some may be worried about the overlap of examination of state- or market-oriented political communities and government-business ties. It should be noted that the political community is a macro perspective while the government-business tie is a micro perspective specific to certain enterprises in the industry.

### **1.2.3 Data Collection**

This thesis collect data from primary and secondary sources. Primary sources include the documents, yearbooks, work plans and reports officially issued by the central and local governments. The governments offer primary sources including policy documents, yearbooks, work plans and reports. They are mostly in Chinese originally and are not translated. While some have their English counterparts, the content of the English version is changed after translation and edition (*Statistical Report on Internet Development in China <English Version>*, 2020), so the thesis draws all data and comments from documents in the Chinese language and translates them manually. To my knowledge, this is the first discussion in the English language of some of these documents in a comparative framework. Those documents contribute greatly to the analysis of governments' behaviors and preferences. Some may be worried about the reliability and

completeness of the official data. This thesis concedes that this can be one of the potential limitations and discusses it further in the section of limitations. Besides government documents, corporate documents and managerial speeches are essential materials for analyzing their behaviors.

Apart from official economic and policy data sources, the research was considerably strengthened by consulting the Chinese secondary literature, media coverage as well as industry reports. The Chinese secondary literature on the ORS industry is useful in fleshing out high-level debates about the influence of the policymaking by local governments. Media coverage not only delivers additional messages from government officials but also collects opinions from other non-official stakeholders such as the enterprises, taxi drivers, ORS drivers, and taxi agencies. Industry reports done by think tanks or consulting firms shed light on the development of the ORS industry.

#### **1.2.4 Document Analysis Method**

Given that most research data are public documents including government-issued policies, yearbooks, work plans and reports and mass media, the thesis applies the hermeneutic method to analyze those documents. Hermeneutics is a method of analyzing all types of data, but it is particularly applied to written texts analyses. It requires the researchers to dissect the meaning of the text through the intent of the writer or creator, the time of the writing, and to consider the influences caused by political and cultural environments (McNabb, 2015). This is essential for analyzing texts in the Chinese language since Chinese is a high-context language (Kim et al, 1998). The information in a high-context culture, as Hall (1976) argues, is widely shared through simple messages with deep meaning. The intentions of local states to make regulatory policies can be different. Local states' intentions can be a superficial response to the central policy. They may not

welcome the ORS substantially while they must follow the instruction given by the Center. Its policymaking can be “passive” by making a stringent policy for the ORS industry for some reasons. In contrast, some local states are “positive” by making more friendly policies for different reasons. The timing is also important. It indicates whether a local state considers the ORS industry as a priority. Furthermore, the identification of those who participate in the policymaking indicates local states’ preference. Therefore, hermeneutic analysis is essential for deciphering the information hidden in the policy narratives.

In addition, as Johnson and Reynolds (2012) point out, “we can think of document analysis, much like other forms of analysis, as taking both a qualitative and quantitative form (p.292).” To supplement the qualitative interpretation of texts, content analysis is important for quantifying the contents of the texts. McNabb (2015) suggests, “content analysis is best used when dealing with communications in which the messages tend to be clear, straightforward, obvious and simple (p.321).” The ORS rulings issued by local governments are such messages. They are explicit, clear, and simple for citizens to understand and follow. When we compare the policy stringency of those texts, counting how many items are set as thresholds for licensing and comparing the data of the same items in different municipalities are significant for defining which one has a more stringent policy. This thesis counts the regulatory items for the ORS drivers and vehicles since most of the municipal variations are found in these items for Chengdu and Jinan. And the content in each item is measured by qualitative analysis. Taking a qualitative and quantitative measurement of the policies made by the municipal governments of Chengdu and Jinan can figure out which policy is more stringent.

### 1.2.5 Limitations

The primary limitation of the research design is the accessibility and availability of data. First, the records kept by the local governments in the yearbooks are not consistent. Some indicators, such as the number of buses per 10,000 people and the number of taxis per 10,000 people in each city, are only available in the years of 2015 and 2016. Since 2017, the city yearbooks (《中国城市统计年鉴》, 2017-2019) have no longer revealed these key indicators. Secondly, what decisions have guided the record-keeping process is not accessible. Both governments claimed that they take the public opinion into consideration, but it is unknown that what method they took to collect the public opinion and how much importance they have attached to various opinions. Thirdly, some organizations are not willing to share their raw data. It remains unknown on how the ranking of the 25 cities' policy stringency is processed. Fourthly, in terms of the documents and data issued by the government, we cannot exclude the possibility that the data has been filtered or processed due to sensitivity. The content of the written record may be biased (Johnson & Reynolds, 2012). All these disadvantages embedded in using running records subdue the reliability of the evidence to some extent.

Secondly, this thesis cannot exclude the possibility of biased selectivity by using a qualitative method. The causes of the subnational variation of policies are not limited to the IVs discussed in this thesis for the cities of Chengdu and Jinan. The limited transparency of governments and firms' managerial documents makes it difficult to carry out a large-N analysis. We can infer that both parties, the enterprises, and the governments, conceal most of the direct evidence of how they manage the relationship between them. Didi Corporation does not reveal its government relations

management strategy publicly. And the government intends deliberately not to mention any specific firms in their work plans or reports. When the government deal with specific firms, they summon the entrepreneurs for private conversation, which in Chinese, is Yue Tan (约谈). This is a specific convention created under the weak formal institution in China (Shangguan & Niu, 2017). Therefore, the researcher can only draw from the interpretation of public managerial speech, documents, and their behaviors reported by the media. This might subjugate the liability of the inference. In addition, different media coverage may have subjectivities out of various purposes of the journalist.

### **1.3 Contributions**

The primary empirical contribution of this thesis is adding to the study of China's subnational variations. Previous studies found it difficult to study China's business-government ties. Martin (2016) states that given the absence of systematic data on inter-provincial levels of corruption or capture (and the extreme difficulty of collecting such data), it is hard to conduct the analysis. Martin's study focuses on the mining industry and the subnational variations at the provincial level, which limited the context in a specific scope. The context of the ORS industry is unique and different.

Some attribute rent-seeking and excessively close business-government ties to policy variations (Economy 2010; Li 2003; Pei 2006; Smith 2009; 2013; Wang 2012; Wright 2007; Yang 2009). First, a close business-government tie does not necessarily indicate corruption. Local governments have their preferences for some industries or enterprises. Those industries or enterprises are considered more important than others by the local government. Secondly, governments'

policymaking for the ORS industry is relatively more transparent and more accessible than other pillar industries as mentioned in Section 1.2.1.1. The ORS industry is one of these cases. It is promising to dig deeper on whether and how the business-government tie (Zhengshang Guanxi, 政商关系) contributes to policymaking in the local level despite the lack of a formal institution or a weak formal institution. The municipalities of Chengdu and Jinan, two selected cities, are considered as two uniquely formed local state. They are assumed to have different types of institutions for policymaking. These institutions, though being informal, is supplementary to the lack of a formal one. It helps non-state sectors grow despite the challenges of fierce competition, unclear warranty of ownership rights, and the uncertainty of the government's decision-making. It unveils the myth of forging public policies specific to the municipal level.

The business-government tie is an important subject in studies of China's development. However, to my best knowledge, few studies take it as part of the institution and investigate it from a historical institutionalism perspective. A wide-ranging and stimulating theoretical and empirical debate remains (Fligstein & Zhang, 2011; Gold, Guthrie & Wank, 2002). The definition of the analytical subject is vague. The analytical focus is dispersed. Some view entrepreneurs as embedded in various kinds of social networks including business partners, supply chains, foreign firms, and local and national governments (Lyles et al, 2008; Peng & Luo, 2000). However, social networks (Guanxi, 关系) is a term too broad to be conceptualized. It is considered either individual, phenomenal, or culturally inherited. Some see the social networks as part of a process of rent seeking whereby firms with special connections can produce abnormal gains for themselves (Zhang & Keh, 2010). Chinese business-government ties are characterized as non-institutionalized

and unorganized (Wank, 1995a, 1995b; Boisot & Child, 1999). However, China is not the only country encountering the problems of rent seeking or bribes paying. Rent seeking or “special” capture cannot typically and systematically explain the business-government tie in China. Many other structural factors, economic and political influence, decide how governments act in the market and enterprises react correspondingly. Yet those structural factors have not been covered previously in Chinese political economy studies in the English language. Therefore, this thesis casts the subnational variation in new light by focusing on institutional factors to investigate the informal institution consisting of business-government ties.

The thesis also adds to the theory of state and market capitalism by using a theoretical framework composed of comparative capitalism and economic sociology, a new research agenda suggested by Fligstein and Zhang (2011). It is grounded on historical institutionalism to explain the decision-making process conditioned by the structure of the organization. Not only actors’ goals and preferences but also their non-fully strategic behaviors are taken into analysis. A slight difference between the framework suggested by Fligstein and Zhang (2011) and the framework of this thesis can be found in the setting of analytical units. Comparative capitalism here is not used in comparisons between states. The thesis innovatively applies the comparison agenda to subnational analytical units. Economic sociology is complementary to comparative capitalism with its focus on a specific market. The framework respectively adopts two crucial perspectives of the state and the market to explain how states at every level struggle to adjust to the ongoing marketization and decentralization. New forms of societal interaction have emerged (Baum & Alexei, 1999). This informal institution encompasses the informal procedures, routines, norms, and conventions embedded in the structure.

## **1.4 Layout of the thesis**

Chapter 2 introduces the theoretical framework and how the hypotheses are drawn. From the perspective of historical institutionalism (HI), historical legacies and political communities are correlated with the creation of the ORS order. The culture approach of HI argues that the worldviews of individuals in the institution is not fully strategic. And then, a more specific analytical framework composed of comparative capitalism and economic sociology allows us to analyze the roles of the state and the market more in-depth. Their interaction is dynamic rather than being rigid. It involves various stakeholders in society. Regarding the ORS industry, the policymakers, the private enterprises running the ORS platforms, the drivers (also the owners) of the ORS vehicles, the incumbent taxi agencies, taxi drivers, and the customers construct a complicated network in the ORS market. Although either party has different power to shape the market, they are as important as each other to the analysis. Chengdu and Jinan are two similar cities in terms of economic and political matters, but they make different ORS policies. To settle the puzzle of the subnational policy variation, a qualitative analysis is necessary.

Chapter 3 positions the study of the ORS industry in the sharing economy literature and in a global context. The ORS industry can be viewed as a part of the sharing economy. It has been developed in a global context for long. The sharing economy has three salient characteristics. It is encompassing as it enables us to have more access to different resources. Technology makes things connected and makes it possible to be shared. However, the sharing economy is disruptive not only for the market but also for the institution. It challenges the current institution. Although China is not the country where the ORS originated, it becomes the first country to legalize the ORS industry nationwide. Other countries have various policies for the ORS industry. Previous literature finds

their decisions are highly correlated with the quality of the institution. To study China's subnational variations, we can further test and verify the hypothesis. And decentralization of the ORS governance in China serves as a necessary condition of the subnational variation, but it fails to explain the variation of policy stringency specifically.

Chapter 4 layouts the comparison between Chengdu and Jinan in details. Chengdu and Jinan are two municipalities in China. They are both capital cities of their provinces. Their political structures and administrative levels are identical in the Chinese political system. There is no major difference on their administrative level, economic size, and population. However, they issued ORS policies of different stringency in both editions in the 2010s and 2020s. The chapter analyzes the policy stringency qualitatively and argues that Chengdu made more friendly ORS policy than Jinan in the 2010s but it made more stringent ORS policy than Jinan in the 2020s. This is the core puzzle of the thesis.

