

**Policy Innovation, Asymmetric Decentralization, and Local  
Economic Development in post-Mao China –  
Case Studies of China-Singapore Suzhou Industrial Park and  
Kunshan Economic and Technological Development Zone**

Thesis submitted for the degree of  
Doctor of Philosophy (PhD)

by

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## ABSTRACT

The Chinese government's economic reforms over the last couple of decades have led to rapid economic growth for the country. However, many empirical studies on the post-Mao China show that the economic transition towards market economy is in large part actually propelled by active local governments, which are encouraged to make policy innovations in order to promote better local economic development. This thesis aims to offer an understanding on how, why and under what circumstances the local governments of post-Mao China - while still controlled by a one-party communist regime- are able to make policy innovations to deal with business operating under market transition conditions.

Theoretically, the phenomenon of local policy innovation can be analyzed with a framework involving three dimensions. First, local policy innovation can be seen to take place in order to respond to challenges presented by the changing macro development environments. Second, local policy innovation can be understood as a consequence of changing responsibilities and competencies between central and local governments. Third, local policy innovation may be related to the dynamics of local-central strategic interactions. Empirically, with the contextual approach as its chosen methodology, this theoretical framework is applied to two successful cases of innovation in Jiangsu province within the Yangtze Delta of post-Mao China: Kunshan Economic and Technological Development Zone (KETZ); and China-Singapore Suzhou Industrial Park (CSSIP). The history of these two national development zones identifies the former as a case of a 'locally initiated project' while the latter represents an example of 'local implementation of a centrally initiated project'. In terms of types of local-central dynamic interaction, 'state- intention to tolerate', '*ex-post* state endorsement', and '*ex-ante* state adoption' were seen sequentially in the case of KETZ, while 'marginalizing the local', 'local obedience', and 'local flexibility' operated simultaneously in the case of CSSIP.

The thesis concludes that in post-Mao China significant local policy innovations were able to take place when localities encountered structural changes, including China's reengaging with globalization, changing local-central relations, and serious territorial competition. Actions of local policy innovations were ignited by agents, across scales, whose self-interests were highly involved in local economic development in the context of asymmetric decentralization. More specifically, in the post-Mao China context of economic decentralization to the local combined with political centralization under the party, career-minded local officials utilized their decentralized 'economic resources' to strive for more development, which in turn became their 'political capital' with the upper-level government to get themselves promoted.

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## CHAPTER ONE

### Perspectives on Local Policy Innovation in post-Mao China

#### 1-1 Post-Mao Local Agents behind the China Miracle

##### *China economic miracle over past two decades*

The tremendous success of China's economic reform over some 25 years has attracted worldwide attention. Post-Mao China can be regarded as a case of both relatively strong economic growth and rapid improvements in living standards. In terms of annual GDP growth rate, China averaged 10.1% and 10.7% in the periods 1980-90 and 1990-99 respectively (Table 1-1). Only a few other new economies such as South Korea, Taiwan and Singapore had grown at a comparable rate (World Bank 1997). In terms of value added in different sectors, China also developed from 1980 to 1999 at an average speed of 5% in agriculture, 12.8% in industry, and 11.2% in service sectors. Those numbers were twice or even three or more times as high as the world average, showing that China had developed faster than most countries in the world (Table 1-1).

Table 1-1: Average annual growth rate in China and other economies

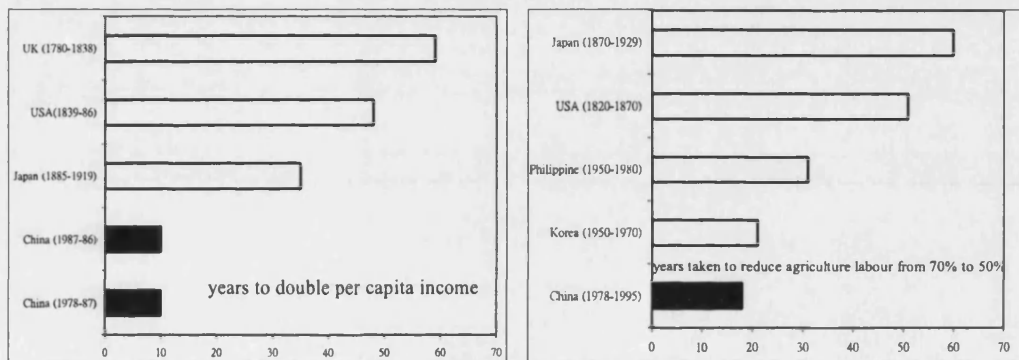
	GDP		Agriculture value added		Industry value added		Services value added	
	1980-90	1990-99	1980-90	1990-99	1980-90	1990-99	1980-90	1990-99
<b>China</b>	<b>10.1%</b>	<b>10.7%</b>	<b>5.9%</b>	<b>4.3%</b>	<b>11.1%</b>	<b>14.4%</b>	<b>13.2%</b>	<b>9.2%</b>
low-income countries	4.4%	2.5%	3.0%	2.5%	5.4%	1.1%	5.7%	4.7%
high-income countries	3.1%	2.4%	--	0.8%	--	2.6%	--	2.2%
world average	3.2%	2.5%	2.7%	1.6%	--	3.0%	--	2.5%

Source: World Bank (2001)



Moreover, China had doubled its income per capita every ten years since 1978 (once 1978-1987 and again 1987-1996), compared to United Kingdom taking 59 years (from 1780 to 1838) and United State 48 years (1839-1886) to double income per capita at equivalent stages in development (World Bank 1997). And China also took only 17 years to reduce agriculture labour from 70% down to 50%. By contrast, Japan spent 59 years (from 1870 to 1929) and the Philippines over 31 years (from 1950 to 1980) to reach the same goal (Figure 1-1).

Figure 1-1: Speed of doubling income and industrialization by selected countries



Source: World Bank (1997)

### ***Local agents making policy innovations***

It is generally agreed that there has been a Chinese 'economic miracle' in successfully transiting from communist centrally-planned mechanisms to a quasi-capitalist market system. As the market economy and planned economy function on quite different ideological and operational bases, the new policies made during the transition towards market mechanisms undoubtedly faced some real risks and uncertainties of change. The successful transition which produced better economic outcomes, thus, involved radical innovations in policy on the part of the state, as well as rapid development within the private sectors. This process is the focus of the thesis, which argues more specifically

that *local* agents played a critical role in bringing it about. The aim of the thesis is to understand how against a background of centralized planning, local government agencies were so important in the Chinese transition to an open market economy.

One significant example is provided by Shekou Industrial District set up in 1979 to attract FDI within a restricted boundary. This soon became the prototype of four pioneering Special Economic Zones in Guangdong and Fujian. The idea for the Shekou district was originally proposed to the central government in Beijing by China Merchant's Steam Navigation Company and Guangdong provincial government (Zhu 2005). Without explicit permits from Beijing, in the early 1980s Guangdong also successfully pioneered a new format of joint venture with foreign investors, using existing properties as assets (Zhang 1994). Similarly, the decollectivization programme began with an experimentation by production teams in Anhui and Sichuan provinces in the late 1970s without any official approval from the centre (Chung 2000). Likewise, the rapid development of township and village enterprises in the early and mid-1980s started as a local initiative in Jiangsu. Privatization of small state-owned enterprises (SOEs) was initiated in a few areas (such as Shandong province) and mass lay-offs from SOEs began in other regions (including Shanghai and Heilongjiang provinces) (Cao, Qian et al. 1999). These reforms reached great success and were launched locally rather than by the central government in Beijing. Despite differences among these cases, they show that policy innovations in post-Mao China's transitions could be, and were often, initiated from the local level rather than only from the centre.

Local governments have promoted local economic development by flexible implementation of central policies. One instance involves Guangdong which was a powerful FDI recipient province accounting about half the total amount of FDI in China

during the 1980s. But the *de facto* FDI amount that Guangdong attracted at the time was often twice or even three times in excess of the official ceiling set by the centre (Li 1997b). Another example involves the central regulations which said in the 1980s, that foreign factories were to produce only for the foreign market, while domestic enterprises were to function in a protected domestic market. However, Zhangjiagang, a county-level city under Suzhou in Jiangsu province, offered foreign investors access to the domestic market through joint-venture arrangements between foreign and domestic enterprises. Their products were far more competitive than those produced in domestic state-owned enterprises, as a result, Zhangjiagang gained capital, made profits and upgraded technology for local economic development faster and more easily than other regions (Zweig 1999).

To sum up, China has experienced a relatively successful national transition over the last two or three decades from a socialist and planning system toward a market economy. But as many empirical studies have shown, that transition has been propelled by the active and flexible roles played by local agents, who managed to make major policy innovations in order to promote better economic development (Oi 1995; Walder 1995a; Zhu 1999; Wu 2000; Yeung 2000). Such policy innovations were pursued in various ways, including: introducing new projects; legally-ambiguous negotiations with investors; flexibly shifting resource allocations; creative interpretation of legal documentation; and pushing *de facto* implementation beyond *de jure* central regulations. The questions which have not yet adequately been addressed are why, how, under what circumstances, and by whom such local policy innovations to achieve better economic development would be made and institutionalized in a transition China, still controlled by a one-party communist regime.

## **1-2 Innovation: a Geographic Viewpoint**

### ***The characteristics of innovation***

The subject of innovation has attracted considerable scholarly attention from different fields of social sciences, both in general (Blaug 2000; Fagerberg 2004) and in relation to local economic development in particular (Malmberg 1997; Gordon and McCann 2005). In the field of technology associated with a dynamic market economy, innovation was a focus of Schumpeter's theory of entrepreneurship (Blaug 2000; Adaman and Devine 2002). He argued early in the 20<sup>th</sup> century that academia in Economics relied too much on static equilibrium analysis, and thus failed to offer a better understanding of how capitalism embedded in dynamic market processes could be an engine of change and growth in situations of uncertainty. Schumpeter asserted that the dynamic process in the real world resulted from a positive rate of interest generated by the so-called 'entrepreneurs', who observed new opportunities in markets first and then made innovations beyond the opportunities. By making innovations, the entrepreneurs destroyed the existing market equilibria maintained by incumbent firms and existing leading-edge technology products (Schumpeter 1934; Adaman and Devine 2002). Defined as a novel combination of existing resources, innovation can involve the introduction of new technical methods, new products, new sources of supply and/or new forms of industrial organizations. In that sense, innovation is different from invention. The latter is simply a discovery of new technical knowledge, but the former involves its practical application to industry (Schumpeter 1934; Blaug 2000; Adaman and Devine 2002; Fagerberg 2004).

Three defining features of innovation can be characterized as: newness, improvement and the overcoming of uncertainty (Adaman and Devine 2002; Fagerberg 2004; Gordon

and McCann 2005). Fundamentally, in order to win in the dynamic equilibrium market, an innovation introduces qualitative difference from existing routines and practices. Innovations are able to introduce changes different from existing available programmes. Beyond this, the innovations must be demonstrated to have consequences which are superior to other alternatives and current situations. It is impossible to call anything an innovation if the consequences of their changes are merely to keep outcomes at *status quo* level or even getting worst. In addition, the innovation needs to involve a discovery of the unknown for which past or current experiences seem unavailable to provide suitable guidelines to overcome the uncertainties resulting from such an unknown. As a general proposition, we may say that all human beings, if to different degrees, partly dependent on a context, are uncomfortable with uncertainty, even when they are prepared to take calculable risks. It means that innovation involves not only invention, but the task of transforming situations from uncertainty into more calculable, manageable and insurable situations. Thus, understanding how, where and when innovations actually occur involves addressing three questions: how novelty comes to be produced; how such novelties are evaluated and sorted so as to select improvement; and how inherent uncertainties get structured and managed in the successful cases.

From the perspective of the characteristics of innovation, three more points can be identified. At the beginning, one of the key dimensions of innovation is how radical they are when compared to the *status quo*. Continuous improvement can be characterized as incremental or marginal innovation, which is different from radical innovation; the latter involves the introduction of totally new types of machinery, or a bunch of innovation that together generate major impact to the *status quo* (Fagerberg 2004).

On top of that, regarding how to understand agents (firms, governments, organizations or individuals) behaviours when facing the conditions of uncertainty, there are two broad idea types of agent-environment framework: the adoptive attitude and the adaptive attitude. As to the former, in line with Darwin's concept of evolutionism, the uncertain environment 'adopts' the agents that were passively better suited to the needs of the environment, even if the agents had no particular knowledge of these beforehand. Regarding the latter, the ability to gather and assimilate information increases the ability of agents to actively adapt themselves to the uncertain environments. In order to transform uncertainty to somewhat measurable risks, the adaptive behaviours are better for innovation (Gordon and McCann 2005).

Within the perspective of the adaptive model, there are two different roles in relation to innovation: there is a direct creation undertaken by 'leaders' or to be modelled after by 'followers'. Some agents who consciously innovate are called leaders; while some who copy the behaviours of others are called followers. The followers imitate the leaders because they perceive themselves to be at a relative information disadvantage. They tend to model themselves after examples in their fields that they perceive to be more legitimate or successful experiences, particularly when under uncertainty such as facing a problem with ambiguous causes or unclear solutions. Therefore, in order to overcome the uncertainties and risks to maximise the likelihood of their own success, the imitative behaviours of the followers are the safest ways to introduce new products or process and make the future better. In other words, imitation and copying can to some extent be understood as the 'adaptive solution' to the uncertainty in relation to innovation. As such, followers and leaders both can be regarded as innovators (Fagerberg 2004; Gordon and McCann 2005). All innovation involves some elements of borrowing and imitation, as well as building on organizations' own current practices. And innovation

encompasses a spectrum of changes from those which are 'new to the world', through those which are new to the sector or the country, to those which are just new to the agents and activities involved. However some forms of copying are more positive and productive than others.

### ***Geography of technology innovation: innovation system and spatial clusters***

As Doloreux, Shearmur et al (2001) note, the link between learning, institutional innovation and regional development can be interpreted in two distinct ways, in relation to technology deployed by private firms and in relation to public policy. The concept of 'institutional innovation at policy level' is about how to be innovative while formulating, modifying and reformulating rules governing economic activities in order to improve the regulatory environments for further development (Gregersen and Johnson 2000; Smith 2000; Doloreux, Shearmur et al. 2001).<sup>1</sup> And the concept of 'institutional innovation at technology level' suggests that the innovative regions are the environments where firms are at the forefront of techniques and procedures (Malmberg 1997; Morgan 1997; Storper 1997; Gordon and McCann 2000; Doloreux, Shearmur et al. 2001). To make this distinction between policy innovation and technology innovation does not mean that innovations at these two levels are not interrelated. Innovation at policy level can provide a more supportive regulatory environment for firms and industries to make technology innovations. But it is also possible for innovation at policy level to have negative effects on innovations by introducing a set of institutions which destabilises the research and development activities of firms (Smith 2000; Doloreux, Shearmur et al. 2001; Lagendijk 2001).

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<sup>1</sup> From the perspective of the policy making procedure, Gregersen and Johnson (2000) argue that the policy innovation process includes: how new and innovative concepts, data, and theories or new institutions can be developed to support production and reproduction of human and social capitals. It also relates how regional and local experiments in policy areas in need of reform can be stimulated, and new methods can be developed, or how to gradually try, test, evaluate, and establish new practices and routines of policies (Gregersen and Johnson 2000).

Most existing research on innovation, however, pays much more attention to the technology dimension than to policy innovation (Doloreux, Shearmur et al. 2001; Lagendijk 2001). In this thesis, the emphasis of the focus is reserved. However, I shall start from the literature review on geography of technology innovation and draw out some insightful views to understand the concept of policy innovation. In so doing, I shall discuss two literatures on different but not mutually-exclusive aspects of ideas of a complex geography of technology innovation: one concerns the innovation system, whether at the international, national or regional scale; and the other is the impact on innovation due to spatial agglomeration and clustering.

In the first case, the concept of 'innovation systems' involves the set of relationships and the interactions between R&D laboratories and technological institutions on the one hand and the production system on the other (Lundvall and Maskell 2000). In contrast to Schumpeter's concept of 'creative deconstruction', the innovation system is seen as a focus of 'creative accumulation' which emphasizes networks and institutions whose activities and interactions initiate, modify, accumulate and/or diffuse new technologies (Schumpeter 1975; Soete and ter Weel 1999; Breschi, Malerba et al. 2000).<sup>2</sup>

Three spatial scales have been considered: international, national and regional.<sup>3</sup> At the international scale, researches have been synonymous with studies of formal R&D structures within multi-national corporations. The internationalization of innovation can be developed through cross-country joint ventures or overseas subsidiaries (Bunnell and

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<sup>2</sup> The concept of 'creative accumulation' is also known as the Schumpeter Mark II model in order to be distinguished from his concept of 'creative deconstruction' in his earlier works (or so-called 'Schumpeter Mark I model') (Soete and ter Weel 1999; Breschi, Malerba et al. 2000; Adaman and Devine 2002).

<sup>3</sup> However, it does not mean innovation can take place at these three scales. Bunnell and Coe (2001) mention the importance of scales at firm level and at individual level.



Coe 2001), and/or international trade and foreign direct investment (Krugman 1979; Saggi 2002). However, despite international networks in R&D, multinational corporations' innovative activities still took place, for the most part, in their home nations. The national innovation system literature contends that the structural and functional profiles of a nation determine its innovation capacities and related economic performances. Interactions between supply and demand are situated within nations, national policies and the role of cultural factors are identified as the key elements of national innovation systems (Lundvall and Maskell 2000; Bunnell and Coe 2001).

The regional innovation system approach does not disagree with the claims made in relation to international or national innovation systems, but simply pays more attention to the operations and effectiveness of innovation systems at a regional scale. One of the important pieces of empirical evidence supporting this approach is that innovative activities are spreading unevenly across most countries, which in many cases such knowledge-generated externalities seem to be geographically bounded within specific urban regions.<sup>4</sup> From a combination of notions, on the regional side, including proximity, trust, and institutions and, on the innovation side, like dynamic, interactive and systemic processes, the approach is keen to explore what kinds of policies may be instigated by regional authorities to support and sustain regional innovation systems (Bunnell and Coe 2001; Cooke and Simmie 2005).

The other main dimension of writing about the geography of innovation is in relation to the concept of spatial clustering, promoted particularly by Porter (1990). The emphasis here is more on small-medium enterprises and the influence on their performances due

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<sup>4</sup> For example, in the United Kingdom, over 60% of such innovations occurred in the London regions; in the United States, more than 60% of Japanese R&D laboratories located in just four cities and regions, namely, Boston, New York, Chicago and south California (Cooke and Simmie 2005).

to local sectoral specialization, sharing social and cultural capital among local economic agents, market/ non-market linkages involving inter-firm collaboration and competition, and networking with other local institutions (Rabellotti and Schmitz 1999; Fisher and Reuber 2000). The idea of clusters is associated with the concept of regional innovation system, but it does not mean that all clusters involve high-tech industries. Or that cluster theory simply focuses on innovation (though this is an inevitable aspect of the pursuit of competitive advantage, which is its focus). At least three different underlying models have been identified: first, pure agglomeration; second, industrial complex; third, social network, culture and institution (Table 1-2).

Table 1-2: Understanding the geography of innovation

	Pure agglomeration	Industrial complex	Social network
Analytical approach	Neo-classic analysis	Input-output analysis; location-production analysis	Economic sociology
key focus	Infrastructure concentration, rent appreciation in region	Stable trade within regions; specialization of regions	Trust and interactions within regions
Example	Competitive urban economy	Steel or chemical production complex	New industrial spaces
Explanation	High-tech infrastructure is also spatially-clustered, favours innovation and learning	Specialization of production favours innovation and learning	Trust and interactions within regions or through extra-local connections by nodes or flows of elites encourage innovation

Source: modified from Gordon and McCann (2000)

The first model, coming from the neo-classical economic perspective, mathematically focuses on the chances of being established within large agglomerations in order to minimize transactions costs and maximize access to specialized information, skills and collaborations. Proximity is the key to accessing these resources (Porter 1990; Krugman 1995; Barnes 2003).<sup>5</sup> The second, based on input-output production analysis, refers to

<sup>5</sup> Barner (2003) argues that such neo-classical analysis has a long tradition starting from the German location school of von Thunen, Weber, and Losch that begins in the first part of the 19<sup>th</sup> century and ends in the mid of the 20<sup>th</sup> century, and followed by American spatial science dating from the mid 1950s and is in decline by the late 1970s.

planned interconnections between small groups of complementing firms based in a region. Proximity is a convenience here, but collaboration in this case depends on essentially private relations between these firms (Gordon and McCann 2000; Lundvall and Maskell 2000). Third, drawing an idea from economic sociology, the social network model focuses on the way in which networks of trust are constructed by firms within a supportive local environment. Daily accesses and interactions among firms allow them to engage in learning-based competitiveness through networks of interdependency, formal institutions of learning, and common understanding (Amin and Thrift 1995; Morgan 1997; Storper 1997; Amin and Thrift 2000; Perrons 2001).<sup>6</sup>

*Summary: innovations across different scales*

This literature on the geography of innovation in relation to technologies and products deployed by private firms has so far not been applied to the issue of institutional innovation at policy level by public agencies. However, it offers a number of useful insights which could be applied to the investigation of policy innovations. First is the social network approach which takes up ideas from the Schumpeter Mark I model, about the significance of human and spatial relations to economic coordination in situations of innovation, characterised by changes and uncertainty. Variably discussed in terms of 'un-traded interdependencies' (Storper 1997), 'institutional thickness' (Amin and Thrift 1994; 1995; 2000), or 'learning region' by Morgan (1997), a shared idea is that innovation may be produced by sharing of tacit knowledge based on face-to-face exchange, embedded routines, habits and norms, local conventions of communications and interactions, reciprocity and trust based on familiarity, as a flexible alternative to

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<sup>6</sup> This approach can be understood as the key challenge to criticize the rationalist interpretation of pure agglomeration approach in relation to innovation (Amin and Thrift 2000; Barnes 2003). I argue that the pure agglomeration approach based on the mathematically modelling method is 'geographic economies' rather than 'economic geography'. However, some scholars distinguish the two using the terms 'new economic geography I' and 'new economic geography II' (Perrons 2001).

the formal routines of large competitors. From this perspective, the spaces of innovation need to be understood in terms of path dependent institutional relationship within places (Maskell and Malmberg 1999).

Second, innovation system research has come to emphasise the importance of linkages and interrelationships between and across spatial levels, from individual person/firm to local/subnational, national and global scales. Wider networks of actors may be crucial to regional level innovation developments, even in terms of the tacit knowledge transferred by extra-local connections and networks of firms and individuals involved in the process of innovation making and diffusions (Oinas and Malecki 1999; Bunnell and Coe 2001). Third, there is the notion of innovation spillover, with empirical studies showing that specific innovations can be spread between regions and places by many types of diffusions. These include formal patent citations, transmission of embodied innovations by trade between places and internationalization of R&D in subsidiaries and mergers, acquisitions as well as personally through individuals, acquisition of relevant skills, knowledge and know-how (Feldman 2000).

Fourth, a more specific research finding is that the diffusion of innovation can be channelled through linkages of agents cross scale. For example, in terms of mobility of individuals, the increasing interdependent development in terms of information industry between Silicon Valley of California and Taiwan can be attributed to a community of US-educated Taiwanese engineers who had transferred tacit knowledge of capital, skill and know-how between Silicon Valley and Hsinchu-Taipei by frequent movement between these two places (Saxenian 1999). In addition, in a case study of leather-tanning industry in Santa Croce and the city of London, Amin and Thrift (1992) also suggest the concept of 'neo-Marshallian node' in order to argue for the importance

of a globally-networked collective brain as an interpretative community in the local industrial districts. This could be an important means of decentralizing the innovation process, an alternative to hierarchical channels of diffusion.