Chapter 5 evaluates the three hypotheses with empirical evidence. It first traces the impact of the historical legacies and political communities in Chengdu and Jinan. The accumulated evidence suggests that Sichuan and Shandong, the two provinces where Chengdu and Jinan are located, have different historical and political customs. Local government of Sichuan is found to encourage people in the pursuit of their self-interest while Shandong is proved to have more radical ideologies and fears of abrupt policy change. Chengdu has a tradition of dynamic private business while Jinan people are well known for its conservatism. By comparison, we find that the policy variation of the ORS policy in Chengdu and Jinan is related to their differences of historical, political, and even cultural inheritance. Meanwhile, we understand this inheritance could not be changed in a short

period. By comparing the first and the second edition of the ORS policies in the two cities, we find historical legacies and political communities can explain the original source of the ORS policymaking, but they are not sufficiently in a causal, namely a more complicate relationship. The CES and the business-government tie, on the other hand, covary with the dependent variable and we also find that they are causally related. Before the first ORS policies were issued in the two cities, the triangle relationship between the government, the incumbent taxi agencies, and the ORS enterprises are found changed in a subtle way. The time order of the government's decision and action is pivotal to the analysis. Regarding to the second edition of the ORS policies, more strong evidence is found to prove that some items of the policy of Chengdu are directed by a work plan initiated by its superiors. Jinan and Chengdu both are driven by the work plans, but for some unknown reason, Jinan makes the ORS industry exclusive from its anti-pollution regulation while Chengdu takes it as the priority. The numbers of vehicles offering online ride-hailing services are significant for pollution control since more vehicles running in the city means more exhaust to the air. The hierarchy of the political system makes the work plans or work reports compelling for the locales. If they fail to accomplish the targets, they will not look good or lose in the cadre competition. The CES decides where the government goes specifically and directly.

Chapter 6 summarizes the answers to the study's key research question. What leads to the subnational variation of policymaking between Chengdu and Jinan for the ORS industry? The section evaluates whether the three possible IVs are related or in a causal relationship with the policy stringency variation. Historical legacies and political communities are found related with the variation of policy stringency but it fails to explain the ongoing policy changes in Chengdu and Jinan. The business-government tie leads to the stringent policy made by Jinan for the first

edition. Given its intimacy with the incumbent taxi agencies, it would not allow the ORS vehicles or enterprises to overwhelm the taxi agencies. By the comparison of the second edition of the ORS policies, Chengdu made a more stringent market threshold for the ORS vehicles since it has to abide by the command specified in a work plan. Both the CES and the government-business tie are driven by the government with disproportionate power. Individual actors are accommodating their interest to the state's interest to reach their goals. By comparing the ORS policies, different markets' ebbs and flows, and the experience drawn from the institutions accordingly, this thesis is not only of epistemological meaning but also of more ontological value.

## **2 Comparative Capitalism and Economic Sociology: An Analytical framework**

### **2.1 Alternative Views of Current Literature**

Current literature comes up with various explanations for subnational variations in China. The research is either case by case or industry specific. On the one hand, these analyses reflect the complexity of China's subnational variations. As Oi (1995) puts it, "one cannot make broad assertions about government intervention and markets (p.1146)." On the other hand, Fligstein and Zhang (2011) argue that theories are not getting much leverage since empirical evidence for all the scenarios are both positive and negative. For the analysis specific to the ORS industry, we can only draw from some arguments related to the institution in previous studies.

China scholars explain the differences of local officials' policymaking and implementation with rent-seeking or excessively close business-government ties (Economy 2010; Li 2003; Pei 2006; Smith 2009, 2013; Wang 2012; Wright 2007; Yang 2009). Might this explain the puzzle? The presence of Didi Global Inc. defies the assumption. It is one of the biggest ORS enterprises in China. It has offices in both Chengdu and Jinan. If it can change local governments' decisions simply through bribery, Chengdu and Jinan would have made more friendly policies, and there will not be a subnational variation. We cannot exclude the possibility that some local governments might have taken the rent given the absence of systematic data on corruption or capture and the difficulty of collecting such data, but this thesis does not take rent-seeking as a necessary analytical lens. This thesis looks for institutional explanations.

Some argue that personal experiences or ideas of local leaders can lead to subnational variations (Chung, 2000; Donaldson, 2011; Tan, 2002). Donaldson's study (2011) is specific for southwestern China. Tan's (2002) analytical units are provincial governments. This thesis is open to the argument that individual political leaders matter in the decision-making process. However, one's personality is unique and phenomenal. We can bring this assumption into a broader context. Political leaders' decision-making is driven by the political system. There is a trajectory. As Kiser and Schneider (1994) describe the Weber's bureaucratic system:

(1) Officials are organized in a hierarchy, with each lower office under the control and supervision of a higher one; (2) officials have clear and fixed duties and relations between them are governed by abstract, written rules usually embodied in administrative law; (3) officials are appointed (not elected) on the basis of merit (technical qualifications) and usually judged by examinations; (4) officials are protected from arbitrary dismissal and usually have tenure for life; and (5) officials are paid fixed salaries in money (not in kind) and are entitled to pensions (p. 188).

The Chinese bureaucratic system meets with such a description. Martin (2016) argues, "on one level, local and provincial governments in China fairly closely approximate a Weberian bureaucracy with, at least formally, meritocratic hiring and assessment... (p.22)" First, there is a hierarchy. Clear authority relations are based on written rules. "Provinces, cities are directly under the jurisdiction of the central government. Counties, cities, municipal districts, townships, ethnic townships and towns shall establish People's Congresses and People's Governments (*Constitution of the People's Republic of China*, 2019)." In this case, municipal governments are subject to provincial and the central governments. Donaldson (2011) takes Guizhou and Yunnan as two provincial units for comparisons. He argues that different formative leaders' beliefs are the main

cause of the subnational variation when two provinces face similar challenges and operate in similar contexts. However, this thesis argues that personalities of political leaders are subordinate to the hierarchy of the cadre system. We can hardly scientifically quantify how much personalities make differences in policymaking. Even if we analyze a political leader's experience and personality with a qualitative approach, it makes the study piecemeal and subsides its theoretical leverage. Unlike the system, personalities are unique and not comparable. Therefore, a focus on the structural or institutional factors is more important.

There are other implications we can draw from the current literature. First, we need to figure out whether the policy variation the thesis seeks to explain result from provincial policy communities accustomed to distinct state- or market-oriented approaches as Thun (2006) argue existed in Shanghai and Guangdong. Thun (2006) argues that some institutional legacies are inherited from the planned economy. Chengdu and Jinan report to Shandong and Sichuan Province respectively. If Shandong and Sichuan are two provinces in favor of different methods to foster its economic prosperity and keep its legitimacy, Chengdu and Jinan are supposed to follow them. Provincial policy communities can lead to municipal communities. This hypothesis can be investigated by looking for any factional alignment of the ORS policymaking.

Secondly, the thesis finds firm support from the literature that the cadre evaluation system (CES) can be one of the alternative answers to the puzzle. "The Chinese policy process sometimes involves converting policy goals into precise quantitative targets on whose implementation lower-level officials are evaluated and links their promotional prospects to this evaluation (Martin, 2016, p. 32)." The CES indicates an absolute superiority from central to local states. Since local officials

act upon the targets assigned by their superior to outdo their counterparts in the game of promotion. The CES offers more details in terms of how the superior governments evaluate the performance of the subordinate ones. It sets the key performance indicators (KPIs) for local authorities. It is assumed that the local governments compete by achieving the different targets set in the CES. If Chengdu considers the development of the ORS industry as a priority for completing some targets set by its superiors while Jinan does not, it is highly possible that Chengdu sets a laxer ORS policy than Jinan.

To sum up, this section establishes two assumptions from the current literature for a valid causal explanation for the ORS policy variation between Chengdu and Jinan. If the first answer, historical legacies and political communities, and the alternative answer, the CES, turn out not in a causal relationship with the dependent variable, the thesis comes up with the third assumption from a theoretical framework composed of comparative capitalism and economic sociology, the business-government tie. This thesis does not agree with what Martin (2016) argues, “government capture” is a secretive phenomenon. The business-government tie (excluding rent-seeking) is something missing from the current literature. The next section lays a solid theoretical foundation for the three hypotheses raised in this thesis.

## **2.2 Theoretical Ground: Historical Institutionalism**

This thesis considers the business-government relationship as an institution. Although the institution is neither added into the legislative framework nor written in any official document explicitly, it is recognized and followed by the state and the private enterprises. By and large, historical institutionalists define institutions as the formal or informal procedures, routines, norms,

and conventions embedded in the organizational structure of the polity or political economy (Hall and Taylor, 1996). As Hall and Taylor (1996) put it, “They can range from the rules of a constitutional order or the standard operating procedures of a bureaucracy to the conventions governing trade union behavior or bank-firm relations (p.938).” The business-government tie can be such an informal institution since both enterprises and governments deal with the relationship under the table. It does not necessarily mean rent-seeking or corruption, but this thesis finds both actors adopt their own approaches. Historical institutionalism characterizes institutions as both strategically and culturally formed (Thelen, 1999; Hall & Taylor, 1996).

Within the theoretical framework of historical institutionalism, the institution is a collective selection. “They (historical institutionalists) saw the institutional organization of the polity or political economy as the principal factor structuring collective behavior and generating distinctive outcomes (Hall & Taylor, 1996, p.937).” A couple of sampling surveys tell that the private entrepreneurs in China are content with the current regimes and the political system (Chen & Dickson, 2008; Chen 2002). Tsai (2007) points out that Chinese entrepreneurs generally rely on informal, nondemocratic means to pursue their economic interests. They neither act as a unified class nor share similar political concerns. As long as the “informal means” work for their interests, they will not pay more to appeal to a new political regime. By “informal means”, it refers to those approaches used by enterprises to influence the government. The approaches are not necessarily illegal, but they are not written in any official paper. Enterprises can capture the government by helping them achieve their goals for the cadre evaluation and asking superior officials to take the command (Huang, 2013). These bargaining powers are embedded in the political structure

consisting of the CES and the hierarchy of the administration system. This supports the hypothesis that the CES causes different policy outcomes.

Comparative capitalism and economic sociology are grounded in historical institutionalism. Comparative capitalism considers systems both path-dependent and highly institutionalized. The actors within a national system use the current institution to deal with crises or grasp opportunities. The history of firms' development, the labor movement, and the government in each society constitute the institution. Economic sociology sees the relationship between actors as long-standing. Markets, where those actors have knowledge of each other, are social structures. If historical institutionalism gives theoretical importance to study Chinese business-government ties, comparative capitalism and economic sociology add to historical institutionalism a specific research agenda for China studies.

In China, the state and the market are two countervailing but mutually reinforcing powers. The two powers reach a dynamic equilibrium as a lock-in effect. The equilibrium endows the institution with flexibility. On the one hand, the government deepens the ongoing marketization. On the other hand, it maintains its presence in the market. In different scenarios, the state plays either a negative or positive role in economic development. A hybrid governance has grown, combining earlier Maoist socialist, nationalist and developmentalist practices and discourses of the Communist Party (Nonini, 2008). It is hard to draw a general conclusion on Chinese business-government relationships because the state plays different roles. Fligstein and Zhang (2011) argue that empirical evidence for all the scenarios affects economic growth in both positive and negative ways. As they (p.47) put it, "Using theory to understand the problems and the Chinese solutions

may open up a research agenda on state-firm relationships that is likely to prove fruitful going forward.”

Therefore, the analytical framework of comparative capitalism and economic sociology lays out the trajectory of the development of government-business relationships in China. Within a comparative framework, the governments of Chengdu and Jinan are considered as two uniquely formed institutions. So are their natures of state capitalism. Historical institutionalism first suggests we consider the effects brought by historical legacies and political communities. The individuals of the institution are not viewed fully strategic. They are impacted by their worldviews and the context. The context includes the history, culture, and the society influencing the actors. And then, the framework helps identify the government-business tie as one of the independent variables, and then lays a solid foundation for the comparison of different modes of government-business ties. Another alternative independent variable, the CES, is considered as a major empirical existence of the organization of the state. Moreover, economic sociology’s focus on the market contributes a form of narration of the evolution and marketization of the ORS industry. It also deepens our understanding of the role of enterprises and its interactions with the state. The analysis of the market, both domestic and international, brings the case study into a broader context.

### **2.3 Comparative Capitalism**

Comparative capitalism is designed to understand the nature of state capitalism. Comparative capitalism first argues that most systems of national capitalism are uniquely organized. It requires to focus on three main actors in society, the government, firms, and workers. It argues that all economic development projects have produced stable institutions build around their relationship.

China is considered as an entire state where government control is high, state ownership of firms remains central to the economy, workers are less organized, and the private sector emerged but in the shadow of the state. (Fligstein & Zhang, 2011) However, when we look for explanations for subnational variations, China is segmented. Although under the same economic political system, different regions have their uniquely formed systems of capitalism. This thesis applies the theoretical framework in municipal analyses. Alternative views of China’s new capitalism indicate that there are various modes of state involvement in economic activity (Table 1, Fligstein & Zhang, 2011, p.44). Chengdu and Jinan can be two uniquely organized systems of capitalism. They fit in either one or two of the cells in Table 1. As mentioned above, this thesis does not take rent-seeking or corruption as a major analytical lens. Thus, Cell D, F, and H are excluded. The pitfall of this categorization is that indicators are used in different cases and industries. Scholars adopt different indicators in sector- or region-specific studies (Nee, 1989; Naughton, 1995; Gao, 2008; Zhou, 1996; Wank, 1999; Naughton, 2007). It is essential to specify the analytical units in terms of the sector and the region in the research.

Table 1 Alternative Views of China’s New Capitalism (Fligstein & Zhang, 2011, p.44)

		State Capacity for Economic Intervention			
		Low		High	
Network Capacity for	Low	Positive	Negative	Positive	Negative
			<i>Cell A</i> Liberal Capitalism, Economists’ Dream (Nee, 1989; Naughton, 1995)	<i>Cell B</i> Social Chaos	<i>Cell C</i> Developmental State (Airplanes, cars) (Gao, 2008)

Economic Creation	High	<i>Cell E</i> Supply Chains, Industrial Districts, Small- and Medium- Sized Family Businesses (Wenzhou) (Zhou, 1996)	<i>Cell F</i> Cartels, Local Corruption	<i>Cell G</i> Flexible State, Strong firms (Yiwu)	<i>Cell H</i> Crony Capitalism (real estate) (Wank, 1999; Naughton, 2007)
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This thesis starts with collecting the indicators that have been introduced and applied in previous studies. A group of scholars called corporatists identifies a new hybrid pattern of state-society interactions led by marketization and decentralization. It is a hybrid form of state-societal interdependence that is less firmly state-driven and less state-dominated than the “organized dependency” model of the Maoist era, but more highly regulated and regimented than the civil society model (Unger & Chan, 1995; Wank, 1995a; 1995b; Oi, 1995; Solinger, 1996; Parris, 1995). The relaxation of centralized state economic and administrative controls in the reform era has provided a certain amount of social space for the segmentation and legitimation, of societal interests.

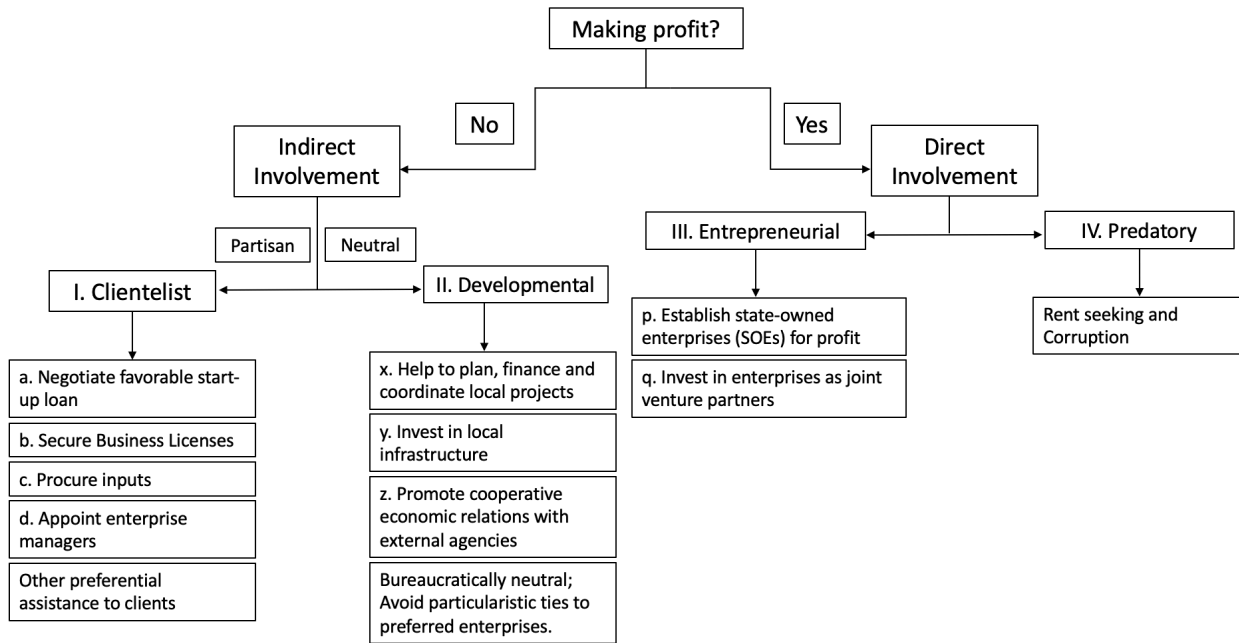
Baum and Alexei (1999) suggest how to categorize different types of government intervention in the market. According to their typology (Figure 2), this thesis summarizes a flow chart to define business-government ties in Chengdu and Jinan as Figure 3 shows. The fourth mode, predatory involvement is excluded in the discussion since it refers to simple predation such as rent seeking and corruption. Therefore, three types of government involvement are adopted into the analytical framework. If a local state directly makes profit with state-owned enterprises (SOEs) or becomes a joint venture partner, it is in the third mode. When a local state indirectly involves in the economic activity without making profits or any other direct income, there can be two scenarios. The first one is that the local state establishes a clientelist relationship with some preferred

enterprises and offers financial and managerial assistance to them. The second scenario is that the local state acts as a developmental state. It remains bureaucratically or regulatorily neutral and avoids any excessively close ties to specific enterprises. It is called by Fligstein and Zhang (2011) as liberal capitalism. Governments stay out of direct market governance. The price mechanism in particular the market determines the allocation of capital. However, Fligstein and Zhang (2011) dismiss the hypothesis that China is a liberal form of capitalism or heading towards it. In this thesis, we do not exclude the possibility that some local state becomes a liberal system of capitalism or moves towards it.

Figure 2 Typology of State Agency Involvement in Local Economic Activity (Baum and Shevchenko, 1999, p.345)

		Are agents' incentives tied to increased output/productivity?	
		Yes	No
Are agents connected to enterprises?	Yes	I. Entrepreneurial	II. Clientelist
	No	III. Developmental	IV. Predatory

Figure 3 The Categorization of the State Agency's Involvement



\* a, b, and c (Wank, 1996)

\* x, y, and z (Blecher, 1991; Blecher & Shue, 2001)

\* p and q (Blecher, 1991; Lin, 1995)

To sum up, comparative capitalism leads the thesis to the presumption that Chengdu and Jinan are two uniquely formed institutions. The differences between them can be a result of variations of the government-business ties. Figure 2 and Figure 3 provides a multiple-step formulation to distinguish different types of relationship and hence define them by looking into specific empirical evidence. In so doing, the government-business tie as IV 3 can be more tangible and comparable.

## 2.4 Economic sociology

Economic sociology is supplementary to comparative capitalism because economic sociology takes the formation and evolution of a specific market as the paramount interest for the analysis. It argues that markets are social structures created by actors who have knowledge of one another and often in long-standing ties and relationships (Fligstein & Zhang, 2011). In this case, economic

sociology helps us understand better the business-government relationship by dating back to how the ORS market is formed and developed. It suggests enterprises are an analytical lens as important as the state. How enterprises and local states in China take one another into account in their actions and position themselves contribute to the outcome significantly. This applies to the hypothesis that business-government ties are the causal effects of the subnational policy variation. The mutual accommodation leads to a long-term and stable relationships between the ORS enterprises and the local governments.

Fligstein and Zhang (2011) argue that while there is a large literature studying the social ties between market actors and some industry-specific in China, there are still not many analyses of what firms and managers are doing in the market. Enterprises can use the political system. Although the state is the regulator of the market, and it takes initiatives on policymaking for regulations, it knows enterprises have a say in the market. The influence of an ORS enterprise can be originated from a large group of consumers and drivers, and the public demand for more transport resources. Since China began to liberalize its economy in 1978, its GDP growth has averaged almost 10 percent a year, and more than 800 million people have been lifted out of poverty (World Bank, 2021). The emergence of private entrepreneurs as the primary driver of economic growth is less reported (Atherton & Newman, 2018). Eckhart (2016) reported, “the private sector now accounts for 75 percent or more of the economy in terms of output, and almost all of China’s exports.” Increasing returns can be found on both sides. The government cannot ignore this. Moreover, given the fact that some ORS enterprises survive and operate in different locations in China, we can infer that they have strategies corresponding to different regional business competitions and different government relationships.

The information accessed by firms decides how they alter their expectations in specific local markets. Fligstein and Zhang (2011) put, “the study of particular markets ought to begin with the idea that the emergence of the market reflected an opportunity for economic gain (p. 53).” China is not the first country to have ORS. To capture a larger picture of the ORS market, we can first trace back to the emergence of the market in a global context and explore how the ORS businesspeople create and stabilize the market. During the development of the market, a common understanding is created, called “conceptions of control” by Fligstein (1990; 2002). Fligstein and Zhang (2011) further argue, “the emergence and diffusion of a particular ‘conception of control’ is a result of the interaction between involved actors in a market.” The conception of control reflects the asymmetry of power between the state and the enterprises and the dynamic progress of their struggle for power. To examine the uniqueness of the Chinese conceptions of control, we can situate the market analysis in a global context and compare the key actors’ interactions in different countries.

Therefore, historical institutionalism lays a foundation for IV 1, historical legacies and political communities. The outcome can be historically inherited or collectively selected. Comparative capitalism investigates the institution specifically on the state, or in other word, the political system. The CES is the empirical presence as an analytical subject. The last but not least, supplementary to comparative capitalism, economic sociology emphasizes the importance of private firms in business-government ties. The core of the institution is these key actors’ interactions. Interactions and mutual accommodation are the keys to the presence of an informal institution since the procedures and rules are not restricted in a box.

### **3 Evolution and Formation of the ORS Market**

#### **3.1 Sharing Economy in the Global Context**

The ORS industry is a typical example of sharing economy. Hamari et al (2016) define sharing economy as the collective consumption of goods and services through online platforms. There are several features distinguishing sharing economy from traditional economies. First, sharing economy is encompassing in terms of the industries it covers. The development of information and communications technologies (ICTs) and other industry-related technologies has enabled the development of sharing economy globally. Without big data and algorithms, the individual platforms would be impossible (Marr, 2016). “The current sharing economy is highly dependent on Internet technology and Internet platforms (Jiang & Zhang, 2019, p.145).” The sharing economy first arises from the Silicon Valley. The stories of Airbnb, an online P2P platform offering short term residential accommodation, and Uber, an online platform providing taxi and ridesharing services, symbolize the rapid development of the sharing economy. They have grown from a little-known start-up company to a multi-billion-dollar international corporation within five years (Lashinsky, 2015; Geron, 2013).

The second feature of the sharing economy is its “disruptive” nature. It challenges incumbent industries and transforms market economy (Hong & Lee, 2020; Christensen, 2018; Martin, 2016). “The sharing economy disrupts and reimages the established market (Miller, 2015).” When we analyze the ORS industry, the incumbent taxi industry cannot be ignored because of its intricate role. On the one hand, it can be the competitor with the ORS platforms and boycott their development by strikes or other approaches. On the other hand, it can work with them together for more shared resources. Given that the taxi service is considered as part of the public transport, taxi

agencies also have complicate interactions with the government. Therefore, the incumbent industry is a key unit of analysis for business-government ties.

The third feature of the sharing economy is that it challenges the current institution of market governance. While some argue that the online platforms can be more amenable to regulation with more information accessible and encourage a more active role of the government (Edelman & Geradin, 2015; Miller, 2015), the governments of different countries adopt various regulatory measures. “Unlike countries that welcome a sharing economy, such as Finland, Sweden, and Singapore, the South Korean government completely banned Uber, while Japan adopted strict regulations against short-term home-sharing services in 2018 (Hong & Lee, 2020, p.1).” China is the only one country all over the world to legalize and regulate the ORS industry nationwide. “the Vice Minister of Transport of People’s Republic of China (PRC) Liu Xiaoming said China was the first country in the world to roll out national regulations on on-demand mobile (ODM) services, which are banned in most foreign countries including Germany and Japan (*People’s Daily*, 2016).” However, like many other countries, the subnational units of the Chinese government, the municipalities, choose to heavily regulate the sharing economy services, while others do not. China contains various levels of policy stringency for the ORS industry even though it grants it the legal status nationwide. Therefore, the attempts of municipalities to regulate the ORS can be considered as an experimental model of regulation of the sharing economy.