### **1-3 Decision Making: a Perspective of Innovation**

#### ***Rational action, satisficing behaviours, and the communicative turn***

The social science literature on 'policy and decision making' comes from quite different intellectual backgrounds than that of innovation, though again there are different approaches. On the one hand, there has been a focus on the logic of generalized 'procedures' of policy making, some scholars try to identify various 'steps' in the policy process, from policy definition, policy formulation, policy implementation, to problem superseded and redefined, and policy outcomes, which are interrelated and interdependent (Hill 1993; Turner 2002). On the other hand, there has been an approach focused on how the policy process actually generates in different kinds of societal and governmental environments, with explanations including the pluralist viewpoint, neo-pluralist aspect, corporatist dimension, Marxist approach, and neo-liberal stance (Hill 1993; Turner 2002). Differences between the two approaches have been highlighted in the context of planning theory, which has been particularly concerned with issues of managing/steering development (Friedmann 1987; Healey 1997; Campbell and Fainstein 2003). It is possible to trace three particular types of emphases in planning theory relevant to the generation of innovative decision making. These are: 'rational and comprehensive' actions, 'satisficing or incrementalism behaviours', and the processes of the 'communicative turn'. I shall discuss each in turn to show their relevance.

The 'rational comprehensive' model assumes that decision makers, by virtue of their expertise and experience, have clearly defined goals and enough time and a range of tools to make the so-called 'correct' decision by accessing full information of the most accurate and scientifically- plausible options (Friedmann 1987). In this model, policy agents become aware of a problem first, then posit goals, and carefully weigh alternative means. Finally, policy actors choose the best among these alternatives according to the estimation of the respective merits of each means and their costs (including transition costs). All data can be collected and calculated rationally with deductive logic, scientific analysis and value-neutralized ranking (Lindblom 1959). In order to identify and maximize unitary public interests through the scientific decision process, decision makers operate like scientists or technicians, free from constraints and special-interests (Friedmann 1987; Fainstein and Fainstein 1996). From this perspective, innovation is nothing special nor problematic.

The approach of 'satisficing behaviours' challenges the viability and desirability of the large-scale, complex and objective decision-making process generated by the rationalist model. Decision makers are unable to fully implement the process because of shortage of time, limitation of information particularly on alternatives, and difficulties in negotiating diverse interests of pressure groups (Lindblom 1959; Gregory 1989). Rather, agents operate within established culturally-specific practices and routines about familiar patterns of behaviours (Hall and Taylor 1996). In this approach, decision making is not looking for the optimum but for a satisfactory solution. And by choosing the first satisfactory alternatives, the decision making takes place at the margins. Lindblom (1959) calls this the 'incrementalism' approach. Policy actors make the decision by weighing the marginal advantages of a limited number of alternatives. They are not perfectly rational but entirely pragmatic to ensure that the new alternative can

function, cope with the demands of pressure groups, and deal with crises as and when they have arise (Fainstein and Fainstein 1996; Smith 2000). Innovation is either something to be avoided, or simply a set of incremental steps.

The 'communicative turn' shifted the conceptual ground to an interpretation of the relationship between 'knowledge and action' or 'theory and practice'. The approach starts with a challenge that knowledge and value for planning and decision making do not have objective existence in the external world can it be neither discovered by scientific inquiry. Instead, knowledge for planning and decision making is derived from experiences and validated in practice (Friedmann 1987). From this perspective, 'communicative turn' sees decision making as a process of facilitating community collaboration embedded in discourse constructing, consensus-building and policy formulating and implementing in daily practices. The development processes take many forms, from rational systematic analysis, to storytelling and expressive statement in words, pictures or sounds (Healey 1996; 1997). For example, Forest (1999) notes that story-listening plays an important role in policy making. By story-listening, policy actors can sometimes learn from past experiences that in turn provide planners and policy actors with relevant information which may matter for further decision making. Innovation is both central and problematic from this perspective; with no single method dominates it.

A package of these three dimensions offers a basis for a better theoretical understanding of innovation in relation to policy making. The 'rational action' approach argues that innovation involves prioritizing different alternatives and then choosing the best on the basis of rational evaluation. This involves a huge scope of tasks in searching for information and judging alternatives. It means that a more comprehensive set of

information allows a greater ability to make judgements, and a higher probability of good decision making, including very radical changes if possible and necessary. The 'satisficing behaviour' approach draws attention to the fact that decision making is a pragmatic process. If decision making involves picking up the first satisfactory alternative rather than the best one, how innovative this is depends on how demanding the criteria of satisfactions are. Such a context entails that little incremental changes would be a consequence as long as the satisfying outcomes have been generated. As a result, decision making is as an evolutionary process of modifying at the margin.

Interestingly, 'communicative turn' seems to be an intermediate mode between 'rational actions' and 'satisficing behaviours',<sup>7</sup> at least in terms of degree and scope of searching for alternatives. 'Communicative turn' notes that decision making is an interpretative process between knowledge and theory on the one hand and action and practice on the other hand. At the beginning, the turn does not disagree with rational actions, but clearly points out that the sources of looking for alternatives is not groundless but based on the interactions between theories and actions. On top of that, the turn addresses that the decision making process is based on the socially embedded communication in the routine and daily practices, the result of bounded rationality. It means that the 'communicative turn' does not rule out the possibility of the first satisfying alternative and changing at the margin as a consequence of innovation.

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<sup>7</sup> This argument is also related to Hall and Taylor's (1996) analysis on historical institutionalism. They argue that the decision making and institution building is based on the combination of the calculus approach and cultural approach. The former assumes that when making decisions or building institutions, individuals seek to maximize the attainment of a set of goals, given by a specific preference function, and the latter emphasizes that individuals turn to established routines or familiar patterns of behaviour to attain their purposes. To some extent the calculus approach can be understood as a form of rational choice theory, and the cultural approach is derived from sociological understanding of the importance of culture, communication, and so on.



### *Decision making as social learning*

As argued by Friedmann (1987), the approach of the 'communicative turn' can be regarded as a tradition of 'social learning', which could be traced back to several intellectual roots, including Dewey's 'learning by doing', Marxism's 'the point of the philosophers is to change it', and Mao's 'On practice'. Society is in a continuous process of transformation, making it necessary to develop social systems that can learn and adapt (Schon 1973; Argyris and Schon 1978). For example, Finger and Brand's study (1999) of the Swiss Postal Service demonstrates that learning for change is necessary for public sectors since they have encountered survival pressure not only 'from within', such as a domestic monitoring of citizens and politicians, but also 'from above', such as multinational corporations or organizations. Malecki (2002) also states that like private business, public sector agencies need to develop an absorptive capacity for innovation to scan the technical environment, select appropriate policy and accumulate knowledge for development during the course of policy R&D from external sources. From this perspective, the decision making process is not so much about the power struggle, or a process of collective puzzlement, rather it is the process in which different agents, including political parties, interest groups, and state bureaucracy and so on, are involved in continual analysis and deliberation in an attempt to build consensual solutions to policy problems (Hall 1993; Pemberton 2000).

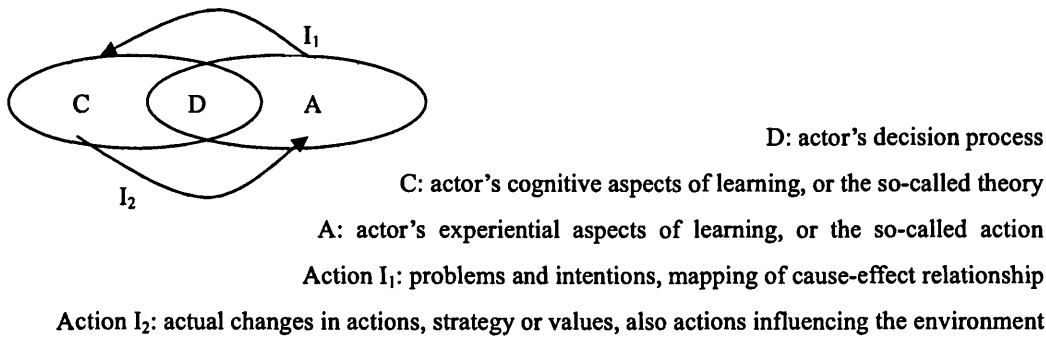
Three points can be particularly made. First, there are different degrees of changes in relation to social learning, from marginal improvements to radical innovations. In a case study of British economic policy change from Keynesianism to monetarism during the 1970s, Hall (1993) identifies three orders of policy change. The 'first order' change was related to 'satisficing' and minor adjustments to policies. The 'second order' change,

occurring when satisficing failed, was characterized by re-tooling, limited experimentation and introduction of new policy techniques and alternative strategies without questioning the policies' orthodoxy and their objectives. And the 'third order' change involved a more radical paradigm shift, including the hierarchy of goals and set of instruments employed to guide policy. Social learning at the third order was connected with an emphasis on cognition and the redefinition of interests on the basis of new knowledge which affected the fundamental beliefs and ideas behind policy approaches. It means that problems could be redefined, new interpretative frameworks could be developed, and even ideological transformations could be introduced if necessary.

Second, it is about the concept of a learning cycle, including a continuous process of error detection and correction (a learning loop). First, existing understanding (theory) is enriched with lessons drawn from experience and a continuing, inquiry directed into the nature, causes, and resources of old problems. Then, this new understanding is applied to continuing processes of action and changes in order to discard the structure and mechanisms developed around these problems. It means that practice (such as actual changes in action, strategy, theory and values) and learning (for example, understanding problems and intentions) are constructed as correlative processes (Figure1-2) (Friedmann 1987). Schon and Argyris further identify two kinds of loop-learning in order to explain the difference between marginal improvement and radical innovations. On the one hand, the single loop learning involves the generation of new action strategies without questioning the existing governing values (namely, the first and second orders of changes in Hall's definition), resulting in marginal changes. The double-loop learning, on the other hand, happens when the first loop learning fails, involving adaptation, modification, and even completely changes of the existing

governing values themselves (the third order of change in Hall's definition), with the radical innovations as a consequence (Schon 1973; Argyris and Schon 1978).

Figure 1-2: Social practice and learning cycle



Source: revised from Friedmann (1987)

Third, I would like to elaborate on social learning theory with the perspective of extra-local learning. Two basic ways of the learning process developed are introduced: learning from direct experiences and learning from the experiences of others (Yeung, Ulrich et al. 1999). Learning from direct experience means that organizations acquire knowledge and develop insights through their own actions and reflections. The most familiar case is trial and error. By directly performing a set of activities, and then reflecting on their action-outcome relationships, actors can gain knowledge and expertise for improving performance over time (Yeung, Ulrich et al. 1999). In contrast, learning from the experience of others means that organizations acquire knowledge without having to perform operations on their own. These cases include learning by observation or the diffusion of knowledge through consultants and educational institutions. By observing, scanning, benchmarking, and imitating the successful products, processes, and practices of other organizations, actors can gain insights into and develop ideas about their own products and processes (Yeung, Ulrich et al. 1999).

By a comparative analysis of regulatory changes in the railways in Britain and Germany, Lodge (2003) argues that such two types of organizational learning sources for decision making could be applied to public policy issues. Britain drew lessons from its own previous experiences; while Germany learned from international experiences. The template adopted in Britain reflected previous lessons including past utility privatization and the popularity of the 'regulation by competition' doctrine, including vertical separation in organizational terms and the fragmentation of train-operating companies and rolling-stock and maintenance business. However, in Germany, the reforms reflected themes occurring in international railway reforms, aiming to reduce the financial burden and to enhance the commercial and competitive position of the railway operation (Lodge 2003).<sup>8</sup>

In terms of topics of local economic development, the concept of policy innovation by learning from the experiences of others has been theoretically developed and empirically noted. Theoretically, Rose (1993) explores a concept of lesson-drawing by public and private sectors which are based on a search in a systematic and comprehensive manner and reviewing policy in the light of experiences of others. There are five different forms of lesson-drawing. First, copying involves 'enacting a more or less intact programme' already in effect. Second, adaptation is similar but involves 'adjusting for contextual difference'. Third, hybrid-making consists of 'combining elements of programmes from two different places'. Fourth, synthesis is to create a new programme by 'combining some familiar elements of programs in a number of different places'. Fifth, inspiration is to use a programme elsewhere as 'an intellectual stimulus to develop a novel program' (Rose 1993). Dolowitz and Marsh (1996) suggest that

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<sup>8</sup> Lodge (2003) further discusses the importance of the institutional factors for the utilization of different sources for policy transfer, so what-he-called political-administrative nexus.

institutional innovations at policy level are the conscious adoption of a public policy from another jurisdiction. It describes a process in which knowledge of institutions in one political system could be learned from the development of knowledge in another political system, namely, learning from the experience of others. It can be a transfer of cross-jurisdictions not only within the same country but also of cross-border regions between different countries (Dolowitz and Marsh 2000).

Empirically, the Britain public-private urban regeneration coalition is a case in point. The 'Challenge Fund', a key incentive used by the central government to generate formal as well as informal links between local governments and local business in Britain, is an urban policy innovation learnt/inspired directly from American Urban Development Action Grant by UK central government officials (Davies 2002). Similarly, Hassink and Lagendijk (2001) argue that the development of the Danish Co-operation Network Program was inspired by the Italian region of Emilia-Romagna. Also, in order to evaluate middle size firms, Duisburg of German adopted a policy program focusing on SWOT (strengths, weaknesses, opportunities, threats) strategy, which was learned from the neighbouring Dutch region. And, perhaps most widely applied example, in order to catch up with industrialization by establishing high-tech development, the concept of a 'science park' based on adapting the experiences of Silicon Valley has become a popular policy choice internationally, including 'Silicon Glen' in Scotland, 'Silicon Isle' in Singapore, and 'Silicon Plateau' in Bangalore (Hassink and Lagendijk 2001), with related examples in China too. Whether all such innovations are appropriate to regional circumstances- and thus represent real learning and successful local innovations- is a different matter, however, requiring further investigations.

***Summary: communication, learning, transfer and innovation***

I argue that there are three important approaches to analyzing innovative decision making processes: ‘rational action’, ‘satisficing behaviours’, and the ‘communicative turn’. Of the three, the last is the most appropriate to understanding decision making processes in relation to policy innovation. From the perspective of the ‘communicative turn’, innovative decision making can be further understood as a learning cycle. In addition, inspired from organization theory, social learning can be divided into two types: learning from past direct experiences or learning from the experiences of others.

Overall, these concepts are useful for us in understanding the relationship between policy making and innovation, for example, the role of ‘best practices’, a popular method of decision making for innovation (Gertler 2001). In terms of development policies and studies, best practices can be nourished in many ways, like so-called successful development cases endorsed by international society (e.g. Taiwan and South Korean as New Industrial Economies in East Asia), opportunities of ideas exchanges in international conferences attended by different policy agents and professions, successful practices promoted by international awards,<sup>9</sup> and certain profession-related organizations (particularly the Kennedy School at Harvard University). The ‘best practice’ approach indeed offers policy stakeholders innovative ideas on the range of possible alternatives by learning from other successful experiences (Loffler 2000).

However, it must be noted that there are different degrees of learning and transfer in terms of a dimension of policy agents’ intention. Ideally, there are two kinds of condition of intention: ‘voluntarism’ vis-à-vis ‘coerciveness’. As to the former, policy

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<sup>9</sup> The Best Practice Database as urban solutions is collected by the Together Foundation and UN-HABITAT (<http://www.bestpractices.org>).

actors make a rational and comprehensive decision to systematically and voluntarily borrow from others. In contrast, concerning the latter, it is either because local agents are forced to make actions in order to respond to changing global structures, or because local agents are coerced to implement policies which are strongly promoted by relatively powerful external agencies. Most empirical cases are located in the spectrum of learning processes between 'voluntarism' and 'coerciveness' (Dolowitz 2000). From this perspective, two more points need to be identified. First, with the scale perspective, so-called 'external agents' can be understood as policy actors which are not in the local scale but other scales. It leads us, therefore, to consider the roles of national and international agents involved in local economic development (like central governments, foreign officials and investors, international organizations and so on). Second, coerciveness also means that there are some uneven power relations behind policy process. Thus, the political economy approach to understanding complicated processes of negotiation and compromises between policy actors across different scales needs to be considered when conducting researches.<sup>10</sup>

#### **1-4 In Lieu of a Conclusion: Local Policy Innovation as a Focus**

To sum up, the study of transition has recently attracted considerable scholarly attention. One of the key issues concerns the relationship between economic development and political transition, which can take quite different forms in particular contexts. For example, studies of post-Mao China indicate that powerful local states have developed a capacity to flexibly make policy innovations, like creatively control enterprises and

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<sup>10</sup> In planning theory, a normative version of the political economy approach also argues that planners and decision makers should advocate the interests of the under-developed, the minorities, and the economically and the socially disadvantaged who suffer from the capitalist-dominant planning system—but positive analyses focus on the tendency for more powerful economic interests to prevail (Friedmann 1987; Campbell and Fainstein 2003).

intervene in resource reallocations, for better local economic development. What has not yet been documented or explained is how, why and when local governments, still controlled by the communist party, learn to deal effectively with profit-seeking businesses operating under market conditions. This academic gap, involving what I call 'local policy innovation in post-Mao China', is the central concern of this whole thesis.

Certain common analytic dimensions for policy innovation have been identified from work with two different academic focuses: one relates to the geography of innovation (Section 1-2) and the other to decision making and planning theory (Section 1-3). The 'rational action' hypothesis is found in both the decision making theory as well as innovative spatial cluster on the basis of neo-classical analysis (Barnes 2003). A sociological or cultural dimension is also discussed influentially in both types of study. Most importantly, these two kinds of literatures agree that both incrementalism (small modifications) and completely new (radical changes) can be regarded as innovations. In the study of innovation, both incrementalism and radical changes may be understood as cases of innovation as long as they involve some novelty combined with improvement as a consequence and uncertainty during the process. In planning theory, communicative turn (particularly related social learning model) identifies different degrees of policy making, from slight improvements without questioning existing frameworks to fundamental changes by reforming all governing variables.

In addition, research on the diffusion of innovation offers a supplement to understand why and how the process of learning from the experiences of others is important. In the study of innovation, leaders and followers can be distinguished by appreciating different ways of calculating risks when making innovations. The followers imitate the leaders because the followers understand that imitation is the safest solution in



managing uncertainty in order to maximise the likelihood of their own success. From this perspective, policy innovation by learning from other places is one of the good solutions to reduce risks as a result of changes.

Although the existing researches on technology innovation and decision making have developed very insightful and informative knowledge to understand innovation in general and policy innovation in particular, they still pay relatively limited attention to local policy innovation, which is the main focus of this thesis. As aforementioned, many empirical cases have demonstrated the importance of local policy innovation and that it deserves more attention than it has received so far. Post-Mao China is a case in point. From studies of American cities, a number of entrepreneurship roles performed by urban officials have been identified, including to coordinate a plethora of participants and networks; to deal with the uncertainty of public policies; to promote private entrepreneurial vitality, to enhance skilled labour and high-quality human forces, to recognize available opportunities that have not yet been exploited; and to accomplish things in ways that have never been tried before (Garvin 1996; Jensen-Butler 1999). These existing theoretical and empirical studies unfortunately seem to take for granted that how local policy innovation can be made to happen the contextual factors it depends on, i.e. why, how, in which ways, under what circumstances, and by whom it is enabled. These comparative issues have received scant attention and still require further investigation particularly in relation to transition economies in an era of globalization. Discussion of some of the relevant contextual factors in relation to the development of China's transition in general, and development zones associated with open door policy in particular, are offered in the next chapter before I explain my concrete research framework for analysing the central question in relation to the chosen empirical case studies.

## CHAPTER TWO

### The Emergence of Development Zones as a Post-Mao Local Policy Innovation

'special treatments for special issues, new managements for new matters, the stances of policy unchanged with the implementations completely novel'  
(*te shi te ban, xin shi xin ban, li chang bu bain, fang fa quan xin*)<sup>11</sup>

#### 2-1 Two transitions: China vis-à-vis Russia

##### *Brief review on China economic performances*

Nationally, China has transformed dramatically over the past three decades. In terms of GDP at current price, China grew about 30 times in past 25 years, from 451 billion RMB in 1980 up to 13, 687 billion RMB in 2004 (estimated). GDP per capita was increased, from 460 RMB to 10,561 RMB in 2004 (estimated) (Table 2-1). In addition, the industrial structure changed radically. In 1980, 69% of employees and 30% of GDP were in agriculture; by 2004, its share was just 47% of employment and 15% of GDP, with manufacturing remaining constant while service industries grew rapidly, especially in employment terms (Table 2-2).

Table 2-1: The economic performance of China from 1980 to 2004

	1980	1985	1990	1995	2000	2004*
GDP (billion RMB)	451.8	896.4	1,854.8	5,847.8	8,946.8	13,687.6
GDP per capita (RMB)	460	853	1,634	4,854	7,086	10,561

Note\*: Data calculated at current price, and data on 2004 are preliminary estimates

Source: China Statistics Yearbook (2005)

<sup>11</sup> The inscription was offered by Hu, the then PM of China, to Shenzhen Special Economic Zone (SPZ) in 1984. By then there was some disagreement toward SEZ. By doing so, Hu intended to encourage the development of SPZ.

Table 2-2: Change in economic structure from 1980 to 2004

	1980	1985	1990	1995	2000	2004*
	I : II: III*	I : II: III	I : II: III	I : II: III	I : II: III	I: II: III
Share of GDP	30:49:21	28:43:29	27:42:31	21:49:31	16:51:33	15: 53:32
Share of employment	69:18:13	62:21:17	60:21:19	52:23:25	50:23:27	47: 23:30

Note\*: Data calculated at current price, and data on 2004 are preliminary estimates

Note \*\*: The primary industry refers to activities regarding farming, forestry, animal husbandry and fishery; the secondary industry involves mining, manufacturing, utility, and construction industry; the tertiary industry concerns all other productive activities.

Source: same as Table 2-1

China's industrialization was related to engaging globalization through FDI and trade (World Bank 1997). In terms of realized foreign capital (including foreign loan, FDI and other foreign activities), China attracted just US\$ 4.8 billion in 1985, but US\$ 64.1 billion in 2004. Regarding the structure of realized foreign capital, FDI has played an overwhelmingly important role, from 37% of total foreign capital in China in 1985 up to 68.5% in 2000. By contrast, foreign loan became much less significant over time. Along with that is the growth of foreign capital as a share of GDP, from only 1.5% in 1985 to highest 7.0% in 1995, and it was near 4% in 2004. Trade grew similarly fast. From US\$ 27.3 billion export and US\$ 42.3 billion import in 1980, China's trade grew to US\$ 593.3 billion of export and US\$ 561.2 billion of import by 2004. The share of trade in GDP terms grew from less than 25% in 1985 to more than 70% in 2004 (Table 2-3). By 2003, China became the biggest FDI receipt country in the world as well as the 4<sup>th</sup> and 3<sup>rd</sup> export and import economy respectively.