China has a unique institution compared to other countries in terms of the regulation of sharing economy. Hong and Lee (2020) compare the development of sharing economy in 90 countries and found that the institutional qualities of government are significantly correlated with sharing

economy usage in the country. China is one of the 90 countries. Compared to other countries in terms of institutional qualities, China is scored 0.3 while many European countries such as Iceland, Denmark, and Ireland are scored more than 40 (p.8). The research argues that China's institutional quality is weak. Hong and Lee (2020) specifically point out that electoral competitiveness is the most important independent variable driving the usage of sharing economy. However, this thesis argues that China's institutional quality is not weak. The quantitative research conducted by Hong and Lee (2020) fails to explain the Chinese institution thoroughly. Only qualitative analysis can better analyze the institutional features specifically in China since the institution is informal. The political system in China does not necessarily present as the electoral competitiveness, but the CES can cause similar kind of competitions among cadres.

Although China's formal institution is weak, it has an alternative to make the sharing economy strong. Ang (2016) arrives at a succinct three-step formula to explain the paradox in a general sense as Figure 4 shows. It is close to the proposition of the thesis, which argues that China has a strong informal institution stimulated by the emerging market. Different from other countries where officials might be driven by electoral competitiveness, Chinese local officials are driven by the cadre competition. And enterprises play a significant role in shaping the market. The CES and business-government ties together can lead to the subnational variations. Furthermore, according to Jiang and Zhang (2019), China adopts a central-local dual regulatory framework for the sharing economy. The approach is flexible rather than fixed. The sharing economy in China cannot be viewed as a whole entity. Each region or administrative unit is distinct given the decentralization. It is necessary to specify the analytical units to the subnational level. The following sections verifies the propositions and analyzes the ORS market in China.

Figure 4 the Three-Step Formula (Ang, 2016, p.14)

harness weak institutions to build markets → emerging market stimulate strong institutions  
→ strong institutions preserve markets

### 3.2 The Development of the ORS Market in China

The ORS have developed in China since 2010. “As of March 2020, the user size of online car-hailing services was 362 million or 40.1 percent of China’s total netizen population.” (*Statistical Report on Internet Development in China*, 2020, p.45) However, before the ORS was recognized by the Chinese central government (hereafter “the Center”) in 2016, some cities banned the services while some held ambiguous attitude on its regulations. The online ride-hailing services was first introduced by Uber when it entered the Chinese market. The services were run in an ambiguous status since there was no specific official regulatory document issued by the government. “Chinese behind the wheel of pay-to-ride vehicles led to occasional run-ins with the police, but it also won customers before Didi, which began as an app for flagging taxis rather than private cars, adjusted to the competition (Mozur, 2016, para.18).” However, the legitimacy of its marketization was indecisive and challenged.

The municipal governments of Chengdu and Jinan start holding different attitudes at an early stage. In 2014, out of the concern of safety, the Chengdu Traffic Management Bureau officially prohibited taxi drivers from using those online platforms when they drive (Notice of Prohibiting the Usage of Online Ride-hailing Application for Taxi Services, 《关于网约车软件使用的交警通告》, 2014). However, it did not clarify whether the mobile device itself is legal or not. In

contrast, Jinan did not ban the mobile device completely. It required taxi drivers not to use it during peak time or when they are waiting for orders at the airports or other waiting points. There were more restrictions for taxi drivers in Jinan to access the mobile device for orders. The ORS were developed from the taxi calling system. Users can order a ride by a call via taxi hotlines, but since the online platform was built, they can order simply with a click on the cell phone without a long wait. Taxi drivers were invited to register on different online platforms to secure more orders. Those platforms have been developed by Internet enterprises. As the platforms were out of the regulatory scope of governments, privately-owned cars had joined the platforms and offered the services to compete with taxis subsequently in Jinan.

ORS platforms had grown given the ambiguous attitudes of the central and local governments. In 2014, the number of ORS users grew to 211 million by 97 percent compared to the last year. In 2015, the number grew to 294 million (Statistical Report on Internet Development in China, 《第45次中国互联网发展报告》, 2020). The Chinese government never explicitly recognize its legal status. That being said, these needed services had been recognized by the market. Although the economy is new and threatens the taxi industry, the state leaves a certain space for the expansion of the ORS market. The ORS creates enormous job opportunities. According to *the 2020 Statistical Report on Internet Development in China*, “there are more than lawful 1.5 million online car-hailing drivers nationwide (p.46).” The expansion of the ORS in the transport market is unstoppable. The state cannot stay aside anymore since more and more strikes and suits are related to the development of the ORS industry. In February 2015, an ORS driver (not taxi driver) named Chen Chao was fined by the Jinan City Public Passenger Transport Management Center as he

offered the ORS via his private car (Yangguang Wang, 2016). He sued the administrative bureau since he thought the fine was unfair. The court was not able to make a verdict until 2016, which led to a heated debate in society. Finally, right after the state issued *the Interim Regulatory Measures for the Online Ride-hailing Industry* (hereafter, “*the Interim Measures*”, 《网络预约出租汽车经营服务管理暂行办法》, 2016), the court made its verdict. The fine issued by the department is adjudicated as unfair. In this case, we witness the weakness of the formal institution, the legislation, but we see another possibility of the institution where the state heads for. Once the ORS was recognized by the government, despite the fact that the processes are not completely transparent, the central policy settled the subnational struggle between legalizing or banning the ORS. On the other hand, *the Interim Measures* says the regulatory policy for the ORS industry is made for “meeting the diverse travel demand of the public (Chapter 1 of *the Interim Measures*).” “Each municipality can make local policy specific to the vehicle standards and business operations according to local conditions (Chapter 3 of *the Interim Measures*).” The legalization of the ORS is a process of creating a new order. The central state first adopted a *laissez-faire* approach that allows the new economy to expand and then legalized it and finally decentralized the regulatory power to local states. Overall, the Chinese central state is open to this new sharing economy despite the challenges it brought to the current institution. It is willing to play a more active role in evaluating and regulating the new economy compared to other countries that ban it assertively.

### **3.3 A Necessary Precondition: Decentralization**

The thesis recognizes decentralization as a necessary precondition for the subnational variation. Without decentralization, the subnational variation is not possible. Decentralization can be viewed

as a coin with two sides. On the one hand, it leads to differences of locales. On the other hand, it indicates uniformity of the political hierarchy undergone by those locales. Suppose the central government carries out a one-for-all ORS policy, there will not be the variation of policies between Chengdu and Jinan. Dated back to the period before the ORS was brought into regulation by the central government, namely, before November 2016, it is found that none of the local governments stepped forward to make the ORS policies on their own. Neither they officially recognized the ORS industry before the Center does so. Therefore, decentralization covaries with the subnational variation of policies. It indicates that the state is taking the initiative on the policymaking, either decentralize or centralize.

Fragmented authoritarianism helps explain the necessary condition for the subnational variation. The two sides of the coin essentially represent a critical juncture embedded in the theoretical framework of historical institutionalism. Fragmented authoritarianism studies the decentralization in China. It argues that the functional and territorial segmentation of China's bureaucracy and the proliferation of veto points produces a policy process marked by incessant bargaining between bureaucratic interests. Central policy becomes increasingly malleable as it filters down and the parochial interests of the agencies and regions charged with implementation are incorporated into policy (Lieberthal & Oksenberg, 1988; Lieberthal & Lampton, 1992; Mertha 2008). "Federalism, Chinese style" holds a similar opinion. It argues that the Chinese system provides a partial basis for a special kind of federalism called market-preserving federalism, which grants the local governments incentives to foster economic prosperity within their jurisdictions in different methods (Montinola et al., 1995).

The ORS policymaking in China experienced a process from being fragmented to uniform and back to fragmented again. During the marketization of the ORS industry, the role of the central government has evolved from being passive to positive. It first observes the distribution of costs and benefits in the ORS industry and then attempts to develop a dual central-local regulatory framework. Jiang and Zhang (2019) describe the exploration as a trial-and-error learning of the government. As mentioned above, “municipal governments and local regulators can make specific requirements on the operation of the ORS platforms and vehicles for high-quality and differentiated services (Chapter 3 of *the Interim Measures*).” The central policy is neither too onerous nor too lax. A significant space is left to the local policymakers. On the one hand, the issue of *the Interim Measures* unifies the status of the ORS enterprises nationwide since it recognizes and legalizes them. Those municipalities that once banned or restricted the ORS should alter their regulations accordingly due to the hierarchy of the political system. The Centre’s decision is applied to all locales. On the other hand, *the Interim Measures* directly leads to the subnational variation of policymaking given to the flexibility it leaves to locales. If it does not require the local governments to make specific policies, it would be a uniform standard nationwide. In such case, there will not be subnational variations.

That being said, we should note that fragmented authoritarianism cannot sufficiently explain why for the first edition, Chengdu holds a laxer ORS policy than Jinan and why for the second edition, the situation changed. Decentralization is one of the independent variables. However, it is different as it just serves as a critical juncture of the ORS policymaking. It does not necessarily show where the policymaking is going. It is hard to predict when and how the critical juncture will occur and what specific consequences it leads to. This is also one of the weaknesses of grounding on

historical institutionalism. In this case, we need a more specific analytical framework, the comparative capitalism and economic sociology, to go more in-depth. It helps figure out what incentives drive both governments in two different paths.

## 4 The Comparison of Chengdu and Jinan

### 4.1 Political and Economic Similarities

Jinan and Chengdu have many similarities on economic development, demographics, administrative levels and other political or economic areas (See Table 2). This thesis collects the data before or in 2016 because the Center brought the ORS into regulation and required local governments to flexibly specify the ORS policies in 2016. Chengdu carried out its ORS regulatory measures in November 2016. So did Jinan in December 2017. Chengdu is the capital city of Shandong Province. Jinan is the capital city of Sichuan Province. They are both at the same administrative level in the Chinese political system. In terms of economic development, they are both categorized as the new first-tier cities from 2013 to 2015. (Qunshuo ed., 2014; 2015) *Yicai Magazine* puts forward a rank of the new first-tier cities in China. The introduction of the ranking is edited by Qunshuo. Cities are assessed and ranked with data collected from various businesses, Internet companies, and other institutions by the indicators such as commercial resources, urbanization, residents' lifestyles, and implication for future development. The ranking reflects to which degree the city has grown in terms of its liberalization of economy and marketization. This is not an official ranking, but to an extent, it explains Jinan and Chengdu are close regarding their economic development. The industrial structural ratios of the two cities are commensurable. The primary industry in the two cities only accounts for the least percentage in their economic development. And the tertiary industry accounts for the most percentage. The demographic situations in the two cities are also analogous. Urbanization rates (the percentage of total residents living in cities) of the two cities in 2016 are almost the same. The percentage of total residents living in cities indicates that the allocation and distribution of resources are similar in these two cities. Their figures of population density are convergent increasingly from 2015 to 2016. Except

for Jinan’s surge in 2016, in 2015, the two cities experienced a similar natural growth rate of population. Therefore, these two cities are comparable and paired in a comparative framework. Their significant differences related to the ORS industry can be attributed to the policymaking variation.

Table 2 Political and Economic Similarities of Chengdu and Jinan

	Chengdu		Jinan	Differences
Administrative Level	Capital City		Capital City	N/A
Economic Development	New First-tier City from 2013 to 2016 <sup>1</sup>		New First-tier City from 2013 to 2015 <sup>1</sup>	N/A
Urbanization Rate <sup>2</sup>	2015	71.47%	67.96%	3.51%
	2016	70.6%	69.46%	1.14%
Population Density <sup>2</sup>	2015	About 1013 people/km <sup>2</sup>	About 783 people/km <sup>2</sup>	226 people/km <sup>2</sup>
	2016	About 1000 people/km <sup>2</sup>	About 900 people per km <sup>2</sup>	100 people/km <sup>2</sup>
Population Natural Growth Rate	2015	5.46%	5.1%	0.36%
	2016	4.96%	8.29%	3.33%
Industrial Structure Ratio <sup>2</sup>	2015	3.5:43.7:52.8	5.0:37.8:57.2	N/A
	2016	3.9:43:53.1	4.9:36.2:58.9	N/A

<sup>1</sup> Qunshuo ed. 2014, 2015 and 2016.