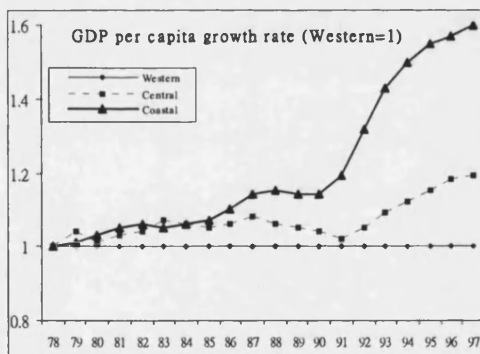
Table 2-3: FDI and trade from 1980 to 2000 (unit: US\$ billion)

	1985	1990	1995	2000	2004
Realized Foreign Capital	4.8	10.3	48.1	59.4	64.1
Foreign loan	2.5	6.5	10.3	10.1	--
Foreign direct investment	2.0	3.5	37.5	40.7	60.6
Others	0.3	0.3	0.3	8.6	3.5
Foreign capital as of GDP	1.5%	2.7%	7.0%	5.5%	3.9%
Trade	69.6	115.4	208.9	474.3	1,154.9
Export	27.3	62.1	148.8	249.2	593.3
Import	42.3	53.3	132.1	225.1	561.2
Trade as of GDP	23%	30%	40%	44%	73%

Source: same as Table 2-1

However, it does not mean that China had no economic development problems. Apart from continuous economic growth over decades, there had been many accumulated problems, such as corruption (Root 1996; White 1996) and bad loans in the state banking system (Lardy 1998; Lin, Cai et al. 2003); increased unemployment and income insecurity (Khan and Riskin 2001); losses of state-owned companies (Lin, Cai et al. 2003); and mounting environmental pressures (Cannon 2000).<sup>12</sup> In addition, the economic transition in China was very geographically uneven. The relative growth rate of GDP per capita in coastal China was about 10-20% higher than its western counterpart every year before 1991, and even 40% or higher after 1993. The central region also advanced around 10-20% more than the west every year before 1997 (Bao, Chang et al. 2002).

Figure 2-1: The relative growth rate of GDP by regions in 1978-97



Note: the growth rate is a relative measure with the western regions as 1.0  
 Source: revised from Bao, Chang et al. (2002)

### *China's rise in contrast to Russia's fall*

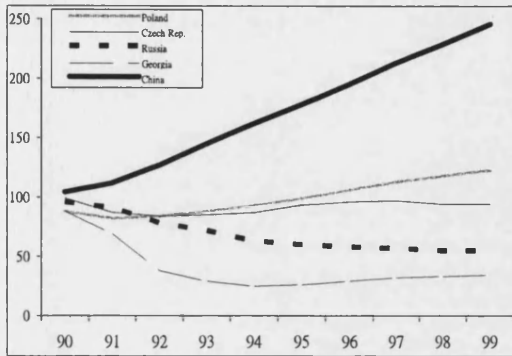
Like China, Central and East Europe (CEE) and Commonwealth of Independent States (CIS, former members of Soviet Union) had practised a communist and socialist political and economic structure before they started transition reforms. In the past,

<sup>12</sup> Policy assessments about the development problems in China had been also mentioned in every year state report by Director of the Planning Committee of the State Council to National People's Congress.

politically, the operations in these countries were dominated by communist parties; and economically, the functions were based on state-planning with a very limited market system. While China started to change in the late 1970s, Eastern Europe and the Soviet Union only began their reforms in the 1980s and implemented more dramatic agendas particularly after the collapse of the Berlin Wall in 1989. The political transition, including liberalization of political control, general democratic election, and free media, involve replacing the single-party polity with liberal democracy and civic society. The economic transition, composed of price mechanism, trade liberalization, privatization, and marketization, aimed to quickly turn a centrally planned economy into a functioning market economy (Pickles and Smith 1998; Sokol 2001).

It is easy to identify two different outcomes of transition economies. Although the Chinese Communist Party (CCP) was still the only dominant party, the outcome of economic transformation in China was relatively better growth and rapid improvements in living standards (Figure 2-2). In sharp contrast to China, however, the CEE and CIS experienced a severe recession during the initial phase of the transition. Some of these countries, like Poland, fortunately had grown at a fairly rapid pace since 1993; while others, such as the Czech Republic, Hungary, and the Slovak Republic, which also had been affected by the initial economic downturn, have now fully recovered and regained the level of economic output they had at the beginning of transition. Worst situations were witnessed in other CIS countries. By 1999, Russia had only recovered 80% of its 1990 GDP level while Georgia had only recovered 50% (Figure 2-2). Accompanying economic hardship were political instability, social polarization, ethnic and religious fragmentation, crime and corruption, income inequality and growing regional disparities, even the collapse of whole political system, as with the break-up of the Soviet Union (Pickles and Smith 1998; Sokol 2001; Fedorov 2002).

Figure 2-2: GDP index (1989=100) in selected transition economies 1990–1999



Source: [www.dse.unifi.it/ricerca/124cornia.pdf](http://www.dse.unifi.it/ricerca/124cornia.pdf)

There are many reasons to explain why China could go a different way from other transition economies. First of all, China did not have to cope with large foreign debt. With a policy of limited foreign borrowing in the 1980s, the figure of foreign debts as a proportion of exports in China stood at only 87%, compared to an average of 308% for other low income countries and 160% for middle income countries. From this perspective, China was allowed to remain completely independent in policy formation. However, in Russia, monetary expansion alongside fiscal crisis went a comprehensive failure to control imports in the 1980s, resulting in deterioration in the foreign trade position and a rise in the gross external debt. Therefore, Russia was forced to lose its independence and become subject to IMF conditionality (Nolan 1995; Walder 1995b). Secondly, rich overseas Chinese from Hong Kong and Taiwan played an important role as foreign direct investors in developing export-oriented industries and transferring knowledge of management and technology (Nolan 1993; Zhang 1994; Fan 1995a). By contrast, Russian expatriates did not make any significant contributions to their country's transition.

Third, China and Russia began their reforms at different stages of development in many dimensions. At the beginning, the planning system in Russia was colossal compared to that in China. The number of commodities subject to the central government's allocation in Russia was from none in the late 1920s, to around 1,600 in the early 1950s, and up to an enormous 60,000 by the late 1970s. However, the number in China in 1978 was just slightly higher than the 1957 level (only about 500). It shows that reform of the planning system in Russia would inevitably be more complicated than the initial reforms in China (Qian 1999b).

In terms of employment structure by sector, China was a peasant society at the start of Deng's reforms in the late 1970s whereas Russia was an overwhelmingly urban and industrial system at the beginning of Gorbachev's reform in the mid of 1980s (Table 2-4). The average income per capita in China prior to reform was much lower than that in Russia. Moreover, in terms of employment structure by organization, only 18% of China's workers were in state-owned enterprises (SOEs) in 1978, while the share in Russia was effectively 99% in 1985 (Table 2-5). Such structural difference also meant that there was no reserve of labour outside of the SOE sectors in Russia that could provide the engine of growth for a new non-state sector. In addition, the growth of the non-state sector effectively required the decline of the state sector which dominated the economy (Woo 1999b). Therefore, reforms toward market-oriented adjustment in Russia required shrinkages of industrial output, layoffs of SOE workers and wage cuts. Such tasks were more difficult, compared to the reforms in China which involved transforming from an agricultural to an industrial by releasing large number of labour from the rural to the urban sector and raising income of the peasants (Nolan 1993; Sachs and Woo 1994; Woo 1999b).

Table 2-4: Employment structure by sectors in China and Russia

	Agriculture	Industry	Construction	Transportation	Commerce	Others
China (1978)	71%	15%	2%	2%	3%	7%
Russia (1985)	14%	32%	10%	10%	8%	26%

Source: Sachs and Woo (1994)

Table 2-5: Composition of employment by types of organizations in China and Russia

	State enterprises	Collective agriculture	Urban collectives	Industrial township-village enterprises	Private and other
China (1978)	18.6%	72%	5.1%	4.3%	0.0%
Russia (1985)	93.1%	6.0%	--	--	0.9%

Source: Woo (1999b)

### *Dual-track in China vis-à-vis shock-therapy in Russia*

Beyond these initial structural differences between China and Russia, there are major differences between China and Russia in the transition process: the former practised 'gradual reform', whereas the latter carried out 'shock therapy'.<sup>13</sup> Shock therapy, regarded as a rapid move toward a system of market economy combined with plural democracy, was advised for most CEE and CIS states by western institutions and consultants. The basic proposition behind shock therapy was that market socialism could not take effect without the following preconditions- private property rights had to be established, prices should be determined by market forces, these should be full integration into the world economy, and implementation of democratic political institutions. It means that: economically, the market transition had to replace planned system suddenly and completely rather than gradually; and politically, economic reforms ought to have been put in effect simultaneously with the establishment of a liberal multiple-party democracy (Nolan 1995; Pickles and Smith 1998).

<sup>13</sup> It must be noted that shock therapy vis-à-vis gradualism is not the only difference between Russia and China. The other crucial factor is the procedures of privatization and decentralization in relation to soft/hard budget constraints to local governments (See Chapter Four, below).



In Russia, the first contested elections took place in 1989. In February 1990 the Communist Party of Soviet Union formally ended its monopoly of power. On 1<sup>st</sup> January 1991, most prices were completely freed from government control. In November 1992, full current account convertibility was established for residents and the Rouble was allowed to float freely. A new tariff structure was introduced in mid 1992 at just 5-15% for most products. By the end of 1994, it was estimated that 70% of state property had been transferred to private hands and 70% of workers were working in the private sectors. However, the results were a disaster. Apart from the decline of GDP, the export slumped to half from 1990 to 1994. Investment fell by 50% in just two years (from 1990 to 1992). The annual change rate of retail price was 98.4% in 1991 and then around 1,300% in 1992 and 1993. To sum up, these disasters together brought a collapse of living standards (Nolan 1995).

Compared to the shock therapy in which reforms on all dimensions took place simultaneously in Russia, the path of 'gradual reforms' was followed in China. First, politically, with very limited democratization, all transitions were still entirely controlled by the CCP. Second, economically, transitions toward market system were pursued via a dual-track system with an unchanged plan-based track still operating in parallel with the deregulated market-based track, with the market track increasing in importance gradually over time.<sup>14</sup>

The strategies of dual-track reform can be shown in various formats, including sectoral reform, price deregulation, enterprise restructuring, trade promotion, foreign exchange

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<sup>14</sup> The concept of 'dual-track' post-Mao transition was applied to new development as well as the deregulation of old ones. For example, there are two parallel urbanization processes happening in Shenzhen since 1980: one as state-sponsored urbanization and the other as spontaneous urbanization (Wong, Shen et al. 2003).

management; domestic currency issuance and land reforms (Nolan 1995; Sachs and Woo 1997a; Yeh and Wu 1999; Qian 1999a; Sachs, Woo et al. 2000; Lin, Cai et al. 2003; Yeh 2005). Take price reform as an example. Unlike Russia that freed most prices just on 1<sup>st</sup> January of 1991, China liberated prices gradually from a pure planned system to a mixture of planned and market-based and finally to a complete market function. Under the plan track, economic agents still set the quota and price of certain commodities as they did prior to 1978. Any production above this amount was free to be sold on the market at higher prices (Shirk 1992). In terms of the industrial goods market, the proportion of productions sold at plan prices fell from 100% in 1978 to 64% in 1985 and 44.6% by 1990 (Table 2-6). Similar situations also happened with retail goods and agriculture products, taking about fifteen years of dual-track to transit from totally plan-based prices to complete market prices (Table 2-6) (Nolan 1995; Lau, Qian et al. 1997).

Table 2-6: Dual-track pricing in industrial goods, retail sales

Items		1978	1985	1990	1996	2000
Industrial goods market*	at plan prices	100%	64%	44.6%	n.a.	9.5%
	government-guild price					
	at market prices	0%	36%	55.4%	n.a.	90.5%
Agricultural products*	at plan prices	94.4%	37%	25.0%	16.9%	2.7%
	government-guild price			23.4%	4.1%	
	at market prices	5.6%	63%	51.6%	79.0%	97.3%
Retail sales**	at plan prices	97.0%	47%	29.8%	6.3%	2.6%
	government-guild price			17.2%	1.2%	
	at market prices	3%	53%	70%	92.5%	97.4%

Note: % of out value for \* or sales for \*\*;

Sources: Lau, Qian et al. (1997), Nolan (1995), and Lin, Cai et al.(2003); World Bank (2005a)

In addition, regarding enterprising restructuring, there was a dual-track of coexistence between state-owned enterprises and non-state non-agriculture sectors (Goldstein 1995; Oppen 2001). In 1978, in terms of the ownership structure of industrial production, state-owned sectors contributed 78%. By 1992, this had fell to 48%, and the rest of 52%

were shared by diversified types of ownerships, including collective ownership for 38%, the domestic private sector for 7% and foreign-owned companies for 4%, and others (like joint-venture) for 3% (Naughton 1994). In terms of non-farm employment, during the period from 1978 to 1994, jobs in the non-state sector increased from 48.9 million to 204 million, while those in the state-sector also grew but only from 74.5 million to 112 million, representing the growth rates of 400% and of 50% respectively. By the early 1990s, 86% of growth was in the non state sector (Table 2-7).

Table 2-7: Dual-track change in non-farm employment (unit: million person)

	1978	1985	1990	1994
State sector	74.5	89.9	103.5	112.1
Non-state sectors	48.9	107.9	152.5	204.9

Sources: Lau, Qian et al. (1997)

Even within the state sector, there was also a dual-track. Starting from 1980, while pre-existing employees maintained their permanent employment status, most of new hires in the state-sector were made under a more flexible market-style contract system (Lau, Qian et al. 1997). In 1994, of total 112 millions of employment in the state sector, 28.5 millions (about 25%) were paid close to market wage rates, and some of them were even without state-provided housing (Lau, Qian et al. 1997). To sum up, in terms of ownership reform, China adopted a dual-track program to allow state and market sectors to evolve together, with increasing importance for the market sectors of activities and employment.

### *Experimentalism and policy diffusion of dual-track reforms*

How should we understand the operations of post-Mao gradual reforms on the basis of this dual-track system? Broadly speaking, the so-called 'experimentalist school', which seems the dominant explanation of China's transition, attributes its successes to the

'intentions' of China leaders for evolutionary, experimental and incremental reform (Sachs and Woo 1997b). After Deng held office, China reengaged with the world economy on a basis of sequential trial-and-error involving experimentation in a few local areas or sectors. If these 'beta' experiments succeeded, such policies would be recommended and promoted to more areas and sectors, or even all provinces and sectors (Nolan and Ash 1995; World Bank 1997). This can be illustrated in the speech by Deng in 1987:

...In the beginning, two provinces [Sichuan and Anhui] took a lead [in the agricultural reform]. We worked out the principles and policies of reform on the basis of the experiences accumulated in these two provinces.... (Deng, 1987; cited from Nolan (1995))

In 1978, households in a village of Anhui province began to contract with the local government for delivering a fixed quota of grain in exchange for farming on a household basis. At that time, almost all of the production teams in Chinese rural areas still operated under the traditional collective farming system. The 'decollectivization' program was implemented in the dual-track way at the national scale. In 1980, only 14.4% of production teams practiced decollectivization with the rest remaining on the old collectivized track. But three years later, decollectivization was implemented in most places (Table 2-8). Geographically, as early as 1980, Anhui had a majority production teams practicing decollectivization. Although the national average reached 50% in 1981, there were still some provinces, such as Yunnan, Jilin, and Heilongjiang, far behind the national trend (Table 2-9).

Table 2-8: Dual-track in decollectivization of production team

	1980	1981	1982	1983*
Collectivization program	85.6%	50.0%	21.8%	7.0%
Decollectivization program	14.4%	50.0%	78.2%	93%

Note\*: data was up till August 1983

Source: Chung (2000)

Table 2-9: Dual-track in decollectivization of production team in selected provinces

	1979	1980	1981	1982
Anhui	10%	66.9%	84.6%	98.8%
Shandong	2.4%	27.6%	55.9%	96.8%
Hebei**	n.a.	1.0%*	65.0%	96.9%
Yunnan	n.a.	22.7%	35.5%	91.7%
Jilin	n.a.	1.0%	10.0%	30.0%
Heilongjiang	n.a.	n.a.	0.7%*	12.0%

Note\*: the data for Hebei in 1980 was up till September, for Heilongjiang in 1981 was up till September.

Note\*\*: the data for Hubei referred to *bao gan dao bu*

Source: same as Table 2-8

The experimentalist approach was thus one of 'policy diffusion' from one pioneering region to others (Goodman 1997; Cao, Qian et al. 1999). This pattern of local experiment followed by diffusion to other regions can be found in many cases. For example, a practice of processing investment application in a one-stop service rather than making investors go to different governmental departments was pioneered in Dongguan city of Guangdong and then spread out to the rest of China (Zhang 1994). A type of cooperative joint venture for attracting FDI, a policy that allowed local governments to use existing properties as assets to establish joint operations with foreign investors, was also a creation of Guangdong province and later adopted by the central government in Beijing for other provinces (Zhang 1994). Another example is the privatization of small-and medium-sized SOEs in China in the mid-1990s that began in Yibin of Sichuan, Shunde of Guangdong, and so on. County officials had to take full responsibilities in coordinating all the related policies, such as changes in corporate governance, ownership structure, dealing with bad debts, and so on. But, based on their successful experience, the policy later was promoted to other regions by the centre in Beijing (Qian and Roland 1998; Cao, Qian et al. 1999; Woo 1999b).

Interestingly, such diffusions of the so-called 'successful' experimentation were promoted not only by the central officials but also by policy agents at the local level (Eng 1999). In the late 1980s, the governor of Shaanxi province observed that the reason why Guangdong province achieved fast economic growth was because the markets in Guangdong were open to interregional trade. Consequently, in 1991, the Shaanxi provincial government released its control over 125 commodity prices and withdrew 12,289 tax offices. In the second half of 1991, the business tax collection of commerce dramatically increased by 20.1% over the same period of 1990. Later, other provinces established similar organizations to imitate Shaanxi's efforts, such as Jiangsu's 'market guidance and coordination council', Guizhou's 'coordination team for market circulation reform' (Montinola, Qian et al. 1995). From case studies in south Jiangxi, Murphy (2000) notes that returnees from relatively- developed regions to their hometowns used their coastal and urban experiences and resources to engage with the inner and rural local leaders in the ways of promoting better business environment and infrastructure. Their actions made these hometowns more conducive to business for local economic development than before. The dynamic roles played by returnee agents can be regarded both as one of information transfer and as one of entrepreneurship in rural localities where the local agents had been isolated from wider market and information linkages due to communist restriction from Mao to Deng. To sum up, the policy diffusions from pioneering regions to laggard ones can be understood as one of the key geographical consequences of the dual-track gradualist approach to reform.

### ***Compromised politics beyond dual-track reform***

However, the experimentalist interpretation fails to explain the negative impact of gradual reforms. For example, from the viewpoint of the experimentalist school, the

dual-track in enterprise restructuring resulted in a situation of improving productivity growth as well as sectoral allocation and production and investment without laying off employees (Sachs and Woo 1997b). Che (2000) argues that by providing both development of the remaining planned SOE sectors and that of joining the emerging market in the non-state sectors, the dual track approach offered a relatively stable macro environment as compared with the collapsed Eastern European countries and Russia. This was called ‘reforms without losers’ (Lau, Qian et al. 1997). But in reality, state-owned companies continued to experience poor performance after reforms, at least relative to the non-state sectors. In the early 1990s, one third of SOEs explicitly lost money, while another third made losses that were hidden by creative accounting. In the enterprise restructuring reform, the state-owned enterprises in general still had serious problems due to excessive investment in fixed assets with very low return rates (Sachs and Woo 1994; 1997b; Woo 1999a; Lin, Cai et al. 2003). The failure of the SOE reform can also be demonstrated using the disproportionate contributions to GDP relative to the allocation of loans. In 2002 SOEs created 65% of loans in China but only contributed 25% of GDP and 17% of enterprises (Table 2-10). The experimentalist school seems unable to offer an explanation as to why the reformers would have ‘intentionally’ pursued such a questionable dual-track strategy of enterprise restructuring?

Table 2-10: Misallocation of capital in state-owned enterprise in 2002

	% of Enterprises	Contribution to GDP %	Share of loans %
State-own enterprise	17%	25%	65%
Quasi-private enterprises*	52%	45%	25%
Local small and middle-size private enterprises	31%	30%	15%

Note: \* referring to foreign investment and large private enterprises

Source: Mckinsey Quaterly, 2004 Special Edition China Today<sup>15</sup>

<sup>15</sup> News website: [http://www.mckinseyquarterly.com/article\\_page.aspx?ar=1483&L2=7&L3=8](http://www.mckinseyquarterly.com/article_page.aspx?ar=1483&L2=7&L3=8), downloaded on 2005/11/10.

Therefore, it is better for us to look back at the political context during the post-Mao China period to understand the circumstances that promoted the dual-track gradualist approach to reform. One background was the factional politics of post-Mao China. There were at least two distinct attitudes to policies for transition: for market-oriented reformers and conservative-oriented reformers.<sup>16</sup> The first group consisted of people such as HU Yaobang, the PM of China 1977-1987, and ZHAO Ziyang, the PM between 1987- 1989. The market-oriented approach of material incentives and promoting household responsibility was to replace the production-team cooperation system. Moreover, they were also more inclined to private sectors and decentralization to local governments. Such market-oriented economic programs were also favoured by intellectuals at the time (Table 2-11) (Lichtenstein 1991; Breslin 1996; Woo 1999a).

Table 2-11: Market-oriented and conservative economic programs in comparison

	<b>The conservative-minded Reformers</b>	<b>The market-oriented Reformers</b>
ideal organization of a socialist economy	■ Central planning with limited market activities, like birdcage economy	■ Market socialism, complete decentralization
chief instrument to motivate work effort	■ Limited use of material incentives,	■ Material incentives
agricultural sector policy	■ Small co-operatives, ■ The medium is efficient compromise with ideology of egalitarianism	■ Household farming, ■ Small is beautiful
urban industrial sectors	■ Complete state ownership with central planning dictating all enterprise operations	■ Complete state ownership with complete operational autonomy to managers
rural industrial sector policy	■ Reserve industries for urban areas	■ Rural enterprises are acceptable if collectively owned and self-financed
service sector policy	■ Small private business are acceptable and central planning fro SOEs	■ Small private sector is acceptable and operational autonomy for SOEs

Source: from Woo (1999a)

<sup>16</sup> Woo (1999a) argues that there is the third faction who insisted on a Maoist economic program. However, compared to the conservative-based and market-oriented programs, the Maoist program can be regarded as a very minor faction.



On the other hand, CHEN Yun who represented a key supporter for the conservative-oriented economic reformers was the most important politician in charge of economic readjustment in the early 1960's and again in the late 1970's. By addressing the importance of a planned economy under the control of the centre, Chen argued that the aim of reform was to restore the 'correct policies', namely, to balance the economy and re-institutionalize the Leninist central bureaucratic command system. His concept can be clearly understood in terms of his famous theory of the 'bird cage':

'We cannot hold the bird too tightly. If we do so, the bird will be suffocated. Therefore, we must allow it to fly, but only allow it to fly within a cage. If there were no cage, it would fly away. If we can say that the bird is the revitalization of the economy, then the cage is the state plan. Of course, the size of this 'cage' must be proper. This 'cage' *per se* must continuously be adjusted.'<sup>17</sup>

Hu and Zhao entered the office of chairman of CCP and PM of the State Council, while Chen was only the vice Prime Minister responsible for economic affairs in the early 1980's. However, no one can neglect the importance of Chen, particularly his associates, LI Xiannian and YAO Yilin. Yao dominated the state planning commission while Li controlled the CCP propaganda apparatus (Fewsmith 2000; Saich 2004). Moreover, many party cadres in the state bureaucracy as well as the army were also supporters of Chen's conservative-oriented economic programs (Woo 1999a).