<sup>2</sup> *Chengdu Economic and Social Development Statistical Communique 2016* (《2016年成都市国民经济社会发展统计公报》); *Jinan Economic and Social Development Statistical Communique 2016* (《2016年济南市国民经济社会发展统计公报》)

## 4.2 Distinct Policy Stringency for the ORS Industry

The dependent variable of the analysis is the ORS policy differences between Chengdu and Jinan. Given the political and economic similarities of Chengdu and Jinan, it is reasonable to assume that they would carry out similar regulatory policies of the ORS industry. However, this is not the case. Chengdu and Jinan published their first ORS policies in 2016 (*The Online Ride-hailing Services*

*Regulation (Interim) (Chengdu)*, 《成都市网络预约出租汽车经营服务管理实施细则(暂行)》) and in 2017 (*The Online Ride-hailing Services Regulation (Interim) (Jinan)*, 《济南市网络预约出租汽车经营服务管理实施细则(试行)》) respectively. They published the second policies in 2020 (*The Online Ride-hailing Services Regulation (Jinan)*, 《济南市网络预约出租汽车经营服务管理实施细则》) and in 2021 (*The Online Ride-hailing Services Regulation (Chengdu)*, 《成都市网络预约出租汽车经营服务管理实施细则》). Therefore, there are two versions of the ORS policies issued by Chengdu and Jinan for comparison.

Table 3 shows that Jinan set a much more stringent threshold on market entry for ORS cars and drivers than Chengdu in 2017. In Chengdu, it was much easier for private automobiles to enter the ORS market. The indicator, swept volume, refers to the emission of a vehicle's engine. "Turbo" is for a turbo engine. "Liter" is for a naturally aspirated engine. Vehicles meet a swept volume of or over 1.6 liters/1.4 Turbos are qualified to offer ORS in Chengdu. This is the only policy threshold for the ORS vehicle set by Chengdu's government. Automobiles with a swept volume of 1.6 liters or 1.4 Turbos can be purchased at the price of approximately from 40,000 to 60,000 CNY (the Chinese Yuan) (*Souhu Auto*, 2010).

In contrast, Jinan's government required that ORS cars be more expensive and more specific in terms of their prices, wheelbase, age, and cruising range specifically for electronic cars. A car's wheelbase is the distance between the centers of the front and rear wheels. The cruising range

refers to the distance the electronic vehicles can work on without recharging. Jinan requires that ORS cars be more than 120,000 CNY. And when drivers apply for the ORS permit, their cars should not age older than one year dating from the registration for an automobile driving permit. The ORS registered vehicle must also have an anti-skid brake system (ABS), body electronic stability control system, front seat airbags, and front and rear seat belts. In Jinan, the ORS drivers could not register on over two platforms, which means that they had less access to orders than drivers in Chengdu. The last but not least, the ORS companies were required to resolve the complaint from passengers within a period of time. In Chengdu, they had five business days while in Jinan, they only had three days. Jinan’s government did not make it clear as it can be three consecutive days or business days. All in all, the ORS companies and drivers would find it much more difficult to do business in Jinan than in Chengdu given its complicated rules.

Table 3 Differences of the First ORS Policies between Chengdu and Jinan

	Chengdu	Jinan
Date of Issues	November 2016	December 2017
Swept Volume <sup>1</sup>	1.6 Liters or 1.4 Turbos	N/A
Wheelbase Width <sup>1</sup>	N/A	2600 mm for new-energy automobiles; 2700 mm for non-new-energy automobiles
Cruising Range <sup>1</sup>	N/A	250 km for new-energy automobiles
Prices of automobiles <sup>1</sup>	N/A	120,000 RMB for non-new-energy-automobiles
Age of automobiles	N/A	Less than 1 year
Numbers of ORS platforms that drivers can register	N/A	No more than 2
Passengers’ compliant should be resolved within	5 business days	3 days (It is not clear for 3 business days or 3 consecutive days.)
Number of Licenses issued to private enterprises <sup>2</sup>	24 (till November 2018)	8 (till January 2019)
Empirical research by (Ma & Li, 2019)	Lax	Stringent

Ranking of 25 cities' ease of doing business for the ORS industry (Xiong, 2018)	Ranks top 1	Ranks the 22 <sup>nd</sup>
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<sup>1</sup> The regulatory items are drawn from policy documents from government websites.

<sup>2</sup> Source of number of licenses issued comes from media. [https://www.sohu.com/a/281263245\\_585306](https://www.sohu.com/a/281263245_585306); [https://www.sohu.com/a/289114214\\_585306](https://www.sohu.com/a/289114214_585306) (accessed on December 20, 2021).

Ma and Li's empirical study (2019) can be cited as a secondary source to explain that Chengdu's regulation on the ORS is relatively laxer than Jinan's. They incorporate Chengdu and Jinan into two analytic groups of municipalities. The first group of cities does not issue stringent regulations on ridesharing. Chengdu, in the first group, has high public demand for ride-hailing services. It has neither major traffic congestion nor strikes induced by taxi drivers. The situation in the second group of cities is different. They endure high pressure induced by serious traffic congestion and taxi drivers' strikes against the ORS. In 2016, Jinan was assessed as the most congested city in China. (Gaode Map, 2017) Its peak time congestion index reached 2.173, much higher than Chengdu's 1.791. Congestion was a more compelling problem for Jinan's government. A higher barrier of market entry can efficiently slow down the increase in the number of ORS cars. Ma and Li (2019) attribute municipalities' policymaking to the pressure they endure. However, it remains unclear how the pressure was measured.

There is another problem in Ma and Li's study. In order to group cities into several categories, they transform raw data into fuzzy-set data. It somehow blurs the similarities and differences of two specific cities. In the case of comparing Chengdu and Jinan, this problem becomes more salient. They attribute Chengdu's laxer regulation to the city's high public demand. This thesis retrieves raw data to compare the demand of public transport and find there is not much difference between Chengdu and Jinan. Indeed, Jinan's quantity of taxi per 10,000 people and quantity of

buses per 10,000 people are higher than Chengdu's in 2015 and 2016 (See Table 4), but the differences are not significant enough to convince us Chengdu has a higher public demand for transport services. What is ignored is that Chengdu had more metro lines to share the city's transport pressure while Jinan had not started metro construction at that time. In 2016, Chengdu's metro offered 560 million rides for passengers (China City Statistical Yearbook, 2016). Back to Ma and Li's analysis, they mention the development of the metro in a city and the level of development of public transport, but they did not clarify the relationship between these two figures. It lacks details on how the level of development of public transport of a city is measured and scored. It may be because of the large samples chosen for comparisons, the detailed similarities of Chengdu and Jinan are set aside. To sum up, this thesis cannot find noteworthy differences between the two cities in terms of public transport.

Table 4 Public Demand of the ORS

		Chengdu	Jinan
Quantity of Taxi per 10,000 people <sup>1</sup>	2015	14.39	14.31
	2016	10.99	14.14
Quantity of buses per 10,000 people <sup>2</sup>	2015	16.18	14.49
	2016	7.71	8.65
Metro Lines <sup>3</sup>	2015	3	Not available
	2016	4	Not available

<sup>1</sup> Data is accessed from *China City Statistical Yearbook 2015* (《2015 年中国城市统计年鉴》) and *China City Statistical Yearbook 2016* (《2016 年中国城市统计年鉴》). The quantity of taxis per 10,000 people is not available in the yearbooks, so the data is calculated by dividing the number of taxis into the household registered population of the total city. The results would be lower than the actual numbers because the data of the floating population is not taken into calculation.

<sup>2</sup> The quantity of buses per 10,000 people in 2016 is not available in the yearbook, so the data in 2016 is calculated by dividing the number of buses into the household registered population of the total city. The results would be lower than the actual numbers because the data of the floating population is not taken into calculation.

<sup>3</sup> *Huaxi Metropolitan Newspaper* (《华西都市报》), <https://e.thecover.cn/shtml/hxdsb/20201210/145002.shtml> (accessed on January 1, 2021)

## **5 Verification of Causal Assumptions**

### **5.1 Historical Legacies and Policy Communities**

This section discusses whether there are variations of historical legacies and policy communities related to the ORS policymaking between Chengdu and Jinan, and if so, whether they are in a causal relationship. Thun (2006) and Huang (2008) provide a categorization on differentiating the variable in different locales. Historical legacies and policy communities tell whether a local state adopts a state- or market-oriented approach. First, we can look at the historical legacy from the perspective of local tradition. As Goodman (1997) points out, the political traditions and social roots differ from province to province in China.

Jinan is the capital city of Shandong Province. “Shandong has historically been highly homogenous with an extremely small number of ethnic minorities (less than 0.5 percent of its total population), which may have over time contributed to the well-known ‘conservative’ sentiment of its people (Chung, 1997, p.130).” The Boxer Rebellion, the campaign resisting the outsiders from western countries, occurred in Shandong in the late 1800s. It was an anti-imperialist and anti-Christian insurrection. The anti-outsider sentiments were rooted in Shandong’s history (Chung, 1997). When it comes to the 1980s, due to the lack of business practices and official’s reluctance to lead the reform like many other counterparts, Shandong was lagged economically and tagged as an atypical coastal province (Ferdinand, 1989). “The capital (Jinan) is inland, and the province is relatively inward-looking (p.157).” Furthermore, in 1984, compared to other coastal provinces, Jinan was slow in encouraging the expansion of enterprises other than state-owned. Shandong had around 17,750 collectively owned enterprises in 1984, which only accounts for half of the figure

of Zhejiang (35,000), another coastal province in China (Ferdinand, 1989). Therefore, conservatism is deeply rooted in Jinan's history.

Compared to Jinan, while Chengdu is an inland city surrounded by mountains, it is a more open city. It is the capital city of Sichuan Province. "Sichuan has a tradition of private economic activity and various kinds of private business never disappeared or were never rooted out even during the Mao-dominated era...the post-Mao reforms, among other things, have also encouraged people in the pursuit of their self-interests (Hong, 1989, p.220)." Sichuan is the first province to introduce the economic liberalization initiated by Chinese former leader, Deng Xiaoping, since it is his hometown. Deng once said, "Not all people were in favor of the reform (the liberalization) at the beginning. Only two provinces were leading the reform. One of them is Sichuan, my hometown. Another one is Anhui... (Deng, 1987, p.238)" Sichuan is the first province to carry out agricultural reform and introduce the System of Contract Responsibility (SCR) (联产承包责任制), which encourages the local peasants for larger production. Under the importance attached by Deng Xiaoping and the leadership of Zhao Ziyang, Sichuan became a new rich province despite its inland disadvantages. In the 40<sup>th</sup> Anniversary of Reform, Sichuan's government (2018) published *the Memorabilia of the 40th Anniversary of Sichuan's Reform and Opening up* (Sichuan Daily, 《四川日报》, 2018) to encourage further economic liberalization and reform of the current institution. From a historical political perspective, since the reform in 1978, Sichuan has been a more liberal province than Shandong. And its people are more "market-oriented".

There is another perspective to look at the policy community, which is the regional policy communities. Chengdu and Jinan report to Sichuan and Shandong Province respectively. They have to follow the provincial lead due to the hierarchy of Chinese political system. Within one province, while competing, cities learn from each other. The imitation of the ORS policymaking among cities proves that there is a regional policy community. In other words, there is a regional consistency of policymaking within Sichuan and Shandong.