Apart from the factional politics, the other important background was the consensus-based decision making process (Shirk 1993). After the political disasters of the 1960s and 1970s, the governing system was based on collective decision-making institutions in order to replace the over-concentration of power and the charismatic and patriarchal rule which characterized Mao's China. Although Deng was well-recognized as the

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<sup>17</sup> News source: Eighty Years in the History of the Chinese Communist Party- 1982.  
<http://www.people.com.cn/GB/shizheng/252/5580/5581/20010612/487205.html>.

paramount leader who supported market-oriented programs, the highest decision-making institutions, namely, the Politburo of CCP, still made decisions by consensus not by majority rule for many reasons. First, Deng and the market-oriented leaders were forced to unite with the conservative members of the rehabilitated faction in order to sack Hua Guofeng, the successor personally chosen by Mao. Second, Deng and market-minded reformers also needed to comfort factions in the army who saw themselves as the defenders of Mao's legacy of nationalistic self-reliance in economic matters and state control of industries. Moreover, Deng himself would like to create a counterweight to the market-oriented leaders if necessary (Woo 1999a). Taken together, the reason why the gradualist approach of reforms on a basis of dual-track system took place at the beginning of the reform indeed was partly because of compromises of politics beyond the transition period in the 1980s.

## **2-2 Political Economy of Open Door Policy- a Spatial Perspective**

### ***Policy of international trade and investment: from a ban to liberalization***

One of the most significant domains of policy innovation in post-Mao China with a geographic dimension has been that of industrial development zones. These have been a key element in the package of 'open-door' policies, referring to a process of liberalization in international trade and foreign investment since 1978, by which China is able to successfully play an important role in economic and political geography not only in Asia but also in the world.

Prior to 1978, China was effectively a closed economy. In the 1950s and 1960s, most of China's trade and foreign investment flows were with the former Soviet Union, due to the barriers of the Cold War. After the break-down of Sino-Soviet relations in 1960s,

China underwent a self-development policy and, therefore, was largely isolated from the world economy until 1978. Trade in Mao's time just functioned as a balancing item for domestic supply gaps in key industrial sectors. Most of its exports were primary products, seen simply as a means to generate foreign exchange to finance necessary imports. Before 1980, the difference between export and import was always within 0.5 billion RMB (Table 2-12). There were only twelve state-owned foreign trade companies that controlled all trade activities (Howell 1993; Wei 2004; Xu 2004). The ban on FDI and trade with the west was formally lifted in the wake of the visit of American President Nixon in 1972, but a number of severe restrictions on FDI remained in place, including a ban on external financing of FDI projects.<sup>18</sup>

Table 2-12: Export and Import from 1950 to 2000 (unit: billion RMB)

	Exports (1)	Imports (2)	Balance (1) - (2)
1950	0.6	0.6	0.0
1955	1.4	1.7	(- 0.3)
1960	1.9	2.0	(- 0.1)
1965	2.2	2.0	0.2
1970	2.3	2.3	(- 0.1)
1975	7.3	7.5	(- 0.2)
1980	18.1	20.0	(- 1.9)
1985	27.3	42.3	(-14.9)
1990	62.1	53.3	8.7
1995	148.8	132.1	16.7
2000	249.2	225.1	24.1
2004	593.3	561.2	32.1

Note: Data before 1979 were obtained from the Ministry of Foreign Trade, and the data since 1980 have been obtained from the General Customs statistics

Source: compiled by 1949-1999 China Statistical Data Compilation, All China Marketing Research Co. Ltd and China Statistics Yearbook (2005)

During the post-Mao period, China engaged with globalization through the liberalization of FDI and trade. It started with the passage of the law of 'joint-venture' in 1979, marking the start of lawful involvement with foreign investors. Later, China lifted the restriction on foreign ownerships. In addition, there was a more relaxed attitude toward central control of FDI projects like intentionally or/unintentionally

<sup>18</sup> Prior to 1978 the level of FDI was so negligible that there was no data shown in the statistical records.

allowing local negotiation of taxation and financing offers. Along with FDI development, another important feature was trade growth. Trade policy reform began with a decentralization of foreign trade management and liberalization of state control over trading activities (Fukasaku and Lecomte 1996). Starting from 1983, provincial governments were allowed to deal with joint venture applications whose investment per project was less than US\$ 3 million. The upper limit was raised to US\$ 10 million in 1985 and then to US\$ 30 million for certain coastal provinces in 1988 (Zhang 1994). The number of foreign trade companies grew from just 12 in 1977 to 1,500 in 1986, and 5,000 in 1995. Grant licensing was also decentralized, so that by 1988 more than 60% (166 items) of it could be made by contracts with provincial authorities (Zhang and Zou 1994).

The so-called open-door policy can be divided into two stages with 1994 as a watershed (Fukasaku, Ma et al. 1999; Qian 1999b).<sup>19</sup> Before then, the open door policy was small scale, decentralizing part of the competencies to the local level, while still keeping certain controls in the hands of the central government in Beijing. The initial target activities were exported-oriented labour-intensive firms. After 1994, however, the scale and scope of the open-door policy was expanded, including the tasks of restructuring the state-owned foreign trade companies, lowering more industrial tariffs, reducing greater non-tariff barriers, opening up agricultural and service markets, unifying the foreign exchange management (Table 2-13) (Fukasaku, Ma et al. 1999).

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<sup>19</sup> 1994 as watershed is related to a report 'Decision on Issues Concerning the Establishment of a Socialist Market Economic Structure', which was adopted by the Third Plenum of the 14<sup>th</sup> Party Congress. The report remarked for the first time that China announced to accept a market rather than planned economy. The document made four major advances, including a more rule-based system, building market-supporting institutions, protecting property rights and ownership (Qian 1999b).

**Table 2-13: Two stages in China's open-door regime**

	Before 1994	After 1994
Foreign trade regime	<ul style="list-style-type: none"> <li>■ To decentralize trade powers to local governments</li> <li>■ To reduce the scope of trade planning</li> <li>■ To abolish export subsidies</li> <li>■ To lower industrial tariffs and non-tariff barriers</li> </ul>	<ul style="list-style-type: none"> <li>■ To further decentralize more trade powers to local governments</li> <li>■ To abolish mandatory export plans</li> <li>■ To further reduce industrial tariffs and non-tariffs barriers</li> <li>■ To issue the first foreign trade law</li> </ul>
Foreign exchange management	<ul style="list-style-type: none"> <li>■ To create the foreign-exchange retention system</li> <li>■ To establish foreign-exchange adjustment centres</li> <li>■ To devalue successively official exchange rates</li> </ul>	<ul style="list-style-type: none"> <li>■ To unify official and market exchange rates</li> <li>■ To peg at constant account convertibility</li> </ul>
Foreign investment regime	<ul style="list-style-type: none"> <li>■ To welcome foreign investment</li> <li>■ To introduce laws, rules, and regulations</li> <li>■ To establish fiscal and other incentives</li> </ul>	<ul style="list-style-type: none"> <li>■ To further improve the legal environment</li> <li>■ To open more sectors to foreign investors</li> </ul>
Role of development zones	<ul style="list-style-type: none"> <li>■ As a window and a bridge</li> <li>■ As economic laboratories</li> <li>■ As a vehicle for export expansion</li> </ul>	<ul style="list-style-type: none"> <li>■ To generalize preferential policies to a nationwide level</li> <li>■ To grant foreign enterprises national treatments following the experiment in Shenzhen</li> <li>■ To give priorities to capital and technology-intensive industries</li> </ul>

Source: Fukasaku and Lecomte (1996) and Fukasaku, Ma et al. (1999)

By 2003, China was attracting US\$ 53.5 billion in terms of contract FDI, overtaking the United State as the top FDI inflow country in the world. Also by 2004, China generated US\$ 1,155 billion of merchandise trade consisting of US\$ 593.3 billion of export and US\$ 561.2 billion of import. The amounts of export and import were ranked as top five in the world. Annual growth rates in these reached 34% and 40 % respectively, making China the fastest trade-generating country in the world.<sup>20</sup> In terms of share in foreign capital of GDP, FDI rose from a negligible level in 1980 to 5.5% in 2000. Similarly, the share trade in GDP was sharply raised from 23.6% by 1985 to 73% by 2004 (Table 2-3 above). The importance of FDI for Chinese development can also be seen from an international comparison of the share of FDI in gross fixed capital formation. In 1993-1997, this amounted to 15% for China; as compared with 6% in the United States (Huang 2001b). Internationally there started to be concerns that China's dramatic

<sup>20</sup> Website source: [http://www.wto.org/english/res\\_e/statis\\_e/its2004\\_e/its04\\_overview\\_e.pdf](http://www.wto.org/english/res_e/statis_e/its2004_e/its04_overview_e.pdf).

development was crowding out other developing countries in bidding for FDI. Trade conflicts between China and other countries occurred in WTO meetings more frequently than before. All these facts signalled a clear message about the success of the Chinese policy of FDI and trade liberalization during the post-Mao transition period.

### *Political economy of special economic zones*

The idea of development zones was one of the key elements in the programmes of FDI and trade liberalization (Table 2-13 above) (Park 1997; Fukasaku, Ma et al. 1999). In China, the concept of a development zone covers all types of spatially restricted areas with preferential deregulation policies targeting foreign investments. Such spatially-bounded deregulation policies included tax breaks for export industries, lower tariffs on imports, duty free to imports aiming at producing exports, favourable terms for loans and credits and subsidies, higher foreign exchange retention rates, faster financial and legal approval, and employment policy in accordance with the employers' performance (Phillips and Yeh 1989; Wu 1999; Chung 1999a; Demurger, Sachs et al. 2001). The inspiration behind the idea of development zones was the export processing zones in countries elsewhere in East and Southeast Asia that had launched their dynamic export-led industrialization by offering preferential policies exclusively for foreign investors without significantly opening-up their domestic markets.

However, the policy of development zones in relation to FDI attraction and trade generation was very controversial at the start. Two factions can be identified within the central government in Beijing, with different outlooks on open-door economic programs. On the one side, market-oriented reformers advocated greater openness and sought a quicker pace and a greater regional and institutional extent of opening up, as well as a diversity of forms, and a wider range of partners (Howell 1993). These

market-oriented reformers argued that development zones favouring foreign investment and trade could help China in many dimensions: to attract foreign capital, to resolve a problem of shortage of domestic capital, to bring in new technology and management know-how, and to participate in the international division of labour in relation to the improvement of economic efficiency (Table 2-14) (Howell 1993; Zhang and Thoburn 1995).

Table 2-14: Policy clusters involving more vis-à-vis less opening-up

Lesser Opening	Greater Opening
Recentralization of: (1) right to approve foreign trade, foreign investment, foreign borrowing contracts (2) rights to retain and use own foreign exchange earnings (3) rights to engage in imports and exports	Decentralization of: (1) right to approve foreign trade, foreign investment, foreign borrowing contracts (2) rights to retain and use own foreign exchange earnings (3) rights to engage in imports and exports
Restrictions of (1)- (3) to limited areas	Extension of (1)- (3) to areas over and above experimental sites
Decrease concessions offered to already open areas	Increase concessions to already open areas
Limited on countries to which China will open up	Expansion of external economic relations to more regions and countries
Delays in establishing Open Policy	Institutionalization of Open Policy, namely, introduction of new laws and regulations at national and provincial levels in line with international practices
Delay in going ahead with new ideas	Innovation in the forms of Open Policy, such as, SEZs, land leasing and industrial parks
Imposition of restrictions on imports	Easing up restrictions on imports, especially materials used in export processing
Restrictions on tax and sales incentives to foreign investors like domestic sales	Tax and Sales incentives to foreign investors, like domestic sales
Projects cancellations and delays	New contracts and projects

Source: Howell (1993)

On the other side, more conservative-minded reformers were against such great opening up. The policies they proposed involved less openness with a slower pace, narrow extent, restricted forms and fewer external partners (Howell 1993). From this perspective, they addressed the potential negative consequences of foreign investment and trade. They criticized that particular foreign tax concessions in specific areas were

like the extraterritoriality of foreign power, or like 'countries within the country (*gou zhong zhi gou*)'. And the policy that allowed wholly foreign owned subsidiaries to repatriate profits earned in China was seen as a regression back to imperialist exploitation. Moreover, for these conservatives, development zones were a route through which capitalism and western culture could bring 'spiritual pollution' and 'bourgeois liberalism' into China (Table 2-14 above) (Crane 1990; Howell 1993). As argued earlier, the gradualness of post-Mao reforms was actually a response to political circumstances in Beijing so that the market-oriented reformers tried to take cautious steps by promoting the geographically-specific dual-track strategy, namely, development zones (Wang and Bradburg 1986; Sachs and Woo 1997b; Woo 1999a).

One more point is worth noting. Such factional politics between market- and conservative-oriented reformers created a spiral path for the open policy. In the period of cyclical upswings, like December 1978, early 1982, January 1984, mid 1986, October 1987, and mid 1990, social and political forces with an interest in more opening-up cooperated to push the policy forwards. However, the opening up brought economic disorder as a consequence. And then in the period of downswings, such as early 1981, autumn 1983, mid 1985, early 1987, June 1989, social and political forces with an interest in curbing the Open Policy launched ideological campaigning and demanded a weakening of opening up policies (Howell 1993). This overall trend was clearly upward, however.

#### *A pioneer: four special economic zones*

In the context of struggles between market- and conservative- reforms in the centre, it was unlikely that the market-oriented reformers could introduce the open door policy across China as a whole at the beginning. The designation of development zones in



coastal regions thus became a necessary political compromise. The choice of locations for pioneering development zones reflected not only an economic calculation of how best to attract FDI, but also involved an ideological change in regional policy together with the power struggle within the central government in Beijing.

First, there was a change of regional policy after 1978. During the Mao period, national investments were concentrated in the interior regions of China, particularly in the so-called ‘the Third Front (*san xian*) Region’, partly because of the ideology of the ‘egalitarian principle’ and partly because of military considerations (Naughton 1988; Yang 1990; Ma and Wei 1997).<sup>21</sup> Mao tried to reduce the gap between interior and coastal regions, as well as to build self-sufficiency in the inner regions in case of wars from either Russia or the Pacific. However, Deng’s famous instruction in the late 1970s was ‘Let some people get rich first’. The instruction was based on the then-controversial ‘ladder-step doctrine (*ti du li lun*)’, which regarded regions as like steps on a ladder. Coastal regions were on a higher step of the development ladder due to their locational advantages for the conduct of more liberal FDI and trade policies. Inland regions were geographically more remote with limited accessibility to outside markets. Hence, coastal regions, which face Pacific Ocean with 60% of China population, were much better than interior regions in attracting FDI (Fan 1995b). In other words, the ladder-step doctrine shows that since the reforms, regional policy had changed with economic pragmatism overriding egalitarian ideology and military concerns (Fan 1995b; Ma and Wei 1997). Moreover, most of target investors (from Hong Kong, Macao and Taiwan, and overseas Chinese) were ethnic Chinese whose

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<sup>21</sup> To prepare for war, China was divided into three strategic fronts: The first front referred to the coastal and border areas that would be the first to be attacked in the war. The third front included the vast interior regions south of the Great Wall and west of the Beijing-Guangzhou railway, which were considered to be safe from bombing attacks from the Pacific Ocean. And the second front covered regions between the first and third fronts.

ancestral families had roots in Guangdong, Fujian or other coastal Chinese areas (Zhang 1994; Fan 1995a).

Politically, it was rumoured that the selection of the Guangdong province in particular was based on the personal relationship between the Guangdongese veteran YE Jianying and Deng Xiaoping with Deng rewarding Ye for his critical political support in the late 1970s (Gao 1999).<sup>22</sup> And CHEN Yun, a Shanghai native and the key leaver of the conservative, insisted that Shanghai should remain a model of socialist development (Saich 2004).<sup>23</sup> There were also considerations of political stability, in that the central government did not want to risk a dramatic change in Shanghai because it was still the main industrial base and the cash-cow for the whole China (Sun 2000). Between 1949 and 1983, as much as 87% of Shanghai's revenue of RMB 350 billion was remitted to the centre, accounting for one-sixth of the national coffers (Wu 2000).

Taken these reasons together, in 1980 four special economic zones (SEZs) were selected to pioneer the development zone model, in Shenzhen (adjacent to Hong Kong), Zhuhai (adjacent to Macao), Shantou, and Xiamen (close to Taiwan). The first three were located in the Guangdong province and the fourth in the Fujian province. It shows that there was a dual-track liberalization of FDI and trade: the set of SEZs in Guangdong and Fujian was on a liberalization track while the rest of China was still on a socialist planning track (Park 1997; Wu 1999). And the selection process for SEZ locations was responding not only to economic circumstances but also to political factors.

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<sup>22</sup> YE Jianying, the native Cantonese and one of the ten supreme commanders in the CCP Long March in the 1930's, was the pivotal person to arrest the Gang of Four. He also recommended Deng to be vice-premier of the government, vice-chairman of the CPC Military Affairs Commission, and chief of staff of the People's Liberation Army in 1978. Without Ye's support, Deng might have found it very difficult to regain these posts (Gao 1999).

<sup>23</sup> CHEN Kuo Dong, then party secretary of Shanghai as well as a protégé of CHEN Yuan, also told HU Yaobang in 1984, the then PM of China, that 'Shanghai was unwilling to be the pioneer of the world (Shanghai *bu wei ten xia xian*)' (Gao 1999).

SEZs successfully created job opportunities and attracted labour-intensive foreign investment projects (Wang and Bradburg 1986; Phillips and Yeh 1989; Park 1997; Wu 1999). By 1994, foreign-related investment grew 900% in Shenzhen alongside an expansion of 700% of exports (Table 2-15). In 1994, Shenzhen with just 0.35% of China's territory and 0.8% of its total population of China contributed around 15% of national exports, and attracted about 20% of national realized FDI over the past nine years (Yang 1997).

Table 2-15: Performance of FDI and trade liberalization in Shenzhen

	1980*	1984*	1989*
Projects of foreign investment	142	555	620
Realized foreign investment **	26.6	226.2	434.1
Export **	11.2	196.9	4,338.5
Total Industrial Output ***	242.8	1437.4	10,028.9

Note\*: the statistics includes only Shenzhen downtown city without county-level administration within Shenzhen;

Note \*\* and \*\*\*: unit for FDI and export as US\$ million; and for export as million RMB

Source: 1980-1989 Yearbook for China Special Economic Zones

Despite relatively good performance in the four SEZs, the balance of power still oscillated between market-oriented reformers and conservative-oriented reformers, resulting in cyclical fluctuations in the political fortunes of the SEZs (Crane 1990; Howell 1993; Gallagher 2002; Zhu 2005). Criticism was muted due to uncertainty about zone objectives and strategy at the beginning of 1979. By 1982, skepticism on ideological grounds grew. One of the disputes was related to economic irregularities and social disorders in the special economic zones, particularly in Guangdong. Related to that was the question whether the policy innovations occurring in the special economic zones were appropriate or not. The conservative reformers in Beijing even proposed to apply a brake on the special zone policy, which would have been a blow to the reformers both of the central government in Beijing and the local government in

Guangdong (Crane 1990). In early 1984, criticism ceased after DENG Xiaoping paid a visit to Shenzhen and Zhuhai to encourage the development of four SEZs. However, complaints were brought to the fore again in 1985 with critics alleging that Shenzhen was earning more money from illegal domestic sales than from sales abroad, resulting LIANG Xiang finally leaving office in Shenzhen.<sup>24</sup> The tone of retrenchment was weakened in 1986, but in 1987 an anti-bourgeois liberalization campaign was launched to attack open door reforms again (Crane 1990).<sup>25</sup>

## **2-3 Formation and Transformation of Development Zones**

### *Proliferation of development zones across China*

Although the policy process looked like an oscillation, the trend in 'open door' policy in general and development zone policy in particular was making it more active, aggressive, more diversified and larger scale (Gallagher 2002). Nationally speaking, many development zones were established by different levels of administrations, from the central government in Beijing, to various provincial governments, prefecture-level governments, and county-level or even lower governments. Particularly thanks to Deng's Southern Tour inspiring 'bolder actions' in early 1992, the number of development zones in China as a whole reached 1,951 by the end of the same year, while there had been only 117 one year before (Yeh and Wu 1999). According to 1993 Land Administration Bureau Statistics, of the 2,800 zones in China, only 27% were listed as national or provincial level zones, meaning that about three-quarters of the development zones were projects undertaken by governments below the provincial

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<sup>24</sup> Liang was the first mayor of Shenzhen and the key architect to 'dynamically' build up Shenzhen SEZ. He was replaced by the State Council with the more cautious Li Hao, a member of the State Economic Commission (Crane 1990).

<sup>25</sup> Anti-bourgeois liberalization campaign tried to tighten central control over investment expenditure. Then PM LI Peng also warned of project cancellations (Howell 1993).

levels (Cartier 2001a). Although some zones unapproved by the central government were forced to close during the austerity program in 1993 and 1994, more additional zones were restored or created by sub-national governments in the late 1990s and the early 21<sup>st</sup> century. The nationwide survey done by the central government in Beijing in mid 2003 shows that there were more than 5,000 zones in total, and 67.4% of them were developed by sub-provincial officials without any permission from any upper-level governments (Table 2-16).<sup>26</sup>

Table 2-16: Numbers of development zones in 2002 by province

Eastern Provinces		Central provinces		Western provinces	
Beijing	470	Anhui	194	Chongqing	176
Fujian	269	Heilongjiang	100	Gansu	93
Guangdong	420	Henan	179	Guizhou	41
Hainan	92	Hubei	114	Ningxia	36
Hebei	63	Hunan	69	Sichuan	137
Jiangsu	475	Jiangxi	137	Qinghai	5
Liaoning	113	Jilin	73	Shaanxi	77
Shandong	943	Shanxi	32	Tibet	1
Shanghai	157	Inner Mongolia	101	Xinjiang	38
Zhejiang	758			Guangxi	77
Tianjin	143			Yunnan	81
Subtotal	3,903	Subtotal	999	Subtotal	762

Source: Decision Information for Leaders (*ling dao jue ce xin xi*) 2004/April, No.15

These various zones, which enjoyed different scales of preferential policies (Demurger, Sachs et al. 2001; Zhang 2003), in general played an important role in attracting FDI and generating trade, transforming China's cities and regions toward globalization and modernization. From four cases of High and New Technical Industrial Zones in Shenzhen, Shanghai, Xian, and Suzhou, Walcott (2002) argues that such technological- oriented development zones dominated by multinational corporations had become growth engines for the regions concerned leapfrogging them, in terms of contributions of exports, technology and management transfers, and the creations of

<sup>26</sup> News source: Decision Information for Leaders (*ling dao jue ce xin xi*), 2004/April (No.15).

new jobs into the 21<sup>st</sup> century. Wei and Leung (2005) argue that development zones had shaped Shanghai as one of the most attractive places for foreign investment, making Shanghai an emerging global city, significant not only for China but also for the world. In many aspects, development zones had clearly proved a successful and innovative strategy to transform Chinese regions and localities as they re-engaged globalization. However, serious competition among development zones in bidding for FDI caused many problems, for example, un-sustainable infrastructure financing in relation to the soft-budget constraints of local governments (Braunstein and Epstein 2002) and unexpected loss of arable lands to construction site and real estate speculation (Cartier 2001b).<sup>27</sup> Territorial competition among zones in bidding for FDI principally through preferential tax rebates has been already reported as ‘war between SEZs’ in the 1990s.<sup>28</sup>

### *Expansion of the policy for national development zones*

Of these zones, some were granted national titles of various kinds. From the mid 1980s, the central government in Beijing established many categories of development zones. In 1984, it declared 14 places ‘coastal open cities’, giving them preferential policies granted earlier only to the special economic zones. In 1988, the central government further set up the first national zone focusing on high-tech industry in Zhongguancun of Beijing (Wang, Wu et al. 1998; Wang 2004). In the early 1990s, despite the political debate over whether or not special zones had to be cancelled (*te qu bu te*) (Yang 1997), preferential policies were extended to some inland regions. There were various types of national development zones, including economic and technological development zones (ETDZ), border economic cooperation zones (BECZ), high and new technology

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<sup>27</sup> The planned areas of all development zones by 2003 had expanded to 36,000 km<sup>2</sup>, more than the total amount of built-up areas of all cities in China.

<sup>28</sup> For example, while central policy provided for a 3-year tax-free period, followed by 2 years at half rates, local governments might offer these terms for two 5-year periods, or even for two 10-year periods. News source: *zhong kuo shi bao* (based in Taipei), 2005/12/12; 2001/12/13.

industrial development zones (HNTIDZ), tourist vacation zones (TVZs), bonded areas (BA), and Taiwanese investment Zone (TIZ), and Export Processing Zone (EPZ).<sup>29</sup> By 2002, there were 156 national zones plus 384 EPZs (Table 2-17).

Table 2-17: National development zones in China in 2002

	Sub-total
Special Economic Zone	5
Economic and Technological Development Zone (ETDZ)*	54
High and New Technological Industrial Development Zone	53
Bonded Area	15
Border Economic Cooperation Zones	14
Tourist Vacation Zones	11
Taiwanese Investment Zone	4
Export Processing Zone (EPZ)	38**
Total	156**

Note\*: ETDZ also include Shanghai Pudong New District, Shanghai Lujiazui Financial and Trade Distract, Suzhou Industrial Park, Ningbao Daxie Economic and Technological Development Zone, and Hainan Yangpu Economic Development Zone. These five were categorized as ETDZ but enjoyed more preferential policies than others.

Note\*\*: export processing zones (EPZ) were required to be set up in existing national development zones. And the economic performances in EPZs were also reported in to the records of the existing zones. Therefore, the total number of national zones omits the number of EPZ

Source: modified from Zhang (2003)

In terms of the timeline of the establishment of these various national zones, in the 1980s, 24 national development zones were established: 5 SEZs, and 14 ETDZs, 1 HNTIDZ, and 3 TIZs. A more dramatic pace of development occurred in the 1990s, particularly after Deng's southern tour in 1992. Central and local officials made bolder actions to promote economic development. In the 1990s, 116 national zones were set up, including 23 ETDZs, 52 HNTIDZs, 15 BAs, 14 BECZs, 11 TVZs, an 1 TIZs. Between 2000 and 2002, a further 16 ETDZs and 38 EPZs had come into in operation (Table 2-18).

<sup>29</sup> Apart from these zones identified, there were also some policies to offer certain preferential policies to foreign investors, such as coastal open cities, coastal open areas, and open coastal belt in the 1980s, and capital cities of inland provinces and autonomous regions (Demurger, Sachs et al. 2001). However, the operations of these policies in effect were still based on the established development zones.

Table 2-18: Timeline of establishment of national development zones until 2002

	Sub-Total	By year			By region		
		In the 1980s	In the 1990s	2000-2002	East	Central	West
Special Economic Zone	5	5	0	0	5	0	0
Economic and Technological Development Zone (ETDZ)	54	15	23	16	33	10	11
High and New Technological Industrial Development Zone	53	1	52	0	29	14	10
Bonded Area	15	0	15	0	15	0	0
Border Economic Cooperation Zones	14	0	14	0	0	0	14
Tourist Vacation Zones	11	0	11	0	10	0	1
Taiwanese Investment Zone	4	3	1	0	4	0	0
total	156	24	116	16	96	24	36
Export Processing Zone (EPZ)	38	0	0	38	28	4	6

Note and source: same as Table 2-17

Within the general geographic unevenness of economic development in post-Mao China, the distribution of development zone was especially uneven. Compared with 96 zones (60% of the total) located in the east, there were only 24 zones in the middle of China and 36 zones in the west (Table 2-18). Such uneven distribution plus more liberalization and preferential treatments toward the east, locational advantages of the east in favour for export-oriented activities together explain why the 90% of FDI was located within coastal China (Table 2-19).

Table 2-19: Foreign investment in post-Mao China by regions in selected year

	Coastal	Interior		
		Subtotal	Central	Western
1983	92.9%	7.1%	1.1%	6.0%
1985	89.6%	10.4%	5.2%	5.2%
1990	93.2%	6.8%	4.0%	2.8%
1995	87.7%	12.3%	9.2%	3.1%
1999	87.8%	12.2%	9.2%	2.7%

Source: China Statistics Yearbook various years, author compiled

### *Evolution of ETDZ: locally initiated and centrally initiated*

ETDZ and HNTIDZ were the two most common development zones. Of 53 HNTIDZ, the first was established in 1988, another 26 in 1991, a further 25 in 1992, and the final



one in 1997. In terms of functionality, these were quite homogeneously focused on the so-called high-tech industry (Wang, Wu et al. 1998; Wang 2004). The span of establishment of the 54 ETDZ was more lengthy, with zones started in 1984, 1985, 1986, 1988, 1989, 1990, 1992, 1993, 1994, 2000, 2001, and 2002. And their functionality was more diverse, including labour-intensive export-oriented as well as high-technology industry. Moreover, in terms of GDP growth rate, while the national average was just 9.1% in 2003, the 54 ETDZ grew by 34.5%. Similarly, ETDZ also achieved a better growth rate in total industrial output than the national average, as well as in fiscal revenue, contracted and realized FDI, and especially for foreign trade (Table 2-20).

Table 2-20: Growth rate of selected economic performances in 2003

	National average	54 ETDZs
GDP	9.1%	34.5%
Total Industrial output	27.2%	38.40%
Fiscal revenue	20.34%	25.60%
Trade	37.10%	52.29%
Export	34.60%	48.15%
Import	39.90%	56.41%
Contracted FDI	39.03%	27.31%
Realized FDI	1.44%	35.92%

Source: the same as Table 2-16

The process through which zones acquired national-level status is even more interesting than the fact that they were unevenly distributed. Among ETDZ, there were actually two distinct ways of becoming national-level zones. The first type involved zones directly decided on by the central government before any significant construction or business promotion in the zones occurred. But in the second type zones were first developed by the local governments, without permission of the central government, with national zone status only being granted some years later. In this case, there is a gap between built-year and listed-year in the record of zone development. The former case

may be regarded as a type of ‘local implementation of centrally initiated projects’, whereas the latter may be understood as a type of ‘locally initiated projects’ (Pickvance 1990).<sup>30</sup>

Overall, of the 54 ETDZs in China up to 2003, 29 zones belong to the first category, while the other 25 zones fall into the second category (Table 2-21). The balance between the types of locally initiated projects and local implementation of centrally initiated projects has been shifting over time. Most of the national zone projects in the 1980s were from the category of ‘local implementation of centrally initiated projects’, as compared with half of these zones in the 1990s and only a small number after 2000. Indeed, there were only two national zones in the 1980s that were granted the category of locally initiated project. After 2000, however, this category dominated the whole national zone policies (Table 2-22). In terms of zone locations, all zones were located in the eastern regions during the 1980s. By contrast, between 2000 and 2002, only one locally initiated project was established in the eastern region with all other national zones in either central or western regions (Figure 2-3).

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<sup>30</sup> The distinction between ‘locally initiated policies’ and ‘local implementation of centrally initiated policy’ also reminds one of Pickvance’s theoretical framework (1990) on local policy variations by dividing into two kinds. The first concerns the scope for local authorities to determine their own policies, and the second is about the substance of central spatial policies and of local authority exploitation of areas of policy discretion.

Table 2-21: ETDZ by granted or established year until 2002

Name	Established and granted at same year	L**	Name	Granted year	Established year	L**
Dalian	1984	E				
Qin Haung Dao	1984	E				
Tianjin	1984	E				
Yantai	1984	E				
Qingdao	1984	E				
Lianyungang	1984	E				
Nantong	1984	E				
Guangzhou	1984	E				
Zhenjiang	1984	E				
Ninbao	1984	E				
Fuzhou	1985	E				
			Shanghai Hongqiao	1986	1982	E
			Shanghai Minheng	1986	1983	E
Shanghai Caohejing	1988	E				
Xiamen Haichang*	1989*	E				
Shanghai Qinqiao*	1990*	E				
Wenzhou	1992	E	Fujian Fuching Rongqiao	1992	1987	E
Weihai	1992	E	Yinkou	1992	1988	E
Hainan Yangpu*	1993*	E	Kunshan	1992	1985	E
Ninbao Daxie*	1993*	E	Shenyang	1993	1988	E
Nansha	1993	E	Hiaoshan	1993	1990	E
Huizhou	1993	E	Chongqing	1993	1990	W
Dongshan	1993	E	Chendu	1993	1990	W
Henzhou	1993	E	Harbin	1993	1991	C
Wuhu	1993	C	Wuhan	1993	1991	C
			Changchun	1993	1992	C
Beijing	1994	E				
Xinjing	1994	W				
CSSIP*	1994*	E				
Xinning	2000	W	Kunming	2000	1992	W
			Changsa	2000	1992	C
			Nanchang	2000	1992	C
			Shihezi	2000	1992	W
			Huhehuote	2000	1992	C
			Hefei	2000	1993	C
			Zhangzhou	2000	1993	C
			Xian	2000	1993	W
			Kuiyang	2000	1993	W
Yinchuan	2001	W	Nanning	2001	1992	W
			Taiyuan	2001	1992	C
Lasa	2002	W	Lanzhou	2002	1993	W
			Nanjing	2002	1993	E

Note\*: These five were categorized as ETDZ but enjoyed more preferential policies than others.

Note\*\*: L refers to the location of the zone in the east (E), the central (C) or in the West (W)

Source: Zhang (2003) and 2001 China Foreign Trade and Economic Development Yearbook

Table 2-22: Numbers of centrally or locally initiated ETDZ project until 2002

	local implementation of centrally initiated project	Locally initiated projects	Sub total
	total [Easter: Central: Western]	total [Easter: Central: Western]	
1980s	13 [13:0:0]	2 [2:0:0]	15
1990s	13 [11:1:1]	10 [6:3:1]	23
00-02	3 [0:0:3]	13 [1:6:6]	16

Note: the numbers in the blanket refers to the locations of zones

Source: author compiled

## 2-4 Decentralization, Policy Innovation and Local Economic Development

### *Institutional innovation in transition economies*

The key research interest of the thesis is the concept of ‘local policy innovation’ with post-Mao China as its context. Compared to Russia and other post-communist economies implementing ‘shock therapy’ reforms, China’s gradual and incrementalist process has actually produced a more successful economic transition. Gradual reforms in China also can be understood as a dual-track system presenting a partial deregulation process, namely, a still planned track running in parallel with a market-oriented track with the market track increasing in importance over time. Moreover, the dual-track system was partly because of the experimental intentions of the leaders and partly because of a compromised politics between market-oriented and conservative-minded reforms. An incrementalist approach to policy innovation was more politically sustainable in the face of pressure from opposition forces (Wei 1997).

In addition, instead of changing all centrally planning systems in the nation as a whole suddenly, the incremental reforms in China were selective not only in the sectors from which they started but also geographically with a numbers of experimental locations (*shi dian*). From the viewpoint of these experimental locations, the reforms were completely novel and marked a sharp break with the past. However, from the

perspective of China as a nation, the reforms were incremental in character because most places in China remained unchanged under the context of the dual-track policy. A good way of understanding the policy innovation process in post-Mao China is thus in terms of a 'spatially selective' form of incrementalism, including incremental change concentrated in a geographical margin.

The policy of national development zones provides a good example to understand the issue of policy innovation. The idea of development zones was learnt from the many export processing zones in developing countries in the 1950s to the 1970s (Zhu 2005). By then, the paramount leader Deng was reported to have no problem acknowledging outstanding foreign experiences. The most famous cases which he mentioned publicly that China could learn from included Japan, the United States and Singapore (Naughton 1993; Lee 2000; Gallagher 2002). There were particular intellectual impacts from the overseas Chinese diaspora- to Hong Kong, Taiwan, Singapore and elsewhere in South East Asia and North America- who have proved to be a valuable source of knowledge as well as of investment to be important bridges between China and the world (Walder 1995b). For example, Taiwan's experiences demonstrated the advantages of combining state planning with high-saving rates to achieve a successful structural transformation under a rule with limited democracy (Nolan 1993; World Bank 1997).

Scholars of latecomer or transition economies have argued that institutional and policy changes can be conceptualized as a search and learning process for new institutional structures of regulation (Nielsen, Jessop et al. 1995; Qian and Stiglitz 1996; Sachs, Woo et al. 2000). For example, learning from the experiences of others is one of the most popular processes in 'latecomer economies'. The development of advanced countries involved a gradual evolutionary process from the simple pattern to the increasingly

more complex and efficient ones by trying and learning-by-doing from their own experiences. However, for the latecomer economies, development strategy could take advantages of mimicking these effective experiences from the developed countries that have already found efficient patterns (Sachs, Woo et al. 2000). With developing countries in Asia as case studies, Shimomura, Kohsaka et al. (1994) demonstrate that what Asian latecomer economies had done since the 1980s was to carefully overcome the uncertainty and risks of innovation by learning the effectiveness of an outward-oriented development strategy from the experiences of their predecessors, including Japan, Taiwan, and South Korea.

In terms of transition economies, policy innovations suited for the new accumulation regime involve re-engagement with globalization, the embrace of market economy and even multiple-party elections. These transformations were different from the past of the socialist and centrally-planned systems prior to the 1980s and closer to that of their erstwhile adversaries: the western liberal democratic market economies. Scholars have shown that policy innovation in transition economies was actually involved an imitation or learning process from the experiences of these western countries. For example, with the case studies of reforms in Czech and Hungary, Jacoby points out that the European Union and the North Atlantic Treaty Organization actually acted as 'institutional tutors', implying that there was a hierarchical or one-way 'learning and teaching' relationship between knowledgeable westerners and pupils in Central and East Europe (Jacoby 2001). Rivera (2004) uses Russia as example to show that a substantial number of transition elites were willing to borrow from foreign experience, particularly from models of western welfare capitalism, which was absolutely different from their past communist experience.

To sum up, at the national scale, it is well acknowledged that policy innovation in China can be understood as both a learning process from the experiences of certain developing countries and an incrementalist process of improvement in geographically specific dual-track reforms. However, what has not been properly documented is how and why policy innovations can be brought about at the local scale? Taking the process of developing national zones as an example, what kind of circumstances led local governments in post-Mao China to carry out locally initiated projects, or locally specific implementation of centrally initiated projects? How did policy innovations come into being and now were they put into effect in the formation and transformation of development zones?

### ***Rephrasing research questions***

The central question of the thesis is why, how, under what circumstances, and by whom the development zone policies as local innovations could take place and be institutionalized in the context of transition China- still controlled by a one-party politically centralized communist regime- in order to promote economic development. There are at least three different but inter-related dimensions of inquiries into the central question. To begin with, it is about the local responses to general political and economic restructuring. The main theoretical questions include: what are the changes and restructuring of macro political and economic background factors in terms of the regime of accumulation and the mode of regulation? What are the impacts of these changes on local economic development? Who are the key public agents dominating the process of local policy innovations associated with economic development? And why and how do they want to promote local economic development? And how do cities and regions act and interact under the context of territorial competition?

Second, I further investigate the particular situation of local policy innovations in relation to changing local-central governmental structures. Still under one party control, did China, like most of other countries in the world, decentralize economically as well as politically? If not, what kind of special arrangement of political economy of decentralization took place in China? How did post-Mao China institutionalize certain economic as well as political incentives to encourage local agents to make policy innovations? What are consequences, including advantages and disadvantages, of such dynamic decentralizations?

Thirdly, with a lens of 'local-central dynamic interaction', questions are asked: how many kinds of local-central interactions associated with innovations can be identified? In each type, how do central and local policy agencies interact? How and under what kind of circumstances do these types operate and evolve? And what is the effectiveness of each mechanism? What are the commonalities as well as differences of these types of interactions?

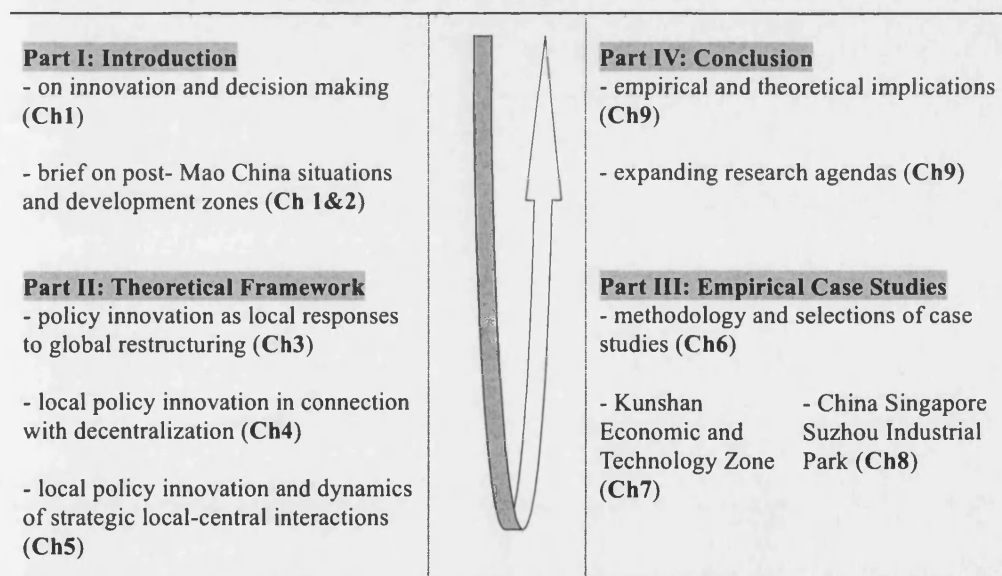
### *Synopsis of the thesis*

The aim of the thesis is to show how specific features of China's dual-track approach to transition - including those leftover from Mao's centralized China, have provided a particular stimulus to locally embedded innovations within governments and institutions. With development zones as a focus, the thesis offers an understanding of the various kinds of contexts through which different types of mechanism for local innovations can operate. Using the contextual approach as the main methodology, a qualitative-based case study design leads to a U-shaped structure for the thesis, moving from general issues to more specific ones, and then via the cases back to the broader concerns. I



delineate research questions and general backgrounds as a start. By deepening at different but interrelated analytic dimensions on existing western and China studies, I am able to establish certain ideas to comprehend what are the likely factors (such as actors/ networks and so on) and how and under what circumstance these factors operate and evolve. Empirically, cases studies are qualitatively examined in order to make a concrete investigation into the multifarious contingent circumstances under which these factors perform, interact and influence each other, and what are the mechanisms and effectiveness of operations by these factors in the real cases (Sayer 1984).<sup>31</sup> Finally, these empirical cases are followed by a return to the broad questions and discussion of certain empirical and theoretical implications as concluding remarks (Figure 2-3).

Figure 2-3: Structure of chapters of the thesis



Source: author compiled

<sup>31</sup> From my viewpoint, the importance of qualitative-based case-study approach followed by literature reviews is best explained by Sayer's favourite example, a barrel of gunpowder. By virtue of its contingent components, the barrel contains the necessary causal powers to produce an explosion. However, whether the explosion will take place depends on many contingent factors (like someone accidentally drops a match, or a soldier primes the pan of their musket, or simply being triggered by hot weather). It means that literature reviews can provide us with certain useful concepts of key factors in the general contexts. However, these concepts still need to be examined and understood by real operations and mechanisms in specific contexts of time and space (See Chapter Six, below).

The thesis as a whole is therefore divided into four main parts. The first introductory part, including the previous and present chapters, has offered discussions to understand the most basic concepts of this thesis: innovation and decision making on the one hand and the history of development zones under the post-Mao China's transition on the other hand.

The second part, Chapters Three to Five, offers a theoretical understanding to these three dimensions of research inquiry aforementioned. In Chapter Three, I explain the argument that policy innovation can be understood as a response to challenges by global economic restructuring. Particularly, I elucidate that there are two kinds of responses: at the macro level the response is that of the prevalence of territorial competition, while the response at the micro level is that of the operations of self-interest pro-growth coalitions. In Chapter Four, I turn to the argument that functional decentralization is the spur to local policy innovation in China as elsewhere. With a focus on the mechanisms of change in governmental structures, the local-central relationship in post-Mao China is described as 'asymmetric decentralization', namely, a combination of economic decentralization to local governments along with continuing political centralization under the party. Local policy innovation argued to be one of the key regional development consequences of 'asymmetric decentralization'. Then, in Chapter Five, I examine the argument that local policy innovation is to be explained by the political dynamics of local-central interactions, with six types of local-central interactions being identified: 'state- intention to tolerate', '*ex-post* state endorsement', '*ex-ante* state adoption', 'marginalizing the local', 'local obedience', and 'local flexibility'.

The third part, including Chapters Six to Eight, is designed for empirical examinations of the theoretical framework in connection with two successful cases in Jiangsu

province within Yangtze Delta. The methodology and considerations for case selections are discussed in Chapter Six. Following that I present the examinations of two cases: the Kunshan Economic and Technological Development Zone (KETZ) in Chapter Seven and the China- Singapore Suzhou Industrial Park (CSSIP) in Chapter Eight, using evidence drawn from ethnographic fieldwork in semi-structured interviews with local officials and investors, documentation collections, and statistical analyses. In the final concluding part, in Chapter Nine, the empirical findings are drawn together to address the central questions of the thesis, and some additional theoretical implications and further research agendas are outlined.

## CHAPTER THREE

### Policy Innovation as Local Responses to Global Restructuring

#### 3-1 Entrepreneurial Localities and Entrepreneurial Governances

##### *A typology of entrepreneurial localities*

According to Schumpeter, the format of entrepreneurial production in relation to innovation can be categorized into five types, including new products, new technical methods of production, exploitation of new consumption markets, new sources of supply, and new forms of industrial organizations (Schumpeter 1934; Blaug 2000; Fagerberg 2004). Correspondingly, five types of entrepreneurial localities also can be theorized: new spaces of production, new methods or institutions for space of productions, new markets for space of consumptions, new financing sources for development, and new positions in the urban/ regional hierarchy (Table 3-1) (Harvey 1989b; Jessop and Sum 2000; Wu 2003c).

Table 3-1: The comparison of entrepreneurship at the firm and locality levels

<i>Schumpeter's entrepreneurial firm</i>	<i>'entrepreneurial locality'</i>	<i>examples</i>
new products	new spaces of production	export processing zones; high-tech districts; military complexes
new technical methods of production	new methods or institutions for space of productions	introduction of marker system; skilled labours offered; internet facility; high speed customs services
new consumption markets	new markets for space of consumptions	gay areas; exotic places; entertainment spectacles; waterfront resorts
new sources of supply	new financing sources for development	funds sponsored by outside, e.g. the centre or international organizations
new forms of industrial organizations	new positions in the urban and regional hierarchy	the capital of Europe; regional financial centres in Asia or Europe

Source: revised from Harvey (1989b), Jessop and Sum (2000); and Wu (2003c)

The first type refers to urban space for production, such as export processing zones, enterprise zones, technopoles and intelligent cities. In the case of Bristol in Britain or Boston in the United States, it is also about a military and defense complex that sustains a high-tech industry which contributes to local economic development. The second type describes installations of new physical and cybernetic infrastructures that employ are implied as new methods to exploit particular advantages of the space of production. As a form of social infrastructures, skill re-training programs as can be grouped into this category.