Other cities' policies for the ORS industry in Sichuan and Shandong are listed in Appendix 2. There are 12 cities including Chengdu in Sichuan issued the ORS policies. Among them, only two cities have set the wheelbase standards for the ORS vehicles. 50 percent of the cities set the price thresholds. All of them follow Chengdu to have similar or same requirements on swept volume of vehicles. None of the cities requires that the ORS vehicles should be purchased within at least one year when their owners apply for licenses. In terms of the age of ORS vehicles, the requirement is more flexible in Sichuan. Nevertheless, among the sixteen cities in Shandong that have issued their ORS policies, only two of them let go the wheelbase threshold. And all of them require the ORS cars to reach the price higher than 115,000 CNY or higher than the price of local taxis. In terms of the swept volume, there are only five cities caring about it. Therefore, the cities in the two provinces are similar. The regional political communities have its impact on the differences between Chengdu and Jinan. Both provinces are similar in their municipal consistency. Cities within one province learn from each other. Cities in the two provinces have different preferences on the indicator and scope setting in the ORS policies. The comparison between the first edition of ORS policies echoes with their differences of historical legacies. Chengdu is more market-

oriented while Jinan is state-oriented. However, this only tells that historical legacies and policy communities are related to the dependent variable. The relationship needs to be dug in.

The historical legacies and political communities (IV 1) are identified as saliently different between Chengdu and Jinan. As the theoretical framework lays out, Chengdu and Jinan can be viewed as two uniquely formed local states. However, the thesis finds out that the relationship between IV 1 and the dependent variable, the ORS policymaking stringency, does not covary. IV 1 and the dependable variable can only be a subtle correlation. Chengdu drafted the second version of the ORS policy in 2020. It is currently at the stage for public opinion and revising. Jinan published its second ORS policy in 2020. The following section argues and proves that Chengdu is tightening its ORS policy while Jinan keeps most of the first-published policy. In this case, Chengdu is considered issuing a more stringent policy than Jinan in 2020. Therefore, historical legacies and policy communities are not in a de facto causal relationship with the policy outcomes. The historical legacies are deeply rooted. The conservatism of the Shandong people is found lasting for more than one century from 1800s to 1980s. The boldness of doing business and reform of Sichuan people has lasted since late 1970s. The local convention left by previous leadership cannot be erased within a short period of time. Nevertheless, Chengdu sharply reversed its open policy for the ORS within only 4 years. We can draw a conclusion that historical legacies and political communities do not determine the ORS policymaking in these two locales as time goes by. Their presence just indicates that the original policy stances were informed by the local political context and historical legacies.

## 5.2 Pressure and Incentive: The Cadre Evaluation System

From the perspective of the CES, we dig deeper in details in terms of how superior governments evaluate the performance of the subordinate ones. It sets KPIs for local authorities. Some scholars (Edin, 2003; Ong, 2012; Whiting, 2001;2004) argue that the CES serves as a standard that makes the policy making and implementation of local governments uniform, while some (O'Brien & Li 1999; Smith 2009, 2013; Gao, 2010; Heilmann & Menton 2013; Wang 2012) argue that the CES results in a structural distortion. In the case of ORS, it sounds paradoxical, but the two trends are ongoing at the same time.

First, there are two types of targets in the CES, binding targets, and developmental targets. A binding target (Yueshuzhibiao, 约束指标) is an indicator that the government should limit actively.

A developmental target (Fazhanzhibiao, 发展指标) is an indicator that the government should expand. Those indicators are not necessarily quantitative. Li Xiaopeng (2019), the Minister of Transport of the PRC, clearly stated that the government keeps open and inclusive for the ORS industry. Both governments and enterprises should take safety as a binding target, which means that the number of accidents related to the ORS should be limited within a reasonable scope.

Most local governments are sensitive even though “safety” as an indicator is not quantitative. Chengdu and Jinan are not exclusive. They require all enterprises running the ORS platforms to connect to the governments’ monitoring systems and share real-time data anytime if needed. They must also respond and resolve the complaints from the passengers within a period. For Jinan, it is three days. For Chengdu, it is five business days. Meanwhile, ORS drivers must neither have

committed crime nor violated the law. (*The Interim Measures (Chengdu)*, 2016; *The Interim Measures (Jinan)*, 2017) When there is a significant accident caused by the ORS, no matter in which cities it occurred, the governments of Chengdu and Jinan act uniformly as their counterparts to summon ORS enterprises to reemphasize the importance of safety and require the enterprises to tighten monitoring. In May and August 2018, two girls were murdered by ORS drivers during their carpool. Two drivers both registered at Didi's ORS platform and are committed to crimes later. The Ministry of Transport of PRC first summoned Didi Company. Following the Center's summon, there were more than 10 municipal governments requested for a conversation with Didi as well. Safety is highly valued by governments at all levels as a uniform binding target. There is no significant difference identified between Chengdu and Jinan from this perspective.

Secondly, the central state allows local governments to make more specific policies according to local situation. This thesis observes a structural distortion caused by the CES. In December 2013, the Organization Department of the Central Committee of the CPC issued a document named *the Notice on Improving the Evaluation of Local Party and Government Leaders* (hereafter "Notice", 《关于改进地方党政领导班子和领导干部政绩考核工作的通知》, 2013). It explicitly requires that local GDP and the increase of local GDP are not the only indicators. *The Notice* further declares that the evaluation of local governments should be more comprehensive, involving performance on administrative, cultural, social, and ecological issues, which indicates that local governments are more flexible on goal setting. These four major issues construct the frameworks of *the 13<sup>th</sup> Five-Year Plans* issued by the municipal governments of Chengdu and Jinan respectively. (Chengdu, 2016; Jinan, 2016, *the 13<sup>th</sup> Five-Year Plan*, hereafter "*the Plan*") While Chengdu and Jinan both propose that they will maintain economic growth at a medium-to-high

speed, they follow different paths and set different targets in other aspects. Decentralization and the hierarchy of the cadre system can explain the differences. Provincial governments are governed by different officials. They can issue different orders to their subordinates. If the flexibility decentralized by the central government serves as the necessary precondition, the hierarchy of the cadre system then decides the specific subnational variation. Their planning on public transport is the key factor related to the ORS industry. The specific targets set by two provinces and two cities explain why Jinan designs more stringent policies for the ORS industry than Chengdu.

The narratives of issues related to the ORS industry in the two plans are different. First, the problem of traffic congestion dominates a whole chapter by Jinan (Chapter 16 of *the Plan*) while it is only mentioned in a few sentences by Chengdu. This echoes Ma and Li's (2019) argument that Jinan endured the high pressure induced by serious traffic congestion. Jinan's *Plan* states, "improving the public transport of the city is the priority (优先发展城市公共交通)." (*The 13th Five-Year Plan for Jinan's Economic and Social Development*, 2016) More specifically, *Jinan's 12th Five-Year Plan on City's Transport* sets a binding target for controlling the number of taxis. Until 2015, the number of taxis operated in Jinan should not exceed 10,000. Although *Jinan's 13th Five-Year Plan on City's Transport* does not set the binding target to control the number again, it requires that buses should account for more than 60 percent of the automobile travel in Jinan. The narrative of *the Plan* declares that Jinan's overall planning focuses on buses. Taxis are secondary. The ORS cars are even less important. Not only it is regardless for the government, but an increase in ORS cars would also decrease citizens' incentive to take public transport. The development of the ORS does not meet the government's demand. In contrast, Chengdu does not state that improving the public transport is its priority. It uses "advancing the city's overall transport system"

(优化市域综合交通体系) as the title of Chapter 7 of *the Plan*, but it does not mention it experiences any serious problem of the transport system. Furthermore, it is proposed in *the Plan* that the government should innovate the management of the taxi and the ORS industries (p. 66). To some extent, the Chengdu Municipality chooses a different path to advance the city's transport. It tends to build a system including various transport tools to relieve the huge demand of the city transport. A combination of taxis, buses, metros, and ORS cars is the key to the system. Chengdu's government is more inclusive for the ORS industry in this case. However, this is not because of the KPI setting in the CES, since there is not any specific quantified target for the development of the ORS industry. Chengdu and Jinan are similar in the goal of developing the cities' transport, but their paths are different, and hence the priorities are different. The subtle difference of city planning is highly possible to cause the subnational variation of policy stringency.

In 2020, Jinan issued the second version of the ORS policy. In 2021, so did Chengdu. The two second versions of ORS policies allow us to further verify the covariation of the assumed causes as analyzed above. It should be noted that if those policies are revised in the future, the covariation can be analyzed with further information. Table 5 shows that the stringency of the ORS policies of Chengdu and Jinan converge compared to the first version. Chengdu puts forward the requirement for the wheelbase in the updated draft of the ORS policy. It requires that all lately registered ORS vehicles should be powered by electric or hydrogen fuel. Customers' complaints should be resolved within three days as Jinan requires in 2020. Although it does not require specific price and age of the ORS vehicles, it obviously tightens the market entrance. The intention is also clear, to encourage the usage of green energy cars and control the increase of emission from normal cars. The change of Chengdu's ORS policymaking can be attributed to a recently published

government work plan, *the 2021 Work Plan of Air Pollution Prevention and Control* (hereafter “*the 2021 Work Plan*”) (The Municipal Government of Chengdu, 2021). Its effect is as coercive as other *Five-Year Plans*, but it is more designated and concrete. It requires that all vehicles applying for the ORS license must be powered by green energy and the percentage of the green energy vehicles of the total ORS vehicles must reach 4 percent by the end of 2021. *The 2021 Work Plan* sets a coercive binding target for the Municipal Government of Chengdu to revise the ORS policy accordingly and issue it before the end of December 2021. It is confirmed that *the 2021 Work Plan* serves as the cause of tightening Chengdu’s ORS policy. It fits in the covariation of the dependent and independent variables, the time order, and the logical sense. Compared to Chengdu, although Jinan attaches great importance to the control of air pollution as well, it excludes the ORS industry for an unstated reason (*the 2017 Work Plan for City Transport*, 《2017 年工作安排》, 2017). It even eases the license threshold for the vehicles by lowering the prices, relaxing the age restriction, and reducing the required wheelbase width of vehicles. This thesis infers that Jinan’s government eases the ORS vehicle thresholds because the license auction is canceled. The government withdrew from the direct involvement in the taxi industry. Taxis and the ORS vehicles together can serve the city’s transport better. *The 2021 Work Plan* and the *Five-year Plans* provides a relatively clear targets, either quantitative or qualitative, to the local governments. And the local governments move towards the target by easing or tightening the ORS policies.

Table 5 Differences of the Second ORS Policies between Chengdu and Jinan

	Chengdu (July 2021) <sup>1</sup>	Jinan (October 2020) <sup>2</sup>
Swept Volume	All vehicles must be powered by electric or hydrogen fuel.	N/A
Wheelbase Width	More than 2650mm	2600mm for green-energy automobiles (powered by electric

		or hydrogen fuel); 2650mm for non-new-energy automobiles
Length of automobiles	More than 2590mm	N/A
Cruising Range	More than 400km/charge	N/A
Prices of automobiles	N/A	105,000RMB for non-new-energy-automobiles
Age of automobiles	N/A	Less than 3 years
Numbers of ORS platforms that drivers can register	N/A	N/A
Passengers' complaint should be resolved within	3 business days	3 days
Licenses issued percentage	100% licenses should be issued to green-energy cars.	80% licenses should be issued to green-energy cars.

<sup>1</sup> Detailed Rules for the Implementation of Chengdu Online Ride-hailing Services Regulations (《成都市网络预约出租汽车经营服务管理实施细则》, 2021)

<sup>2</sup> Implementation Rules of Jinan's Online Ride-hailing Services Regulation (《济南市网络预约出租汽车经营服务管理实施细则》, 2020)

To summarize, those plans aim at setting specific targets for the two local governments. They are necessarily embedded in the CES and serve as the independent variables for governments' policymaking. The flexible and various target setting makes the CES unstandardized and less likely to be generalized. Even if there is a similar or even a same target for different local governments, they can apply to different approaches. The CES is in covary relationship with the subnational variation of the ORS policymaking. If some indicators change in the CES, cities' ORS policy stringency changes correspondingly.

### 5.3 Variations of Business-Government Ties

This section answers the question of whether there is variation between the business-government ties in Chengdu and in Jinan and discusses the relationship between the local government, the taxi industry, and the ORS industry. They are three key actors in the ORS industry.