The third type details methods that enhance the quality of life, for example, new ways that create fresh spaces of consumption markets. It can refer to gentrification, cultural innovation, special consumer attractions (gay quarters, marinas, exotic restaurant and so on), new entertainment spectacle (sports stadium, post-modern architecture and alike), and festival and cultural events. The fourth type is about how to look for new sources of funds for development, from international organizations, different departments of central government and private sectors. Structural funds in the European Union and the public- private partnership regeneration programme in Britain are cases in point. The final type is related to a process of upgrading the status of a global city to become that of a gateway for different regions. Entrepreneurial cities reconfigure their status by serving as key control and command functions in global economy or international politics. For example, Hong Kong and Singapore have successfully built themselves into regional financial hubs in the Asia Pacific Area. Brussels upgraded itself from the national capital of Belgium to the continental capital of Europe, while Strasbourg also transformed itself from a small border town between France and Germany to the location of the European Parliament.

The set of categories for entrepreneurial localities offers a framework to understand the diversified cases of local policy innovations in China. In terms of new spaces of production, various development zones were first created in Fujian and Guangdong provinces and then expanded nationwide in China. Concerning the category of new methods or institutions for spaces of production, the introduction of market systems to replace centrally controlled planning can be regarded as a case in point. As to creating new markets of space consumption, in Beijing, they built many sets of townhouses- a fashionable style of new up-market gated community for an 'imagined' globalization (Wu 2004). In Shanghai, with a slogan 'yesterday meets tomorrow in Shanghai's today', Xintiandi also successfully transformed old traditional historical buildings into a unique complex of consumption and recreational spaces representing a cultural mixture between eastern and western lifestyles (Wu 2003b; He and Wu 2005).

In addition, in terms of new sources of funding supply, local development in Shanghai had successfully been financed by various channels of capital. Such channels included: budgetary revenue, land leasing, retained profits from public-owned industries, capitals from Shanghai stock market, state-directed credit allocation, and foreign direct investments (Zhang 2003). Concerning the process of redefining the hierarchy of the localities, ten provincial capitals and other five key cities were administratively granted 'vice- provincial status' city in order to gain more legal, political and economic competencies to boost local development.<sup>32</sup> Chongqing was further upgraded to the fourth provincial- level status directly under the centre in the late 1990s.

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<sup>32</sup> These vice-provincial-status (*fu sheng ji cheng shi*) cities were granted more economic autonomy and able to contact Beijing directly over certain economic activities, although they are still under the administration of each province. Ten provincial capitals include: Shenyang, Changchun, Harbin, Nanjing, Hangzhou, Jinan, Wuhan, Guangzhou, Chendou, Xian. The other five are: Dalian, Qingdao, Ningbo, Xiamen, Shenzhen.

### *The emergence of local/urban/regional entrepreneurial governance*

The phenomenon of entrepreneurial localities is mostly operated by local/ regional/ urban governances, whose operations and functionalities have been changed since the 1970s. Traditionally, or at least until the 1960s, there had been two types of governmental functions- production and consumption, which generally 'belonged' to central and local governments respectively. Productive functions in connection with physical and social infrastructure for economic development used to be monopolized by central governments. On the other hand, consumption functions, including transportation, housing, recreation, cultural facilities, welfare payments and so on, were assigned to local governments. In other words, under the context of the so-called 'dual politics', while central governments focused on productive functions, local institutions tended to play responsive and redistributive roles in the provision of services for reproduction of the labour force (O'Connor 1973; Saunders 1986; Harvey 1989b; Harding 2005).<sup>33</sup>

Two significant changes since the 1970s can be noted. First, policy making is less dominated by the bureaucracy alone, but also involves self-organizing inter-organizational networks. The networks consisting of subsets of public and/or private groups and individuals are characterized as formal or informal public and private coalitions that work together to formulate and implement policies (Rhodes 1990; 1997). Instead of 'governments', authors such as Harvey uses the term 'governance' to cover such 'public-private partnerships' (Harvey 1989b). In terms of issues of

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<sup>33</sup> O'Connor (1973) theorizes the fiscal crisis taking place in the 1970s by dividing the public sector projects into three categories: social investment, social consumption and social expense. Harding, Saunders and Pickvance further argue that roughly speaking, the first one is related to the production function which was the main responsibility of national governments, and the latter two are associated with consumption functions that are in charge of by local governments (O'Connor 1973; Harding 2005).

local/urban/regional economic development, various actors in the 'policy networks' and 'governance system' roughly identified many empirical cases as follows: governmental officials, different arms of government, political parties, private firms of different size and in diverse sectors, unions and other labour organizations, non governmental organizations, religious institutions, the media, universities, cultural and sport facilities, self-employed professionals and so on (Logan and Molotch 1987; Harvey 1989b; Tickell and Peck 1996; Painter 2003). All these actors theoretically can operate and be linked across different spatial scales, depending on the specific contexts.

Second, along with the evolution from government to governance, there has been a challenge to the traditional division of labour between central and local governments since the 1970s in the context of much more intensive globalized competition, accelerated by the new international spatial division of labour. In advanced economies like America and West Europe, the shift accompanied domestic development crises, including de-industrialization, mounting unemployment, social disintegration, fiscal austerity, and allegedly declining power of the nation states. Therefore, local governances, even in quite different legal and political contexts, have taken a broadly similar direction beyond just offering social welfare and services to becoming increasingly preoccupied with active explorations of new ways to foster local employment and economic development. By doing so, localities sought to secure the most advantageous insertion into the changing international spatial division of labour in the world economy, such as to capture certain types of mobile capital and to fix local capital in place (Harvey 1989b; Mayer 1995; Porter 1995; Jessop and Sum 2000; Harding 2005).



Different scholars have paid attention to such changes of local governances' functions and roles. Harvey (1989b) introduces the concept of 'managerialism' and "entrepreneurialism' to analyze the changing roles of local governments. 'Local managerial governances' until the 1960s were mainly in charge of redistributive functions. However, since the 1970s, local governance have begun to actively engage economic activities, or the so-called phenomenon of 'local entrepreneurial governances'. Discussions on the so-called 'new regionalism' propose that regions/localities have become privileged geographical arenas for new forms of industrial expansion and political compromise under the globalized capitalism (Cooke and Morgan 1998; Scott 1998). Also with the concept of 'new regionalism', Keating (1997; 1998) describes the shift from regional administration to regional governments as a doable process of re-composition of political spaces. On the one hand, regions become units increased horizontal integration in social, economic and political fields, and on the other hand regions become important actors in policy making, particularly in economic and cultural/identity affairs (Keating 1997; 1998). With case studies of regions in the US and Europe, Brenner (1999; 2002) argues that there is a process of rescaling and reterritorialisation of both socioeconomic and political-institutional spaces, enabling local/ regional agglomerations and territorial states to play an important role in the economic and political geography of globalizations- though there are questions as to how far and rapid this is actually taking place.

Scholars in China studies also emphasize that the local governments of post-Mao China have been heavily involved in local economic development. In a study of real estate and commercial government agencies in Tianjin, Duckett (1998) found a tendency for local governments to go into business with various agencies both to raise revenues and to provide employment opportunities. Such behaviours of direct involvement in business

and profit-seeking by individual local state bureaus and their subordinate agencies can be regarded as representing a 'local entrepreneurial state' (Duckett 1998). Baum and Shevchenko (1999) distinguish this kind of state from the concept of a 'development state', arguing that the former may go into business independently or enter into partnership for profits, while the latter intervenes indirectly but innovatively in the economy, by helping domestic and foreign private investors to plan, finance, and coordinate local projects, providing better local infrastructures, and promoting co-operative economic relations with external agencies. From their perspective, the concept of 'local development states' refers to local governances able to create an environment conducive to growth while not themselves engaging in business for profits (Baum and Shevchenko 1999; Unger and Chan 1999).

### *Structure of the chapter*

Despite different terminologies used in these researches on entrepreneurial localities and local entrepreneurial governances, these studies appear to highlight the recent phenomenon of local governments making policy innovations to promote local economic development, which is the theoretical focus of the thesis. Specifically, this chapter aims to investigate the relations between this phenomenon and change in global economic environments. The main argument of the chapter is that local policy innovations could take place and be institutionalized in order to respond to challenges presented by the changing macro development environments. Inspired by the Regulation School, the perspective of regimes of accumulation and modes of regulation is used to discuss the transformation of global economic structures since the 1970s. Two kinds of local responses to such global restructuring can be identified. First, at the macro level, I would illustrate the new operations of spatial organizations at different scales in general and the territorial competition between localities in particular. On top

of that, at the micro level, I would attempt to explain the politics of local coalitions which make local policy innovation in order to pursue self-interests beyond local economic development.

Therefore, the rest of the chapter is organized by three main sections. First, a change in the regime of accumulation is a focus. New operations of spatial organizations at different scales during the transformation periods are discussed. In the second section, with the macro response as a focus, I would argue that competition between localities and regions become inevitable in order to strive for more chances and resources for better development under the context of global economic restructuring. Third, from the micro perspective of response, I would address that local entrepreneurial governances can be organized mainly by pro-growth coalitions between private business persons and public officials who are motivated to pursue their interests using the logic of collective action.

### **3-2 Global Restructuring: from Fordist/Socialist to Post-Fordist/ Post-Socialist**

#### ***Regulation school: regimes of accumulation and modes of regulations***

According to the Regulation School, there are common social-political-economic characters of restructuring processes shared among different development contexts, including the role of social institutions in underpinning modes of economic development, as well as the historically and geographically specific nature of productions and reproductions. From this viewpoint, two dimensions for discussing these common characters can be identified: one is the 'regime of accumulation' and the other is the 'mode of regulation'. The former refers to economic characteristics of capitalism during a particular historical period, namely, various identical types of

coherent relationships between production, distribution and consumption in different time. The latter involves the dominant institutional and regulative forms of each period, including ensembles of state forms, social norms, conventions, customs, laws, political practices, and institutional networks. Formats in the mode of regulations aim to help normalize the process of corresponding regimes of accumulation (Table 3-2) (Tickell and Peck 1995; Goodwin and Painter 1996; Cho 1997; Swyngedouw 2003).

Table 3-2: Articulation between a regime of accumulation and a mode of regulation

<i>Regime of accumulations</i>	<i>Mode of regulation</i>
<b>Hegemonic structure</b> state form class structure cultural institutions civil society, and etc.	<b>Hegemonic structure</b> state policy class struggle cultural practices daily life, and etc.
<b>Accumulation System</b> departmental system industrial organization industrial linkage markets etc.	<b>Accumulation System</b> macro-economic policy industry policy productive regulation consumption regulation

Source: Cho (1997)

### *From Fordism to post-Fordism*

Prior to the 1960s, western advanced economies were organized along the lines of the Keynesian-Fordism welfare state (Jessop 1994; Amin 1995; Tickell and Peck 1995; Jessop 1999b; Jessop 2002).<sup>34</sup> The mass production of consumer durable and standardized goods was produced by assembly-line, rigid and dedicated machinery, and mostly semi-skilled workers. The exploitation of internal scalar economies corresponded with a relatively inflexible bureaucracy, whose major tasks were to strongly manage wage regulation in order to stabilize the labour supply and demand. Reaching full employment was a main goal of the state, and welfare programs were

<sup>34</sup> Tickell and Peck (1995) also identify variant of Fordism. Apart from classic Fordism in the USA, there are also many different types: flex-Fordism in West Germany; flawed Fordism in the United Kingdom; state Fordism in France; delayed Fordism in Italy and Spain; peripheral Fordism in Mexico and Brazil; racial Fordism in South Africa; primitive Taylorization in Malaysia, Bangladesh and the Philippines; and hybrid Fordism in Japan.

offered for the unemployed. In addition, the system operated mainly within domestic situations with the steady growth of macroeconomies and relatively limited global connections (compared to the periods after the 1970s) (Table 3-3) (Harvey 1989a; Jessop 1994; Pierson 1994; Painter 1995; Goodwin and Painter 1996; Jessop 1999b; Peck 2000).

Table 3-3: Characteristics of Fordism and post-Fordism

<i>Fordism</i>	<i>Post-Fordism</i>
<p><b>Ideology</b></p> <p>social democratic technocratic/ managerial modernism aid distributed on basis of need</p>	<p><b>Ideology</b></p> <p>neo-liberal entrepreneurial/ enabling postmodernism enforcement of work and work value</p>
<p><b>Production process</b></p> <p>mass production of homogeneous goods uniformity low-skill and low wage standardization large buffer stocks and inventory testing quality ex-post rejects and errors detected late rejects are concealed in buffer stock loss of production time resource driven vertical and some horizontal integration cost reductions through wage control</p>	<p><b>Production process</b></p> <p>small batch production flexibility technically advanced small batch production of a variety of product types no stocks quality control part of process immediate detection of errors immediate rejection of defective parts reduction of lost time demand driven quasi vertical integration sub contracting learning by doing integrated for long term planning</p>
<p><b>Economic and social regulations</b></p> <p>Keynesian policy promotion of full employment no job security progressive redistribution and social justice single task for each member payment per rate on the basis of job criteria limited job training and learning experiences emphasis on diminishing worker's responsibility</p>	<p><b>Economic and social regulations</b></p> <p>monetarist policy promotion of private profit dual markets of job security (high-rank staff have) privatized consumption and active citizenry multiple tasks for each worker personal payment by detailed bonus system extensive on the job training and learning emphasis on worker's co-responsibility</p>
<p><b>Organizational structure of governance</b></p> <p>bureaucratic, centralized control limited local autonomy in program centralized service delivery authorities management by input controls and sanctions process and input orientation standardized programs</p>	<p><b>Organizational structure of governance</b></p> <p>flexible centrally-orchestrated devolution, increasing local discretion over programs design wide variety of service providers management by output targets and incentives output and outcome orientation variegated programs</p>

Source: compiled from Harvey (1989a); Peck (2000); Painter (1995) and Goodwin and Painter (1996).

Since the 1970s, however, there was a shift towards post-Fordism associated with the Schumpeterian workfare state (Jessop 1994; 1999b). Partly because of the abandonment of the Bretton Woods agreement and partly because of technology development, there were more flexibility in international financial regulatory systems in general and rapid transmission of capital in particular, accentuating the growth of economy at the same time or reducing and undermining the basis for stable situations of development. Facing a rise of developing countries in Asia and in Latin America because of a new international division of labour, advanced countries in America and Europe had been forced to give up routinised labour-intensive sectors in order to concentrate on other new and high value-added sectors (Sayer 1985; Gilbert 2002). Firms outsourced standardized operations in order to retain high-skilled knowledge or R&D activities. Such new production systems are considered to be more flexible, involving versatile and programmable machines, quality and skilled labours, vertical disintegration, subcontracting strategic alliances and just-in-time production. In addition, the 'workfare' system was created as a new form of accumulation regime on the basis of an appropriately flexible workforce and advanced communications technologies. The term 'workfare'- i.e. welfare + work-, rather than welfare, signifies work for welfare or work-oriented welfare.<sup>35</sup> In other words, the emergence of Schumpeterian workfare state is characterized by more flexibility and permanent innovation as its emphasis on mobilizing social capital as well as entrepreneurialism (Table 3-3) (Harvey 1989a; 1989b; Jessop 1994; Pierson 1994; Painter 1995; Goodwin and Painter 1996; Jessop 1999b; Peck 2000; Jones and Jones 2004).

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<sup>35</sup> Workfare is based on reductions in eligibility, forms of compulsion, and increased monitoring of welfare recipients in order to make the unemployed 'employable' and job-ready through various job search training and education mechanisms.

***From socialist regime to post-socialist regime***

To sum up, the regime of accumulation and mode of regulations in the west has experienced a fundamental shift since the 1960s from Fordism to post-Fordism. Transition economies in general and post-Mao cities in particular experienced comparable changes, although these were not exactly the same as the experiences of their western counterparts. There are some specific similarities between the transformation from Fordist to post-Fordist and the transition from socialist to post-socialist (Table 3-4). For example, both of them uphold a belief in the advantage of scale economies of industrialization, while changes in both represented as alternatives to manage crises in their respective accumulation process in face of internationalization (Wu 2003a; Wu and Ma 2005). And sub-national cities and regions were granted more powers to played a part in the transition process (Bennett 1997b). In general, socialist countries embraced state-led development, resulting in state monopolies over production, resource allocation along with distorted prices, an absence of foreign competition and the neglect or/and suppression of the private sector. As a consequence, the crisis of this regime of accumulation in the 1970s and 1980s included: poor economic performance, inefficient public sectors, weak governance, difficulties of rigorous planning and lack of effective incentives to mobilize subordinated units (Sutton and Zaimche 2002; Wu and Ma 2005).

Table 3-4: Changing urban processes in transition and advanced economies

Transition ↓	<b><i>The socialist regime</i></b> <i>extensive accumulation through state-led industrialization</i> <i>redistributive functions of states</i>	<b><i>The Fordist Regime</i></b> <i>economy of scale</i> <i>Keynesian welfare state</i>
	<b><i>The post-socialist regime</i></b> <i>intensive accumulation through commoditization and spatial fix (export-orientation zones)</i> <i>marketization</i> <i>entrepreneurial States</i>	<b><i>The post-Fordist Regime</i></b> <i>economy of scope</i> <i>neo-liberalism and post-Keynesian workfare state</i>

Source: from Wu (2003a)

However, the more important difference, as Wu and other scholars further emphasize, is that under the context of cold war, industrialization in the socialist regime was characterized by economic isolation, military preparation, and state-led industrialization, with limited privatization and marketization (Szelenyi 1996; Wu 2003a; Wu and Ma 2005). These characteristics were radically different from those of the Fordist regime. Mao's China in particular had forbidden most international trade and foreign direct investment. Industrialization during the 1960s and 1970s was highly built upon the 'Third Front (*san xian*)' region for military concerns. In addition, cities in socialist countries tended to grow more slowly than their Fordist counterparts due to the explicit anti-urban discourse. There was less urbanisation, namely, less urban population growth and less spatial concentration for the population (Savage and Warde 1993). More complicatedly, the regime of state socialism in the Mao's China combined two contradictory instruments: restriction of rural-urban migration and suppression of urban consumption as anti-urbanism on the one hand; and privileges to urban-based residents and urban-based manufacturing systems, on the other hand (Lin 1998; Lin 2002).

Certain significant differences also need to be noted in the characteristics attributed to the post-socialist regime as compared with the post-Fordist one. In the post-Fordist regime, still staying in the market system, one dominating force in the shift to a more flexible economy was first to remove the standardized procedures and products to developing countries and then to develop new products on quality competitiveness based on appropriately flexibly workforces and advanced communication technologies. But, in post-Mao China, programs to cope with crisis resulting from the socialist centrally planned regimes were to introduce marketization, like price reforms and land use reforms. Along with the establishment of economic development zones and the



liberalization of international trade and foreign investment, the adoption of export-oriented growth and integration into the global economy were also created as alternatives to sort out the crisis in the socialist regime (Wu and Ma 2005). Ironically, flexible production was a new type of accumulation in the western countries to cope with the challenges raised by developing countries that provided cheaper and semi-skilled labour as better environments for mass production under the new international spatial division of labour. And China, having opened up since the late 1970s, was one of the key developing countries to accelerate this new international division of labour.

### **3-3 Macro Perspective of Responses: Localities in Competition**

#### ***Background: new operations of spatial organizations at different scales***

In terms of issues of local economic development, the new roles and operations of spatial organizations at different spatial scales were also formatted in order to respond to the macro changes of global restructuring. At least three different but not mutually exclusive scenarios can be identified. First, while some scholars argue that national states facing challenges are still influential, others claim that state capacity is actually declining. The second scenario focus on more direct interventions from international organizations and the third one is about the emergence of local entrepreneurial governances. I start from the first.

For the first scenario, in few contexts, nation states still remain essential in the face of global competition because of their numerous roles in the economy, such as guaranteeing the rights of capital, creating conditions necessary for the global expansion of domestic capital, acting as collective capitalists in their own rights,

regulating the global economy within and beyond their jurisdictions and performing key roles in the internationalization of politics (Yeung 1998). Empirically, using recent political developments in the UK as a case study, Jones and Jones (2004) further argue that an ideological form of neoliberalism by Whitehall in London can be a means for nation states to be differently re-engineered within the context of globalization and neoliberalism. In addition, the 'challenge fund' organized by the central government of the United Kingdom had been a key resource to generate formal as well as informal links between local governments and local business (Davies 2002). Certain central state-articulated institutions also played an important role in regenerating local economic development, like the Welsh Development Agency (MacKinnon and Phelps 2001), Dockland development project in London (MacLeod and Goodwin 1999b), and Britain's Training and Enterprise Council in many localities (Jones 1998). All of these studies show clearly that the importance of roles of central governments in the local economic development process cannot be neglected.

However, compared to the Fordism period, the effectiveness of nation states in the post-Fordism period is much more arguable. There is no doubt that national states played a significant part under Fordism. Internationally, they had a strong capacity to set up independent monetary policy for their countries. Domestically, they centralized and consolidated governing powers to create a Keynesian welfare system and secure mass production and consumption (Tickell and Peck 1995). However, during the post-Fordism period nation states were seriously challenged by de-industrialization, fiscal crises, a rise of mass unemployment and unstable and volatile neo-liberal international financial and trade systems. Therefore, central governments were forced to cede power to other political and economic bodies (Pierson 1994; Tickell and Peck 1995). From this regard, many scholars argue that there was a twin process of

weakening state capacity: privatization to industrial organizations on the one hand and the transfer of power to other tiers of governmental bodies and non governmental organizations on the other. In terms of the latter, central state functions were transferred either upward to supranational organizations (such as European Union, NAFTA, WTO and so on) or downward to subnational states (regional bodies or autonomous regions) (Jessop 1994; Ohmae 1995; Swyngedouw 1997; 2003).

This trend figures in the second and third scenarios in terms of operations of other spatial organizations. The second scenario concerns international intervention into local and regional economic development. More supranational bodies and different sets of collective sovereignty started to involve themselves in local economic development in different degrees (Tickell and Peck 1995; Swyngedouw 1997; Scott 1998). For example, the so-called '*acquis communautaire*' is the body of European legislation that candidate countries must accept before joining the Union (Radaelli 2000). The European Court of Justice is authorized to directly force local governments of member states to comply with certain European policies and directives, even bypassing their central governments. As such, Article 10 of the European Regional Development Fund provided an opportunity for European Union (EU) to legitimately establish their own pilot policy innovations in under-developed areas that were regarded as institutional 'policy laboratories' for the EU (Henderson and Morgan 2002). In addition, with Ghana as a case, Mohan (1996) concludes that external involvement by the World Bank in the 1980s calling for fiscal accountability had a profound effect in the local political and economic development.

The third scenario involves much more important roles for cities and regions. Local states in cities and regions before the 1960s primarily played a regulatory function

around social reproduction dispensing local welfare systems. During the transition period, however, cities and regions were forced to stand on the front line to sort out crises transmitted from the weakening national states. Local states had enhanced their economic roles by using powers and competencies available to influence the economic fortunes of their localities (Mayer 1995; Tickell and Peck 1995; Swyngedouw 1997; Wu and Ma 2005). Scholars identify typical development strategies deployed by local authorities after the 1980s as including: the attraction of inward investment with a variety of incentives; development assistances to local small and medium enterprises; infrastructure provision; and training and educations for labour reskilling (Mayer 1995; Jones 1998; Peck 1998; Painter 2003); and city marketing and selling (Ashworth and Woogd 1990; Levy 1990; Ward 1998).

### ***Territorial competition in the United States, Europe and China***

Along with the development of new operations of spatial organizations at different scales, I would specifically point out the dimension of inter-territorial competition, which is about the emerging importance of local entrepreneurial governance as territorial units in the context of global competition for attainment of resources, creation of jobs, and accommodation of investment projects (Harvey 1989b; Cheshire and Gordon 1995). The emerging global economy has produced an intensification of competition between firms for a share of growing transnational markets. In order to access new or expanded markets, the cross-border inter-firm coalitions of firms place increasing responsibility on regional authorities to ensure the availability and quality of local-bound complementary assets to attract the right kind of mobile investment (Agnew 2000; Dunning 2000). As a result of the significance of the strategies of mobile capital performing important roles in local economic development, there has been an increase in coordinated actions within regions to improve competitiveness vis-à-vis

other areas, particularly in bidding for mobile investments (Cox 1995; Rodriguez-Pose and Arbix 2001; Garcia-Mila and McGuire 2002), container port development and shipping industry (Hall 2003; Jacobs 2004), property markets (D'Arcy and Keogh 1998), tourism, state or international funds (Cheshire 1999), and fairs and exhibitions (Rubalcaba-Bermejo and Cuadrado-Roura 1995) and so on.

It must be noted that historically speaking, territorial competition in America had been a permanent feature of local economic development since the colonial era of the 18<sup>th</sup> century. It is partly because of relatively weak federal power with strong local autonomy of states and partly because of development contests for the expansion of the western frontier. In Europe, territorial competition occurred in Renaissance Italy (competition between city states), and then disappeared from the 18<sup>th</sup> century until the mid of the 20<sup>th</sup> century due to the rise of the national-state and the industrialization age. Territorial competition have taken place again since European integration after the 1960s (Cheshire and Gordon 1995; Agnew 2000). Development of LaDefense as a 'Manhattan sur Seine' was explicitly intended to attract corporate offices from competitor cities such as London and Brussels and New York. Lille also successfully secured the TVG connection to Brussels and the Channel Tunnel in order to create the opportunities for much more ambitious developments to serve a transnational market (Gordon 1999). Bremm (1995) also documents the territorial competition process operated by cities and regions in Germany during the twin process of Germany unification and European integration.

Such territorial competition also happens in the post-Mao China period. Many provinces, cities and regions of China tried their best to compete with others in accruing the greatest amount of resources, bargaining for the most favourable policy concessions

and generating the highest rate of growth of the localities (Qian and Xu 1993a; 1993b; Montinola, Qian et al. 1995; Gore 1999). As shown in Chapter Two, the so-called ‘war of development zones’ in bidding for FDI by offering highly subsidized land is a case in point. Particularly for local government encouraged projects, the selling price of land is much lower than the development cost, even sometimes close to zero. Another example is the duplicate construction of infrastructure. There were five international airports in the Pearl Delta with a radius of 50 km, including Hong Kong, Macao, Shenzhen, Guangdong, and Zhuhai. Despite a designed annual capacity of 12 million passengers, Zhuhai international airport, which started operations in the early 1990s, had developed half million volume of passengers by 2000. Such reckless and irresponsible decisions resulted in a huge gap between construction cost and operation revenue, putting Zhuhai on the brink of bankruptcy (Lam 1999). Similarly, Wuxi airport, which was converted from a military airfield for civilian use, only has six flights a day serviced by one airplane. It is because there are four other airports within a radius of 140km, including a Shanghai airport.<sup>36</sup> In terms of production, at least 19 (out of 30) provinces competed with each other by identifying the auto industry as a priority for the 1996-2000 national plan (the 9<sup>th</sup> Five-year plan) without considering the niches of localities and balanced development of the nation as a whole (Lu and Xue 1997).<sup>37</sup> These reflect some of the risks of the local orientation of territorial competition as a bottom-up process, ignoring not only questions of spatial equality, but also the inefficiency of zero-sum policies (Cox 1995; Cheshire and Gordon 1996; Cheshire 1999; Agnew 2000).

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<sup>36</sup> News source: *zhong kuo shi bao* (based in Taipei) 2002/10/14; *zhong kuo shi bao* (based in Taipei) 2003/02/22; South China Morning Post (based in Hong Kong) 2004/04/13.

<sup>37</sup> Another 17 out of 30 developed the construction materials industry as a key industry for their economies. The electronic industry, machinery industry and metallurgy industry were also targeted by 15 respectively.

### *Competition and policy innovation (or not)*

Scholars argue that territorial competition in relation to policy making for local economic development can be divided into two categories: growth-enhancing, and growth-depleting (Cox 1995; Kresl 1995; Cheshire and Gordon 1996; Cheshire 1999; Agnew 2000; Christiansen, Oman et al. 2002). The dichotomy can be traced back to researches on capitalist and industrial growth done by Storper and Walker (1989), who make a distinction between 'weak competition' and 'strong competition'. The former targeted largely at the level of exchange, meaning that firms operating the strategies of weak competition seek out the best available raw materials, technologies and labour power at the cheapest price. Instead, the latter drives agents to revolutionize production in order to gain an edge on competitors, for example, to transform business practices or to do what has never been done and so on (Storper and Walker 1989). In other words, the former can be regarded as a process of 'race to the bottom', while the latter are more innovative and sustainable.

Departing from this point, local economic development policies for territorial competition also can be roughly identified as two groups. On the one hand, it is efficiency-enhancing strategy, or the so-called 'strong competition'. Localities improve public goods and make innovations in upgrading their business-friendly environment and resource allocation. Such strategies include: cutting down local wasteful expenditure, labour training, fostering entrepreneurship, helping to start up new firms, offering business advice, reducing uncertainty, coordinating related resources, and constructing infrastructure. On the other hand is efficiency-depleting 'weak competition'. In this case, cities and regions offer all manners of incentives to major corporations and similar concessions, such as pay uneven attention to non-investment projects, too much focusing on tax abatements (race to bottom), the low charge of or

free provision of physical infrastructure, or in the forms of freeway interchanges and more general provision like airport expansions, aiming at attracting certain types of investment. For example, Garcia-Mila and McGuire (2002) document that different cities competed with each other by offering tax incentives when Boeing company decided to relocate its headquarter from Seattle. Dallas offered property tax abatements of US\$ 10 million plus millions more in infrastructure and relocation costs, while Chicago and the State of Illinois teamed up to offer upwards of US\$ 50 million in property and income tax abatements and other incentives. Similarly, the development of territorial competition in Brazil has seen states vying for FDI in the automobile sector since 1995, through with no significant increases in welfare either at the local or at the national level (Rodriguez-Pose and Arbix 2001).

***Market fragmentation: territorial competition, Chinese style***

A key difference between territorial competition in the west and that in China involves the degree of market integration. Territorial competition in west Europe occurred under the context of European market integration and free movement of materials, human resources, productions and mobile capital (Cheshire and Gordon 1995; Cheshire 1999). However, territorial competition took place in China along with a remarkable domestic fragmentation in production, capital and labour markets (Cannon and Zhang 1996; Lee 1998; Wedeman 2003; World Bank 2005b).

Starting from the late 1980s, those goods and materials that were seen as important to the domestic provincial economy were either restrictedly imported or subjected formally or informally to high taxes (Montinola, Qian et al. 1995; Cannon and Zhang 1996; Ma 1997; Wedeman 2003). In 1988, Hunan province, set up its own customs patrols to stop farmers from selling their pigs for higher prices available in the



neighbouring province of Guangdong (Lu 2004).<sup>38</sup> In terms of the flow of financial capital, the branch banks, which are often backed by the local governments, have tried hard to keep local financial resources within the locality. For example, during the Asian financial crisis, Fujian issued an order that no funds should be remitted out of the province (Gore 1999). In some extreme cases, provincial governments issued their own currencies in order to prevent their residents from purchasing goods in the neighbouring provinces (Huang 2001a). Shanghai and Guangdong had to use its hard-earned foreign currency to purchase rice, grain, fuel and raw materials from the world market because it could not get enough volume from the neighbouring provinces (Lee 1998; Sun 2000). Along with obstructing the flow of goods and capitals there was a lack of cooperation between provinces. For example, even under the push of the Shanghai Economic District Planning Office (SEDPO) (Shanghai *jin ji qu kui hua bang kong shi*) of the State Council established in 1985, there was no substantial cooperation in development between Shanghai and other neighbouring provinces in the 1980s. And the SEDPO was formally abandoned in 1988 (Cannon and Zhang 1996). Moreover, even until nowadays, the general Hukou system in connection with access to social welfares and public services is still being applied to China as a whole, restricting migrate across provinces and therefore reinforcing domestic labour market segmentations (World Bank 2005b).<sup>39</sup>

One indicator of the local disintegration is the economic importance of provinces' domestic (inter-provincial) and global (province-international) trade.<sup>40</sup> During the

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<sup>38</sup> Other typical trade barriers include: export embargo, transport license, levy on exporting products, request for rewards in exchange for 'export', strengthened enforcement of production quota, integration of material supply with processing industry (Ma 1997).

<sup>39</sup> Hukou system refers to China's residency permit that technically requires an individual to live in the area designated on his/her permit.

<sup>40</sup> There are other approaches to measuring post-Mao China's economic fragmentation, such as the price approach (in terms of trend in price and rates of return convergence), the production approach (through examining the production structure across different provinces), and the business cycle approach (by understanding the correlation of business cycle among regions) (World Bank 2005b).

post-Mao period, inter-provincial trade was at best stagnating in absolute terms, and falling sharply as a proportion of sales or GDP. And the declining importance of domestic goods in provincial absorption was replaced by growing shares of both international and intra-provincial produced goods. For example, foreign trade of total retail sale in Guangdong grew up from 15.7% in 1980 up to 67.4% in 1992, while its inter-provincial trade of sale got less and less. Parallels can be drawn in Shanghai and Liaoning (Kumar 1994) (Table 3-5). In addition, Poncet (2003; 2005) also confirms that there was a downward trend in the intensity of inter-provincial trade since the end of the 1980s. In other words, despite a simultaneous move of provincial competition with each other towards greater international trade integration, the provinces in general remained little integrated with each other between 1987 and 1997. This reflected both the rapid growth of foreign trade, and a tendency for domestic trade to become more heavily concentrated *within* provinces, as a result of growing protectionism. In addition, while whether or not regional protectionism to some extent declined over the past 10 years is still arguable (Naughton 2003; Bai, Du et al. 2004; World Bank 2005b),<sup>41</sup> new forms of protectionism embedded in the local affiliation of the judiciary and local government procurement practices have been found to further challenge the China's domestic market integration (World Bank 2005a).

Table 3-5: Inter-provincial trade and foreign trade in selected regions (1980-1992)

		1980	1985	1990	1992
Guangdong	interprov. trade /total retail sale	41.4%	32.8%	20.1%	18.4%
	foreign trade /total retail sale	15.7%	28.0%	52.7%	67.4%
Shanghai	interprov. trade /total retail sale	221.6%	125.1%	79.9%	n.a
	foreign trade /total retail sale	76.8%	83.0%	100.7%	n.a
Liaoning	interprov. trade /total retail sale	50.0%	35.3%	44.8%	45.2%
	foreign trade /total retail sale	49.6%	69.6%	65.5%	n.a

Source: Kumar (1994)

<sup>41</sup> For example, Naughton (2003) argues that inter-provincial trade was growing more rapidly than either provincial GDP or foreign trade between 1987 and 1992; similarly, World Bank (2005) also address that regional protectionism declined significantly over the past 10 years and Bai, Du et al. (2004) conclude that there have been a trend of regional specialization of China's industries in the 1990s.

Under the context of territorial competition and market fragmentation, there are some consequences. First, it is about overproduction in the wake of fragmented marketization (Cannon and Zhang 1996). According to China's third industrial census conducted in 1996, there is a 40% redundancy for textile products, 70% for air conditioners, and 75% for electronics products (such as washing machines, refrigerators, colour TV sets, VCD and DVD players). Oversupply sometimes leads to price war. Shanghai's Dazhong, one competitive automobile company, not only ramped up production in recent years but also significantly slashed prices in hope of grabbing a lion share of the market (Lu 2004).

Second is the phenomenon of 'miniaturization of investment projects', referring to the situation whereby investment projects in post-Mao period tended to be of a sub-optimal scale.<sup>42</sup> Therefore the projects inevitably became smaller relative to the size of Chinese economy (Gore 1999). For example, the biggest three companies in China's automotive industry just only took around 40% of the whole market share. In contrast, there is a high concentration of the automotive industry in Brazil, Japan and Korea (Table 3-6) (Huang 2001a). In 1995, China had some over 120 automobile assembly-lines. However, the entire output in China as a whole is only 1.45 million volume, which is smaller than the output level of one single Japanese firm in 1969 (Toyota 1.47 million units) and about level of the Hyndai Motors in 1996 (1.3 million units) (Huang 2001a).

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<sup>42</sup> As the principle of regional economic self-sufficiency was one of key communist China economic policymaking concerns, miniaturization also happened to the pre-reform era. Therefore, there was no market pressure for firms to fully utilize economies of scale. Inner regions were promoted as a complete and self-sufficient system to develop the steel or auto industry. For example, the second Automobile Company, which was built in the mountains of Hubei with parts and assembly plants scattered over the mountainous regions, had poor transportation and coordination (Demurger, S., J. D. Sachs, et al. 2001).

Table 3-6: Concentration ratios of the automotive industry

	One firm ratio	Two firm ratio	Three-firm ratio
Brazil 1970	56.1%	74.3%	91.2%
Japan 1975	33.7%	63.6%	72.8%
Korea 1986	71.3%	88.6%	97.9%
China 1985	19.2%	38.0%	43.0%
China 1998	14.7%	25.4%	34.4%

Source: Huang (2001a)

A third effect of the lack of regional integration is the isomorphism of industrial structures between regions. Gore cites the research done by Lin and his associates at the Investment Research Institute of the State Planning Commission to show the industrial structural similarity of China provinces (Gore 1999). Using the UN industrial Development Organization's structural similarity coefficient, Lin's research reveals extraordinarily high levels of similarity of regions within China, with an average value across provinces of 0.798. In terms of number of employees and output values, Kumar (1994) similarly finds out that the provincial indifference averaged about 0.8. The trend toward structural isomorphism seems to continue into the 1990s. In 1996, the structural similarity between the coastal provinces and central provinces was 0.935, while that between the central and western provinces was an astounding 0.979.<sup>43</sup>

Fourthly, regional fragmentation is also one institutional reason why the post-Mao China's development so heavily relied on FDI.<sup>44</sup> Regional economic fragmentation means that domestic firms were only able to invest within their respective regions. Such fragmentation strongly restricted the mobility of domestic private firms. As of 1998, Shanghai Automotive Industrial Corporation, the largest automotive firm in China was forced to remain in Shanghai. Instead, a small company from Hong Kong was able to

<sup>43</sup> News sources: *ren min ri bao* (based in Beijing) 1996/12/04, cited from (Gore 1999).

<sup>44</sup> The other institutional feature is the political pecking order of Chinese firms. Local partners endeavoured to partner with foreigners to get certain fiscal advantages from a foreign joint venture (Huang 2003).

acquire 200 firms across nine provinces (Huang 2003).<sup>45</sup> It prevents Chinese domestic firms from being more competitive than they could be otherwise. Such economic fragmentation also increased the bargaining chips of foreign firms because domestic firms could not freely move to other regions but foreign firms, even some of small size, were able to choose all projects throughout the country. Therefore, economic fragmentation made foreign firms more valuable than otherwise would be the case.

### **3-4 Micro Perspective of Responses: Politics behind Self-Interest Coalitions**

#### *Local politics: elite or pluralist models*

Under the post-Fordism context, formal political powers still remain with sovereign states. However, their capacity to project power was weakened within their own national borders and challenged, even replaced, by other spatial governing bodies, like local states (Harvey 1989b; Swyngedouw 1997). These changes, of course, took different paths in different contexts, depending on cultural and political peculiarities of localities and societies. From the perspective of urban politics, it therefore leads us to reject the extreme structuralist interpretation, which claims that issues of agency are irrelevant, and to pay more attention to observing through whom change really happening at the local scale (Mollenkopf 1992). In contrast to the previous emphasis on macro and structural factors, the main issue in the section is to understand the political behaviours and motivations of the agents in the local development governance in relation to the politics of local economic development.

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<sup>45</sup> Another example is SHI Liwen, chairman of Shanghai Construction Group, the biggest construction company in China, complained at the March 2001 annual meeting of the National People's Congress that his company often found it impossible to operate outside Shanghai because of local protectionism. News source: Transition (based in Washington D.C.), 2001 July.

LeGates and Stout (2002) identify two schools of thoughts on urban politics: the 'elite model' and the 'pluralist model'. The latter, which was academically popular during the 1950s and 1960s, argues that decision making of local development was influenced and involved by different people from a variety of class and organizations with plural values and interests. Instead, the former argues that main development decisions were actually made by a small and interlocking group of elites consisting of key business-persons and members of established and socially prominent companies and families. The difference between the two models in relation to local development is whether it be controlled by one dominating value in order to collectively pursue elites' self-interests (in the elite model) or be determined by several complementary and/or conflicting values (in the plural model) (LeGates and Stout 2002).

However, the explanations offered by the pluralist mode had been challenged by many scholars using the Marxist and political economy approach. From the perspective of social values, they criticize that many policy actors who proclaimed themselves as representative of plural interests actually had generally advocated policies that fitted the predispositions of the privileged and the upper classes instead of those of the rest of the population. For example, the so-called better urban planning usually only ended up at museums, churches and industrial parks, rather than hotdog stands, nightclubs or neighbourhood taverns, reflecting the view of city life by the elite class (Fainstein and Fainstein 1996). With a coal region in Belgium as a case study, Swyngedouw (1996) also points out that under the context of the so-called post-Fordism period, the local entrepreneurial governance in close co-operation with private capital was increasingly diverted by small elites who shaped the urban/regional fabric in its own image and fashion and defined the very content of restructuring process. Such elite-domination

was characterized with a decidedly undemocratic and authoritarian touch at supra and local levels with the systematic exclusion and even further disempowerment of politically and economically already weaker social groups (Swyngedouw 1996).

***Growth machines and urban regimes in pursuit of self-interests***

Also, Cheshire and Gordon (1996; 1998) argue that territorial competition is a process through which groups, acting on behalf of a regional/local economy, seek to promote cities and regions as locations for economic activity either implicitly or explicitly in competition with other regions. The local elite willing to promote competition are those who had a strong motivation to engage in the process of territorial competition, including administrative staff and local agents with strong stakes in the local economy and the perception of the possibility to influence outcomes.

For example, in the context of the United States, the public-private coalitions in territorial competition had existed over many decades, and boosted more significantly after the 1980s. A group of business persons (typically involving the utilities developers and local chamber of commerce) coming together with local officials formulated and implemented policies designed to expand local economy because of 'local dependence of knowledge' (Cox 1997; 2002). Utility companies are dependent on local knowledge, such as where and when electricity is needed and how to construct. Developers need to know their market and also to be known for marketing. Local chambers of commerce provide detailed development information to bring more agents together. Local officials need local economic expansion in order to be able to collect more taxes from local stores, real estate and incomes. In other words, such interdependence is motivated by self-interest among those agents involved (Cox 1997; 2002).

Logan and Molotch (1987) also use the term 'growth machine' to understand cities or regions as the engine of economic development for the personal interests of certain local growth elites. Major participants in local growth machines were the local officials and private business persons in property investing, development and financing sectors. The private/public elite played an essential role in controlling their investment activities, even scrutinizing administrative details, for example, and the decision making process of urban planning (Logan and Molotch 1987). Therefore, these elites of local growth machines could collectively enrich themselves through the process of intensification of certain private lands for their personal interests. Due to paying relatively less attention to the public interests, local growth machine also to some extent made such development inherently unstable and short-termist (Tickell and Peck 1995).

Stone (1989; 1993) proposes that an urban regime was a specifically-defined coalition under informal arrangements with access to institutional resources in making decisions. These informal models of coordinating efforts across institutional boundaries are based upon mutual self-interests. Urban regime theory argues that the growth machine was just one of the many types of public-private local coalitions. The variety of regimes depends on how in a particular context key political actors tried to strategically pursue certain sorts of political goals of local development. These typologies of regime include: symbolic, welfare, corporatist, development, service-delivery, entrepreneurial, social reform, pro-growth market-led, middle-class progressive, and organic and so on (Ward 1996; Dowding, Dunleavy et al. 1999; Pierre 1999).

To sum up, the motivations and incentives of policy actors in the local development coalitions are not just driven by public interest, but also how to maximize the particular



interests or rents manipulated by key agents in the coalitions. In general, local government under pressures from certain local elites would favour specific firms rather than general ones. The activism of the local entrepreneurs is dominated by a small number of relatively big and leading firms or property owners. Without these parochial private sectors as seed crystals to initiate economic activities, the performance of regional development would be weaker.

### *Multi-scale governances for local economic development*

However, agents acting in the local governances are not all located in the local scale. Local development in certain contexts depends upon 'top-down' processes by high-level authorities (Ward 1996; MacKinnon and Phelps 2001). The concepts of roles played by national state and international organizations in relation to local economic development are discussed here. First of all, MacLeod and Goodwin (1999a; 1999b) propose a concept of 'the state as the site of strategies'. They argue that the state could favour some groups' strategies over others when facing domestic development crises such development stagnation and uneven development. The access and giving of privilege could be based on some forces over others, some interests over others, some time horizons over others, and some coalition possibilities over others (MacLeod and Goodwin 1999a; 1999b). Furthermore, building on the concept of 'strategic selectivity', Jones (1997; 1998) develops a concept of 'spatially strategic selectivity' that the state specifically had a tendency to privilege certain places or regions through accumulation strategies and hegemonic projects. The processes of 'geographically privileging' include material and ideological forms within which high degrees of experimentation existed, the exact form being contingent on interest groups, and the mobilization of representational forces that ideologically supported such experimentation (Jones 1997; 1998; Jones and Ward 2002).

Second, the new role of international organizations in relation to local economic development is related to the debate of changing a national state's sovereignty. Traditionally, the sovereignty of national states was clearly defined such that foreign powers and resources could not intervene in the domestic political and economic development of a country unless invited by the legitimate government. International organizations also might not intervene in local and regional development without the permission of nation states concerned. However, this traditional concept of sovereignty has been challenged (Taylor 2000; Jenkins 2002; Held and McGrew 2004).

For example, the Environment and Natural Resource Group of the World Bank was established to promote sustainable development in social, economic, and environmental dimensions by facilitating a learning dialogue and disseminating policy innovative approaches with local agents (Stone 2001). The Global Development Network, financed by the World Bank, is also designed to be a collaborative platform for the co-production of local, regional, and global knowledge on 'best practices' for local economic development (Stiglitz 2000). The Mega-City Project (MCP), a non-profit organization based in the United States, had also built field sites in eighteen largest cities in the world to identify and transfer urban innovations. With support by MCP, the Zabbaleen Environmental Development program in Cairo of Egypt has been successfully transferred to Manila of Philippines and Bombay of India, bringing about an appropriate adoption of new problem-solving and long-term relationship between regions and cities (Badsbab and Perlman 2002).

Apart from international organizations, consultant companies- including law firms, banks, planners and architects- also played an important role (Stone 2003; Sklair 2005).

For example, international planning consultancies sometimes are able to offer direct influences to local governances about master planning, transportation or communication infrastructure (like massive airports), site planning and architecture design of headquarters for global business and public facilities (Olds 2001). In addition, some governmental and non-governmental organizations established are able to exert influences on local economic development of other countries. The International Development Research Centre (IDRC) in Canada (Stone 2003), Christian Aid in UK (Bashyam 2002), and Oxfam in UK (Dawson 2002) are cases in point. Taken together, at the heart of local economic development in the context of globalization are the significant roles co-played by international organizations, foreign governments, central states, local authorities, community associations and companies.