Economic sociology suggests we think of the presence of the ORS enterprises and taxi agencies in policymaking. Enterprises' strategies are significant in analyzing the business-government tie. As per Huang (2013), "(in China,) the importance of an enterprise's appeal is not driven by the enterprise itself but its 'political embeddedness'. If the enterprise's appeal happens to meet with what the local government is looking for, it is more possible to achieve its goal. The Chinese government takes the initiative on its own. The enterprise faces uncertainty in the market. Enterprises' strategies first examine whether a private enterprise can influence the policymaking under the current institution, and then further explores how the enterprise makes it. How the central and local governments respond to the enterprise indicates the uncertainty embedded in the informal institution.

When the central government issued *the Interim Regulatory Measures for the Online Ride-hailing Industry* (网络预约出租汽车经营服务管理暂行办法) in November 2016. Didi announced via its enterprise Weibo (the Chinese version of Twitter),

We mentioned that due to the complexity of urban traffic, different places have different situations. We hope that the relevant departments of the government encourage and allow localities to make decision upon actual conditions. We should adapt to local conditions, give full play to the flexibility of the first trial (*the Interim Measures*), and make differentiated explorations and various beneficial attempts. We are gratified that the government has heard and considered the appeal of enterprises (Pan, 2016).

From the message, we get to know that Didi contributed to the subnational variation since it asks for differentiated local governance of the ORS industry. And the central government did make

such a decision. However, we are not sure if it is a government- or enterprise-driven policy since no evidence can tell.

In terms of the local policies, Didi adopts different strategies to accommodate to the government's need. It indeed built intimacy with the local governments through several cooperative projects, but it is found no influence on the ORS policymaking. Didi signed an agreement with Chengdu's government on September 29, 2020. According to the agreement, "Didi will build a western innovation center in the high-tech zone of Chengdu to coordinate the development of ORS and the research on safety and other businesses (Yan, 2020)." However, it did not change Chengdu's decision on tightening the ORS policy in 2021. *The 2021 Work Plan* outweighs their cooperative relationship since it directly leads to a higher threshold for ORS vehicles to enter the market. Only green-energy cars are allowed to register since the 2021 ORS policy of Chengdu. In other words, Chengdu made the policy more stringent even when the government and the enterprise build a cooperative relationship. We are not sure if Didi appealed for a laxer ORS policy, but we can tell the government is still taking the initiative in policymaking. It remains uncertain whether the government will take their appeal into account since it is not a must. That's why the business-government tie functions in an informal way.

Jinan's situation does not have much difference from Chengdu's. Didi also builds a cooperative relationship with the local government by offering digital sharing services to buses. Didi calls it "to-government (to G) services" (Liu, 2018). Didi works with the government for better public services in the project of 39 sharing bus lines, but there is nothing to do with its major business, the ORS, no mention of the influence of the cooperative relationship on the ORS policy. Therefore,

the cooperation with Jinan's government only serves as another approach that the enterprise adopts to make benefit or to grab the government's attention. I find literally little evidence to support that the enterprise is influential enough to shift the government's decisions on the ORS policy. Hence, Didi did participate in the policymaking. It delivers the message that the government is listening to enterprises. It tried to build a more intimate relationship with the government. However, it remains uncertain how this effort has been taken into account by the government. The government's decision is driven mainly by its superior's orders or its relationship with the taxi industry.

More specifically, Didi also works with the two local governments on different projects as media coverage reported. These projects indicate how Didi accommodates local governments' different priorities and caters to the public administrative demands of the locales. Date back to March 2017, Didi worked with the governments of Chengdu and Jinan on the digitalization of public transport. On March 16, 2017, Didi signed a contract with the Chengdu Transportation Commission for developing a more intelligent city. According to the contract, Didi was going to work with the Chengdu Municipal Transportation Commission (CMTC) to further improve the Internet service of Chengdu's digital map and provide local citizens with "one-stop services" including bus, subway, online ride-hailing, and taxis (*Sina*, 2017)." Simultaneously (It is in March 2017, but it is unclear on which specific date of March.), Didi signed another contract with Jinan's traffic police, it was going to install the first "smart signal light" collecting the data of the trajectory of moving automobiles on Road Jingshi, Jinan. Given the two governmental organs of Jinan and Chengdu are in cooperative relations with Didi, we can see that they do not discriminate the participation of facility building of the private enterprises as long as they have the needed skills or technologies.

However, the cooperation cannot help us identify in which type of relationship the governments of Chengdu and Jinan are with Didi. From both cooperative relationships in Chengdu and Jinan, there is no significant difference found.

In terms of the relationship with the incumbent taxi industry, it is proved that the governments of Chengdu and Jinan have direct involvement in the market, but there is a variation of involvement degree. The two governments charged for business licensing annually, but they canceled the charge at different timing. According to Jinan's Municipal Government (*the Implementation Advice on Deepening the Reform of the Taxi Industry*, 2018), it canceled the auction of taxi business licenses in February 2018. According to the CMTC (*the Letter on Reply to Recommendation No. 508 of the Fourth Session of the Sixteenth Municipal People's Congress*, 2016), Chengdu cancelled the license sale in January 2016. The time order of the cancellation is important (See Figure 1). Chengdu cancelled the license sale before the issue of its first ORS regulatory policy (November 2016), while Jinan cancelled it after the issue of its first policy (December 2017), which indicates that Jinan was in a more intimate relationship with the taxi agencies during the ORS policymaking. Niu (2014) reports, "the government (of Jinan) can obtain a large amount of money from the auction of the business licenses paid by the taxi agencies." The government made profits from the license sale until 2018. Moreover, the price of the taxi service is still set by the government today. "The government set the price of taxi service, but it will gradually withdraw from the price-setting of taxi services (*the Implementation Advice on Deepening the Reform of the Taxi Industry*, 2018)." The expiry date of the document is January 2023, which means that the price-setting institution is in effect until 2023. And it remains unclear when the government will completely withdraw its control on the price-setting. Wang (2016) reports that the local government did a survey on taxi

drivers for their opinions while a representative at a car-hailing enterprise claimed the government did not ask for enterprises' or ORS drivers' opinions. It is proved that Jinan's government had more input from the stakeholders in the taxi industry than those in the ORS industry.

In contrast, the Government of Chengdu ended the profit-making from licensing since January 2016. Although there is no direct evidence to prove whether both governments take their relationship with the taxi industry into the ORS policymaking consideration, Jinan's local state has a higher degree of intimacy with the local taxi industry. When we get back to Figure 3, at the stage of making the first ORS industry, the best description of Jinan's state involvement is Category III. It is in an entrepreneurial relationship with the taxi agencies, but the relationship is more complicated than what is described as Indicators P and Q. Although the taxi agencies are neither state-owned nor state-invested, they are managed by the state in a profit-making manner. The local state of Chengdu once was in the same category, but it ended it much earlier than Jinan. Therefore, it is inferred that for the first ORS policies, given the difference of intimacy with the taxi industry, Jinan made a more stringent ORS policy than Chengdu to protect the taxi industry.

#### **5.4 Institutional Flexibility: Actors accommodate each other**

The thesis analyses the causes of the subnational variation of policy stringency in previous sections. It is found that the variation of the first version is highly possibly caused by Jinan Government's preference for the taxi industry. Chengdu tightened its ORS policy at the second edition and even inhibited the entrance of regular vehicles. Only green-energy cars are allowed to register legally in Chengdu. It's all directly resulted from the coercion of *the 2021 Work Plan*. It is first assumed that the CES and the government-business tie are two possible independent variables. It turns out they work respectively for the first and the second policy variations. The combination of these two

causes explains the subnational variation specifically in the ORS industry. When these two causal findings are conceptualized in a broader sense, they are both driven by the state itself. The subnational variation, on the one hand, shows the diversification of local policies. On the other hand, causes of the diversification indicate the dominant and continuing presence of the state. It meets with Fligstein and Zhang's assertion (2011) that China is not a liberal form of capitalism, and it is not moving in such a direction, even if the analytical units are subnational. However, it does not mean neither the ORS enterprises nor the taxi agencies fail to exert any causal effects on the ORS policymaking. The state's participation is dynamic and accommodating. And their relationship is flexible in the way of being informal.

When we specify the analytical unit to the subnational level, it is found that China's institution is not weak. Instead, it is deeply rooted in the Chinese society and relatively stable as it consists of informal procedures, routines, norms, and conventions. In the case of Chengdu and Jinan, historical legacies and political communities do not directly cause the subnational variation of their ORS policies. They are not written into official documents as parts of a formal institution. However, they are in some subtle relationship with the subnational variation. People are unintentionally influenced by these factors and hence act non-fully strategically. It is hard for a used-to-be state-oriented local government to shift its path even when it encounters a new economy. The procedures of policymaking are set by the political system itself. The hierarchical bureaucratic structure, the decentralization, and the unstandardized CES combined are found uniquely in the Chinese institution. The government-business tie is shaped in such context. Meanwhile, these imprinted but not written conventions and norms make the existence of the informal institution ambiguous and paradoxical. Nevertheless, its ambiguousness and paradoxical characteristics make it dynamic

and flexible for the state, the enterprises, and people to cope with their mutual relationship and fix problems in an informal way in return. They accommodate each other unless serious accidents occur and break the balance. This explains the collective selection of actors and the sustainability of the institution.

First, although the state takes initiatives in policymaking, it appeals to various informal ways to collect public opinions, which maintains a certain degree of the rationale of the policy. It subtly adds legitimacy to the policies made by local governments. Thus, states are taking initiatives while respecting other actors' selection. In this case, actors' goals and preferences are given to calculation. Hong and Lee (2020) take the calculation of public interests as an important part of the institutional quality of a government. They argue that electoral accountability leads policymakers to respond to public interest over market incumbents' interests in an electorally competitive political system. Although China is not such a system, "serving the People (为人民服务)" is where the Communist Party of China (CPC) gains its legitimacy. No matter it is just a slogan or a principle that CPC sticks to, public interests are not neglectable for the state. Inquiring for public opinion for the ORS policymaking is a typical example of how the state accommodates the public interests of different actors. This thesis thus argues that the sustainability of the Chinese institution derives from actors' mutual accommodation. Specifically, the accommodation happens when the state uses informal approaches to collect and process public opinions even though it takes charge in policymaking.

As per an official document named *the Interpretation of the Provisional Online Ride-hailing Services Regulations of Chengdu* (《成都市网络预约出租汽车经营服务管理实施细则 (暂行) 解读》, hereafter “*Jiedu*”, 2016), the local government organized meetings with key stakeholders such as the ORS enterprises, the taxi agencies, taxi drivers, representatives of customers, taxi associations etc. to discuss how to make the policy.

More than 100 opinions are taken into the policymaking consideration. The scholars from the provincial social science academies and Southwest Jiaotong University etc. had done research on it. From October 14 to October 20, 2021, 800 public opinions are taken (*Jiedu*, 2016, Item 4).

Chengdu has not published the policymaking procedure for the 2021 version during the writing of the thesis. According to *the Statistical Report on the National Economic and Social Development of Chengdu 2017* (《成都市 2017 年国民经济社会发展统计公报》, 2017), 58 percent of citizens were satisfied with the ORS in Chengdu. Except for others that did not express any opinion, only 5.8 percent of citizens explicitly disputed the ORS. Thus, a more open and friendly policy for the ORS made by Chengdu’s government meets with opinions of the majority. No matter whether they contributed specific ideas in the policymaking, they did not intend to stand against a policy that welcomes the ORS. Chunxuan Yang, the Deputy Director of Sichuan Provincial Department of Commerce, once claimed, “When local governments make policies, they are mainly based on two considerations. The first is ‘whether it harms the society’ and the second is ‘whether it is beneficial to people’s lives (Liu, 2019, para. 13).” This indicates that local governments think practically and accommodatingly.

In comparison, Jinan does not make it as transparent as Chengdu. For the first time it published the ORS policy, it neither opened any procedures to the public nor explain the legitimacy of the stringent policy. For the second time, it still does not publish the exact data on how many opinions are taken and who expresses their opinions, but it clearly states some opinions were drawn from the public. It states that,

We took opinions from representatives from different organizations and surveyed on people's opinions. Most people think the first edition of the ORS policy is reasonable and for the second edition, there is no need to have significant change, but they suggest we adjust the thresholds for vehicles to enter the ORS market and encourage the popularization of green-energy vehicles (*the Interpretation of the Provisional Online Ride-hailing Services Regulations of Jinan*, 《成都市网络预约出租汽车经营服务管理实施细则 (暂行)解读》, 2019).

As mentioned above, Jinan's government conducted a biased collection of public opinions for the first time in the ORS policymaking. The media reported it and expressed dissatisfaction from the public. The first ORS policy of Jinan is not recognized by key actors. It has been substituted soon with the 2020 ORS policy. We can infer that once the institution is not chosen collectively, it can end up that the institution cannot come to effect or last for long. We should note there is a dynamic equilibrium despite the asymmetry of power embedded in the informal Chinese institution. The institutional flexibility is embedded in the Chinese society.

## 6 Conclusion

The Internet-led exploration of the under-utilized resources is an unstoppable global trend. The development of sharing economy services has not been uniformed across the globe. As Hong and Lee (2020) put it, “some institutional characteristics of governments can significantly explain the variations in sharing economy development across countries (p. 177).” The core question of the thesis is why Chengdu and Jinan, two similar cities, implement different ORS policies. We propose three possible answers: (1) historical legacies and political communities, (2) cadre evaluation, and (3) the government-business relationship. It turns out that the CES and the government-business relationship are the causes of the first and the second subnational variation of policies in Chengdu and Jinan. Historical legacies and political communities partially explain the first wave of differences on policy stringency but given that they do not covary with the policy variation of the first and second editions, they are not as important as the other two causal explanations.

The thesis first composes an industry analysis of the ORS in a national and global context. It is found that not only the ORS industry, but other sharing economies also have a disruptive nature. It challenges the incumbent industries by collecting resources through the Internet. It challenges the current institution since it is new to lawmakers and policymakers. It is also expanding to transform all walks of life. The case of the ORS industry is applicable to other sharing industries since they have the same characteristics. Hong and Lee’s large-N analysis reiterates, “a country’s institutional qualities of government are significantly associated with sharing economy usage in the country (p.177).” The institution is correlated with the development of sharing economy. The thesis infers that the analysis of the ORS industry is applicable to other sharing industries in China at a subnational level.

The theoretical framework explains why the thesis views the business-government relationship as an institution. The CES is an important factor deciding where the relationship goes, and enterprises are accommodating accordingly. The central government's decision of decentralization is the necessary precondition of the subnational variation. However, it fails to explain why one city implements a more stringent policy while others do not. In comparing the differences of Chengdu and Jinan in two periods, (1) before the first policies are made, and (2) before the second policies are issued, the thesis found broad support for the hypothesis that a combination of the CES and the business-government relationship are associated the local regulations of the ORS industry. It is found that the CES is the most salient cause of a government's policymaking. Both the central and local states take initiatives on how the business-government relationship is shaped and developed. More specifically, local governments comply with concrete requirements of work plans, and the spirit of Five-Year Plans made by their superiors. The Government of Chengdu explicitly sets the ORS policymaking as the binding target in *the 2021 Work Plan*. The specific departments responsible for the policy revision act correspondingly before the due set in *the 2021 Work Plan*.

The KPI setting in the CES is neither unfounded nor arbitrary. The governments access public opinions by adopting various informal approaches. The governments are flexible in using informal methods to resolve conflicts as well. Through those informal approaches, enterprises or other stakeholders can express their opinions. Didi, one of the largest ORS companies in China, admitted its opinion was taken (Pan, 2016). However, when the thesis looks into the cooperative relationship the enterprise built with local governments, it finds out the cooperation does not make a difference on governments' ORS policies. The state takes the initiative in the ORS policymaking. It proves

that only when the enterprise puts forward an opinion that accommodates the state's interest, the opinion can be taken. Still, there is some flexibility embedded in the institution.

The CES and the government's relationship with different stakeholders specifically show how the institution leads to the subnational variation. In the first phase, before the first edition of ORS policies was made, historical legacies and political communities can explain partially why Chengdu made a more friendly ORS policies than Jinan. Chengdu has been a more market-oriented city than Jinan. More importantly, evidence indicates that Jinan's government preferred taxi agencies to the ORS enterprises. Chengdu cancelled the license sale before the issue of its first ORS regulatory policy (November 2016), while Jinan cancelled it after the issue of its first policy (December 2017), which indicates that Jinan was in a more intimate relationship with the taxi agencies during the ORS policymaking. However, in the second phase, when the second edition of ORS policies was carried out, Chengdu tightened its ORS policy while Jinan eased its own. Historical legacies and political communities cannot explain the second variation. Another institutional factor, the CES, answers the second variation. Safety is highly valued by governments at all levels as a uniform binding target, but in terms of environmental protection, the thesis finds a distortion of the focuses between Chengdu and Jinan. *The 2021 Work Plan* for Chengdu explicitly excluded non-green vehicles from the ORS industry while Jinan did not. The targets set in the work plan are set by the superior of the municipal or the provincial government. They are parts of the cadre system. Given that the governments did not make it transparent on how and why they set those targets, it again shows the informal procedure of policymaking featured in the institution.

The analysis of government-business ties in this thesis rises above the bias that the Chinese networks (Guanxi) are inaccessible. From a national perspective, China, as previous literature puts it, is not a fully liberalized market. From a subnational perspective, local states take initiatives in the market as well. However, it does not mean the institution in China is weak. The institution exists and lasts because it is a collective selection. Enterprises can reach their goals to some degree by accommodating to the state's interest. And the government accommodate the public opinion to a certain degree. In terms of how they manage that, it is neither written explicitly nor confirmed as legitimate (some parts), but it does not mean informal procedures, routines, norms, and conventions cannot constitute a complete and unique institution. More focus can be put into an informal institution for further research. It is not a secret phenomenon since valid evidence can be found to conceptualize it.

The last but not least, it is necessary to note several limitations regarding to the theoretical framework and the analysis of the thesis. First, historical institutionalism has its weakness in explaining the causes and timing of a critical juncture. As per Hall and Taylor (1996), the principal problem of historical institutionalism is to explain what precipitates critical junctures such as economic crises, military conflicts, and others that cause a path shifting. What makes the ORS legalized nationwide in China in such a timing remains unclear. Secondly, the research agenda has its disadvantages. The authentication of official documents issued by the Chinese government is questionable for its inconsistency of data publishment and sensitivity. Media coverage can be biased given to reporters' stands. And the variables are constructed qualitatively rather than quantitatively. The possibility of data selection bias cannot be ruled out. Nevertheless, the thesis acknowledges that the findings are sufficiently compelling to be tested by future research with

alternative data. Thirdly, for matching the MOD model, it is impossible to find two comparative cases in real life that are similar in all other aspects except the dependent variable and the independent variables. Chengdu and Jinan have other differences regarding other figures. Future research may identify more causal or related factors if more data is available. Even in such as case, the thesis can argue that the CES and the government-business tie are two major drives of subnational variations. The government-business tie can be viewed as an informal institution. The CES indicates that the government takes initiatives in the institution. China's market is under-liberalized given the high volume of state interference. However, the institution remains a certain degree of flexibility. This study suggests private enterprises anticipate the regulatory policies for their industries by interpreting related government documents at both national and subnational levels more sensibly and promptly to ensure their survival.

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## Appendices

### Appendix 1 the Ranking of 25 Cities' ORS Policy Stringency

Rank	Municipality	Policy Stringency (from lax to stringent)
1	Chengdu	78.0
2	Sanya	73.2
3	Wuxi	61.8
4	Hangzhou	58.8
5	Suzhou	57.6
6	Nanjing	46.8
7	Nanchang	45.6
8	Zhengzhou	43.2
9	Wuhan	42.1
10	Ningbo	41.6
11	Changchun	41.2
12	Shenyang	40.8
13	Guiyang	40.2
14	Xiamen	39.6
15	Ha'erbin	39.4
16	Xi'an	37.2
17	Dongguan	37.0
18	Quanzhou	34.8
19	Lanzhou	33.6
20	Fuzhou	30.0
21	Yinchuan	28.8
22	Jinan	28.1
23	Dalian	26.4
24	Chongqing	26.4
25	Qingdao	25.2

Source: Xiong, 2018

Note: When I consulted the organization, a representative claimed that the raw data was not open to the public.

## Appendix 2 Municipal ORS Policies in Sichuan and Shandong Provinces

Province	Municipality	Wheelbase Width	Price of Vehicles	Swept Volume	Age of Vehicles
Sichuan	Chengdu	N/A	N/A	≥ 1.6 L/1.4 T	N/A
	Zigong	N/A	≥ 100,000 CNY	≥ 1.6 L/1.4 T	≤ 2 Years
	Panzhihua	N/A	N/A	≥ 1.6 L/1.4 T	N/A
	Luzhou	N/A	N/A	≥ 1.6 L/1.4 T and Engine Power ≥ 70 kw	≤ 3 Years
	Deyang	N/A	Higher than the price of the taxi	≥ 1.6 L/1.4 T	≤ 3 Years
	Mianyang	N/A	≥ 700,000 CNY	≥ 1.6 L/1.4 T	< 3 Years
	Guangyuan	N/A	N/A	≥ 1.6 L/1.4 T	N/A
	Suining	N/A	Higher than the price of the taxi	N/A	N/A
	Neijiang	N/A	≥ 100,000 CNY	5-Seat: ≥ 1.6 L/1.4 T; 7-Seat: ≥ 2000 ml	N/A
	Nanchong	> 2600 mm	N/A	> 1.6L/1.3 T	< 3 Years
	Dazhou	> 2600 mm	N/A	≥ 1.6 L	≤ 5 Years
Bazhong	N/A	≥ 700,000 CNY	≥ 1.6 L/1.4 T	N/A	
Shandong	Jinan	> 2700 mm; > 2600 mm for new-energy vehicles	> 115,000 CNY	N/A	< 1 Years
	Qingdao	N/A	Higher than the price of premium taxis	Engine Power ≥ 100 kw; Engine Power ≥ 90 kw for new-energy vehicles	< 1 Years
	Zibo	> 2700 mm; > 2600 mm for new-energy vehicles	> 120,000 CNY	≥ 1.8 L/1.4T	< 2 Years
	Zaozhuang	> 2700 mm; > 2600 mm for new-energy vehicles	> 120,000 CNY	N/A	< 3 Years
	Dongying	5-seat ≥ 2700 mm; 7-sear ≥ 3000 mm; new-energy	Higher than twice of the price of taxis	N/A	< 2 Years

		vehicles $\geq$ 2650 mm			
Yantai		$\geq$ 2650mm; new-energy vehicles $\geq$ 2600 mm	$>$ 120,000 CNY	N/A	$<$ 3 Years
Weifang		$\geq$ 2650mm; new-energy vehicles $\geq$ 2600 mm	$>$ 120,000 CNY	$\geq$ 1.58 L/1.38 T	$\leq$ 1 year
Jining		N/A	$\geq$ 120,000 CNY	N/A	$\leq$ 2 years
Tai'an		$\geq$ 2650mm; new-energy vehicles $\geq$ 2600 mm	$>$ 120,000 CNY	$\geq$ 1.58 L/1.38 T	$<$ 3 Years
Weihai		$\geq$ 2650mm; new-energy vehicles $\geq$ 2600 mm	$\geq$ 120,000 CNY	Engine Power $\geq$ 100 kw	$<$ 3 Years
Rizhao		$>$ 2650mm; new-energy vehicles $>$ 2610 mm	$\geq$ 120,000 CNY	N/A	$<$ 3 Years
Linyi		$>$ 2700mm; new-energy vehicles $\geq$ 2650 mm	$\geq$ 120,000 CNY	N/A	$<$ 2 Years
Dezhou		5-seat $\geq$ 2600 mm; 7-sear $\geq$ 2750 mm; new-energy vehicles $\geq$ 2600 mm	$\geq$ 120,000 CNY	N/A	$\leq$ 2 years
Liaocheng		$\geq$ 2600 mm; new-energy vehicles $\geq$ 2550 mm	$>$ 120,000 CNY	N/A	$<$ 2 Years
Binzhou		$\geq$ 2700 mm; new-energy vehicles $\geq$ 2650 mm	$\geq$ 120,000 CNY	N/A	$<$ 3 Years
Heze		new-energy vehicles $>$ 2550 mm	$>$ 120,000 CNY	N/A	$\leq$ 2 years

Source: Kang, 2019