Theoretically, Cox (1998) provides the concept of the 'jumping scale of politics', referring to the idea that the complex-mixed connection of social agents at different spatial scales from the local to supranational spatial level is one of the new possibilities in resolving domestic development problems. Marks (1993) proposes a concept of 'multi-level governances' to describe the dispersion of decision making across multiple territorial levels in the Europeanization process. Local governments and their connections with other foreign governments or supranational organizations are seen as an essential element in affecting the decision outcome. The multi-level governances can be in the form of multi-task jurisdiction or task-specific jurisdiction (Hooghe and Marks 2001). These researches also echo Scott's research (1998) on an emerging hierarchy of political and economic reorganization. He argues that the current political reorganization of the world involves a fourfold hierarchy of governance relations, including the world regime, multi-national blocs, each sovereign state, and a large group of individual regions- with the global mosaic nowadays shaped by the mix-match and overlapping

allegiance between regions, multiple sovereign states and multi-national blocs (Scott 1998).

*Party-dominated politics: development coalition, Chinese style*

In the post-Mao context, Chinese governments at various levels were much more development-oriented and committed to economic growth than their counterparts in the 1950s and 1960s. Any anti-development interest groups still needed time to offer their alternative goals to the public. A type of local government–enterprise coalition was gathered collectively to convert more resources into local development (Zhu 1999). Local development governances in the post-Mao period also involved multi-scale actors apart from local agents. It can be observed from two different perspectives: one from the national scale and the other from the international/ global scale.

First, although the capacity of the centre was weaker in the post-Mao period than in the Mao era, it still remained relatively powerful (for example, as compared to their counterparts in transitional Russia and east Europe). As mentioned in Chapter Two, the centre initiated the ideological change from Mao's principle of regional equality to Deng's instruction 'let some regions get rich first' (Yang 1990). In addition, along with dual-track reform programs on the basis of geographic perspective, central policy in general and development zone policy in particular can be understood as reflecting the state's concern of 'spatially strategic selectivity', privileging certain places to operate deregulations and marketization (Chung 1999a; Gallagher 2002). From this regard, the centre was to pursue a particular market-like, FDI-favoured, and export-oriented accumulation policy in selected places to strive for international competitiveness as well as to suppress counter-hegemonic (namely, conservative-oriented) factions.

Second, regarding international actors, during the process of China's resumption of its membership in international organizations (like the IMF and World Bank in 1980, and the Multilateral Investment Guarantee Agency (MIGA) in 1988, and WTO in 2002), there have been certain degrees of harmonization between local economic regulations and laws by international organizations (Feng 1996; Mertha and Zeng 2005).<sup>46</sup> With Beijing District Heating System Development as an example, Gan (2000) notes the process that the World Bank participated with the Beijing municipality government to build up the environmentally- friendly heating and gas system. In addition, with the case of Lujiazui Finance and Trade Zone, Olds (1997) argues that the international design professionals had helped Shanghai readdress the conceptual imbalance in the early 1980s between closed information left over by Mao's legacy prior to 1978 and modernize and advance ideals inspired by the experience of the western global cities.

However, beyond such similarity of local pro-growth coalitions, the political operation in post-Mao China was actually different from the western contexts. Despite administration reforms (Li 1998; Edin 2003a),<sup>47</sup> there was limited political development, meaning that China was still a one-party control regime. The political reform can be traced back to the 1980s, when Deng introduced the so-called 'checks and balances within CCP domination'- to separate the party from government on the one hand and to enlarge legislative authority on the other hand. Party committees at all levels 'tried' to remove themselves from the process of policy execution. The legislative body, the People's Congress at each level, became a decision-making organization and 'tried' to play a powerful supervisory role in policy implementation

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<sup>46</sup> However, Mertha and Zeng (2005) also document that in some cases, rent-seeking behaviour by local officials threatens to be a major impediment in China's ability to comply with its WTO commitments.

<sup>47</sup> The administration reform in connection with a transformation of bureaucracy include a mandatory retirement program to replace revolutionary veterans; job classification system, recruitment by examination and performance evaluations for staff and so on.

(Unger 1987; Chen 1999; Xia 2000). There were several cases showing that some local People's Congress (legislature) had started to change images of 'rubber stamp' by contestation and competition with other political organizations.<sup>48</sup> However, as a Chinese saying goes 'party overrides law (*dan da yu fa*)' (Potter 1999; Guo 2000), the party still dominated administration, legislation, and jurisdictions (Potter 1999; Guo 2000).

Under the context of one-party domination, several characteristics of political operations can be identified. The first is that a large part of the regulatory framework still consists of an array of party 'documentations' (*wen jian*) of various kinds, aside from laws (*fa lu*) made by national and local legislative organizations. All kinds of documentations includes reason (*daoli*), direction (*guiding*), principle (*yuanze*), solution (*banfa*), plan (*fang'an*), decision (*jueding*), announcement (*tongzhi*), project (*guihua*), details (*xize*), opinion (*yijian*), and so on. These documentations played an important role in building consensus, formalizing personal preferences, and gaining ideological legitimacy. Wu terms it as 'documentary politics', which is one of the key characteristics of the Chinese Communist regime operation (Wu 1995). For example, the documentation to open fourteen coastal cities in 1984 is actually just in the form of the minutes of one meeting.<sup>49</sup> Another example related to FDI also shows the superiority of documentations over the law. According to the 1979 Sino-foreign joint venture law passed by the National People's Congress, salaries of joint venture employees should be determined by the boards of directors. However, the Ministry of

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<sup>48</sup> For example, under the 1982 version of amendment of constitution, the power of the standing committee of National People's Congress was expanded not only to the enactment of law but also to supervise the work of the State Council and other administrative bodies (Xia 2000).

<sup>49</sup> The minutes is '*yan hai bu fen chen shi zuo tan hui chi yao* (Minutes of meeting with some coastal cities)', *zhong fa* (1984), No.13, 1984/05/04. After, the General Custom of the State Council launched a policy of tax exemption toward the economic development zones, namely, '*kuan yu dui shi si ge yan hai gang kou kai fa cheng shi de ruo gan you hui zheng ce* (Some preferential policies regarding fourteen coastal port and open cities)'.

Labour still set up the upper limits as to how much those employees could be paid (Wang 2001).

Second, the domination of the party means that without agreements and consensuses from the party leaders, representatives from the administration (like county chiefs, city mayors or even provincial governors) might not have a final say in making policies and mobilizing administrative resources under their jurisdiction.<sup>50</sup> Related to that, a group of local officials who can be the rule makers, the rule enforcers, the referees and the players at the same time are all under the party control (Sachs, Woo et al. 2000; Ma 2002). For example, public officials at local county levels in many cases were *de facto* owners of corresponding public-owned enterprises, which were the key development engines for local economic development. They were entitled to appoint and dismiss managers of those enterprises, to change or flexibly interpret the regulations in order to favour their investments, even to claim part of the profits (Oi 1995; 1998). Also because of the domination of the party without proper rule of law, there is very limited space for judicial independence and law enforcement. Related to market protectionism is that local courts have been found to unreasonably rule in favour of the interests of local enterprises, the phenomenon of so-called 'judiciary localism' (Ma 1997; World Bank 2005b).

Third, the dynamics of state-society relation is a matter of the politics of development coalitions. In post-Mao China, state-society relations were shaped by a combination between strict control and informal toleration (Perry and Selden 2000). On the one hand,

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<sup>50</sup> For example, as of September 2005, at the provincial level, more than 70% (23/of 31) of provinces cross-post the party secretary of provincial and the speaker of provincial People's Congress to the same guys. According to the constitution of the People's Republic of China, the legislature is the top state apparatus at each level representing the people's voices. Through cross-posting solutions, the party can control the administration and juridical systems. Internet source: [http://news.xinhuanet.com/ziliao/2002-02/20/content\\_476046.htm](http://news.xinhuanet.com/ziliao/2002-02/20/content_476046.htm)

the post-Mao state set out the boundaries of individual liberties and strict political, ethnic and religious divides. The imprisonment in December 1998 of the leaders of the newly-established Chinese Democratic Party and the harsh repression of the *falun gong* are cases in point.<sup>51</sup> On the other hand, semi-official organizations, particularly business associations or entrepreneurial organizations at the local level, were allowed to collectively perform on behalf of their members and the state. Their functions cover: building an ideological channel, enabling consultation in policy-making, coordinating sectoral policy, regulating the market, shouldering social welfare responsibility, drawing support from the state, and so on (Howell 1994; Nevitt 1996; Zhou 2000). But it does not mean that such non-public associations were able to be like their western counterpart playing an independent and influential role in the decision making process. Pearson (1997) identifies the asymmetrical power relations between state/official and society/ businesspersons. The state has legitimated certain interests outside the party-state in an attempt to unleash powers of societal groups toward the state's own goals. With the Xintiandi land development process in Shanghai as an example, He and Wu (2005) reveal that even though private sectors were key capital providers, their influences over local governances were negligible. The public sectors at different levels still controlled the direction and pace of urban redevelopment through policy intervention, financial leverages, and governance of land leasing and so on.

Fourth, there are contradictory attitudes to the local economic development between foreign and domestic businesses, with the former being actively counted while the latter is still subject to abuses of power. With property rights as a case study, Zhang (2006) argues that such 'abuse of administrative powers' under one party-state control applied

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<sup>51</sup> *falung gong*, a meditation exercise of mind and body, has been the focus of international controversy because China has banned the group for its illegal activities and began a nationwide suppression since 1999.



unevenly to investors and domestic individuals of land owners. Although there were some cases reported for investment dispute resolutions, China still performed better than other countries in terms of the firms' confidence and satisfaction with regulatory interpretations and the judicial system (World Bank and the International Bank for Reconstruction and Development 2006). It implies that internationally speaking, property rights to investors in China were effectively protected due to their expected contributions to local economic performances. However, property right security to individual farmers' lands was relatively loosely defined. In the context of the one party control regime, local officials could intentionally label the land to be of public interest, and then abruptly negotiate with village committees, who executed collective powers on the behalf of individual farmers, and ended up paying minimal compensation (Zhang 2006).

### **3-5 Conclusion**

To sum up, in this chapter, I start by arguing that the innovative policy for local entrepreneurial localities falls into five types: new urban space; establishing new methods of space production or consumption; and looking for new ways of funding or new 'positions' for development. These local innovations are institutionalized by local entrepreneurial governances in order to respond to the challenges presented by global economic restructuring. From the macro perspective of local responses, policy innovations should take place when localities were embedded in a framework of inter-urban/regional competition for the attainment of resources, creation of jobs and accommodation of mobile investment. From the micro perspective, it requires local policy actors to initiate collective actions through the pursuit of their own political and economic interests in order to achieve development policy innovations.

Against this general background, the chapter emphasizes the differences between the western cases and the situation of post-Mao China (Lin and Wei 2002). Like the western experiences (mainly represented by the United States and West Europe), China underwent a mode of regulation and a regime of accumulation in change associated with crisis in the context of globalization. In China, there are also groups of self-interested policy actors dominating the local economic development process. Territorial competition within China in bidding for mobile investment took place as well. However, there are clear differences between the western and Chinese contexts. For example, the mode of regulation change in China was not from Fordism to post-Fordism but from socialism to post-socialism; and a one-party-state dominant system, rather than public-private coalitions, tightly controlled policy making for local economic development. Finally, territorial competition in China involved free mobility only for foreign direct investment. Domestic capital, labour or products were relatively still difficult to move freely (in some cases increasingly so).

To sum up, in facing global restructuring challenges, local policy innovations can be brought about by the local governances whose elites are able to pursue self interests under the context of territorial competition. Despite different empirical cases focusing on policy innovations as local responses to global restructuring, one common claim shared among these researches is that substantial competences, responsibility and resources for local economic development had been- unintentionally or intentionally, implicitly or explicitly- dispersed already from central governments to institutions of local governances. Therefore, policy innovations in relation to local economic development can be understood as the consequence of such a governmental structure and powers in change. This phenomenon has been characterized as 'decentralization', which is the subject of the next Chapter.

## CHAPTER FOUR

### Local Policy Innovation and post-Mao China Asymmetric Decentralization

#### 4-1 Decentralization and Local Economic Development

##### *A global tendency of decentralization*

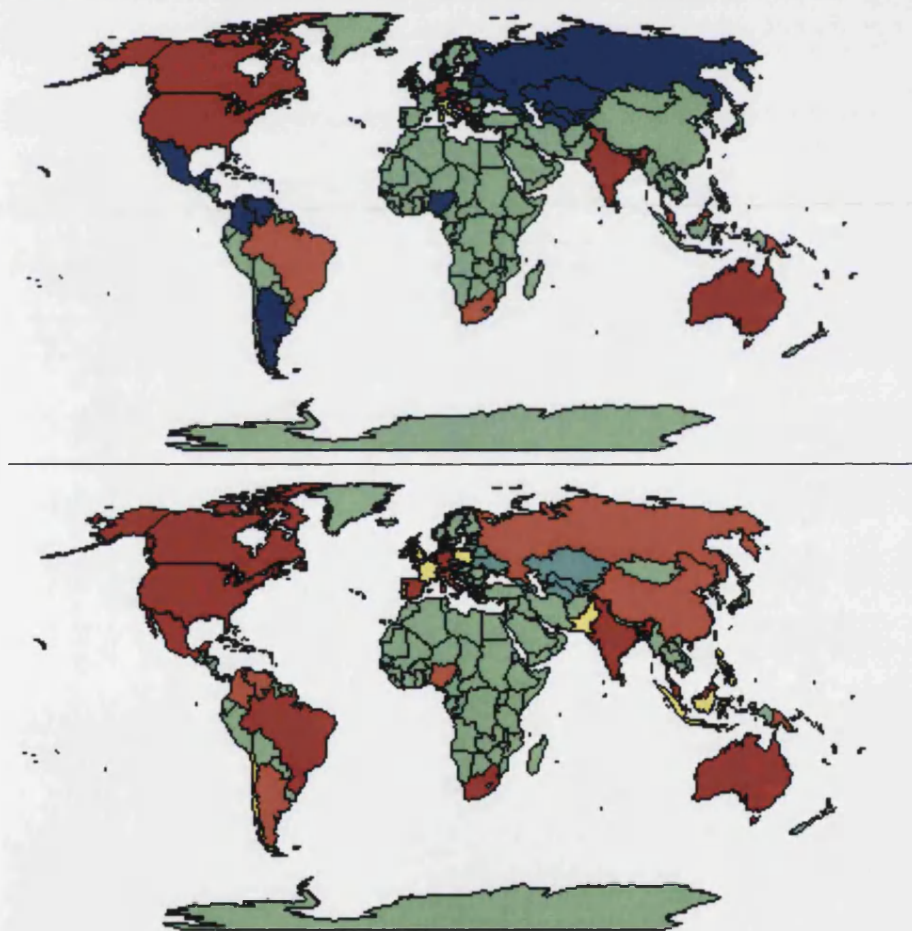
Decentralization refers to the transfer of authority, responsibility and resources of public functions from central governments to subordinate governments (Dillinger 1994; Bennett 1997a; Litvack, Ahmad et al. 1998; Rodriguez-Pose and Gill 2003).<sup>52</sup> The minimum common denominators cover powers and competences over planning, development strategies, education, the attraction of FDI, industrial policies, infrastructure developments, and so on. The trend of decentralization in the world can be conceptualized as two simultaneous movements since the mid 1970s: the introduction of devolution in those countries that previously employed highly centralized structures on the one hand, and an even greater decentralization in those countries whose regions already enjoyed some degree of autonomy on the other hand. In the 1970s, all but a few were strong central governments with sub-national governments being either weak or non-existent. Over thirty years, there had been different degrees and formats of decentralization taking place in the world. Out of the 75 developing and transitional countries with populations more than 5 million, all but 12 claimed have embarked on some forms of transferring political power to local units of governments in the 1990s (Dillinger 1994). In terms of newly independent states,

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<sup>52</sup> Some scholars argue that there are two dimensions of decentralization. One is in relation to an intergovernmental dimension, particularly with an attention to the dynamical interactions between local and central governments. The other is about a dimension from governments to markets, quasi-market, and non-governmental organizations (Bennett 1997a). In this chapter, I focus on the first definition.

decentralization happened to former USSR, Yugoslavia, Eritrea. And certain previously centralized states underwent profound transformation in decentralizations, such as Belgium, Spain, and Italy. Along with that, more decentralization took place in the -already-federal economies like Mexico, Brazil, Argentina, India, the United States, Canada, and Australia. In terms of the global population, countries with various types of decentralization covered more than 50% of world population (Figure 4-1) (Rodriguez-Pose and Gill 2003)

Figure 4-1: Decentralization in the world in 1970 (upper) and 2000 (down)



Note: Red-High level of decentralization; Orange-Moderate decentralization; Yellow- Low or partial decentralization; Blue- Decentralization on paper

Source: handout by Rodriguez-Pose (2004).<sup>53</sup>

<sup>53</sup> The course handout by Rodriguez-Pose (2004) for Course 413: Economic Development: Institutions, Networks and Evaluation at London School of Economics and Political Science, London.

### *Economic decentralizations with political de/centralization*

Decentralization can be divided into two inter-related dimensions, namely, political and economic. First of all, political decentralization refers to situations where political power and authority had been transferred to elected sub-national governments that are autonomous and/or fully independent of the devolving authority. Second, in terms of economic decentralization, administrative decentralization aims at the transfer of authority and responsibility to local governments while maintaining the hierarchical level of accountability on the one hand. Fiscal decentralization specifically focuses on financial and tax resource reallocation between the central and local authorities on the other hand (Litvack, Ahmad et al. 1998; Work 2002).

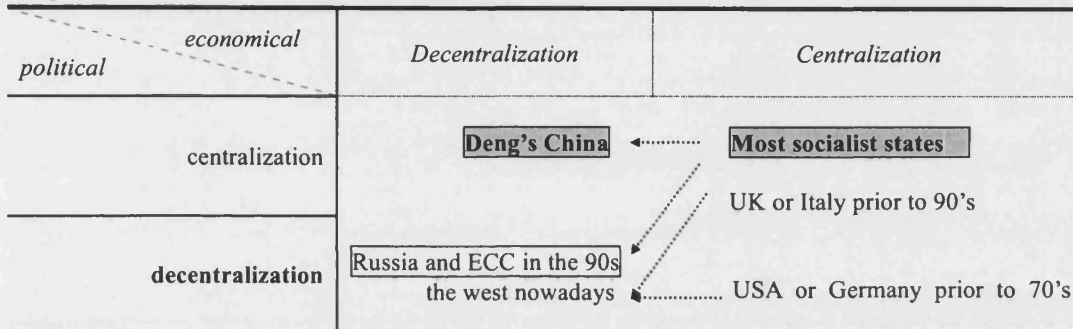
As discussed in the previous chapter, under the concept of 'dual state', central and local governments tended to make a clear division of labour during the Fordism era. While central governments played a role of economic and productive functions, elected local governments mainly shouldered the social welfare and redistribution functions (O'Connor 1973; Saunders 1986). During the post-Fordist time, economic decentralization which granted proactive local governments more powers and competences to deal with economic activities occurred in most western Europe countries (Bennett 1997a; Keating 1998). And the political decentralization went together with economic decentralization. For example, in Britain, the political devolution process from Whitehall in London to Scotland and Wales took place with the decentralization of economic and administrative powers over revenues and allocations of resources.<sup>54</sup> Poland, Hungary and East Germany had also recently

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<sup>54</sup> Scholars who address that there are more competences granted to local governments during the devolution in the United Kingdom still differ over how much local autonomy do local governments hold because the state still played an important role in decision making on devolution. Such arguments can be shown in the research on the Welsh Development agency (MacKinnon and Phelps 2001a), and Dockland development project in London (MacLeod and Goodwin 1999b).

followed the path toward political and economic devolution as a consequence of the fall of the Berlin Wall (Wollmann 1997). In Russia and Tajikistan carrying out ‘shock therapy’, general elections took place at the local levels in the 1990s. It means that the transition was from both economic and political centralizations to both economic and political decentralizations (Blanchard and Shleifer 2000; Avezov 2004) (Figure 4-2).

Figure 4-2: Transition of decentralization



Source: author compiled

China was to some extent different from the global trend of both economic and political decentralizations. Economically, administrative and fiscal decentralizations did widely take place in China after 1978, as evident by the fact that local governments gained more powers to handle trade, approvals for FDI, and budgetary and off-budgetary revenues and expenditures.<sup>55</sup> However, politically, there was no significant sign of devolution happening in China which was still tightly controlled by the Chinese Communist Party (CCP). As the ‘party controls the cadres’, local governments were not elected directly by the people but decided by upper-level governments mainly on the basis of their economic performance during their tenures. In other words, post-Mao China can be understood involving a combination of economic decentralization with

<sup>55</sup> According to China’s administrative system, sub-national governments involve political and economic entities at four kinds of spatial scales provincial-level, prefecture-level, county-level, and township and town level (Ma 2005).

political centralization (Figure 4-2), which I shall refer to as asymmetric decentralization.

### *Structure of the chapter*

In the previous chapter, I focused on policy innovations as a local response to the stimulus of global restructuring. In this chapter, the focus will be on the significance of decentralization and responses to the stimulus of changing governmental structures. The main argument is that local policy innovations can be understood as a consequence of changing responsibilities and competences between central and local governments, and particularly of its asymmetric form in post-Mao China (Figure 4-2). More specifically, I argue that the phenomenon of local policy innovation reflects the significance of this asymmetry for career-minded local officials who utilize their decentralized 'economic resources' to strive for more development, which in turn becomes their 'political capital' with the upper-level governments to get them promoted.

Therefore, the remainder of the chapter is divided into four main sections. First is a quick review of the local-central relationship prior to 1978. The operations of economic decentralization and political centralization are demonstrated in the second and third sections respectively. Then, in the fourth section, consequences of 'asymmetric decentralization' are identified with two spatial scales: local and national. At a local/individual region scale, there are mechanisms to encourage local policy innovations along with local unsustainable development. The other two consequences include: national stability and territorial competition at the national/ aggregate scale.

## 4-2 Decentralization in China: a History prior to 1978

### *From historical China until 1949*

The issue of the local-central relations has been one of the hottest topics throughout Chinese history. As early as the Qin dynasty (about 200 B.C.) and Han dynasty (about 200 B.C. to 200 A.D), there were debates and power struggles over systems of commanderies (*jun xian zhi*) vis-à-vis system of counties (*feng jian zhi*). The former refers to a unified and centralized political system with local administrative commanderies governed by the king of the empire. But the latter points to a decentralized system with each local administration belonging to different royal descendent families that held relatively independent authority and power (Hao and Lin 1994). The rise and fall of different dynasties in Chinese history witnessed the various ways of handling central- local relationship between system of commanderies and that of counties.

In the early 20<sup>th</sup> century, partly because of the ailing state capacity of the late Qing China and partly because of aggressive western imperialism, there was a dynastic breakdown and imminent territorial dismemberment along with a rising movement for regionalism and federalism (Levenson 1967; Kuhn 1975; Hao and Lin 1994; Yang 2003). Related to that was the wartime experience of CPP before 1949. There was the so-called 'Yan'an tradition' borne out of CCP's guerrilla military knowledge from fighting against the Japanese and Nationalist army in the 1930s and 1940s. One of characteristics of the Yan'an tradition was a decentralized decision-making framework to encourage a policy of 'doing the best implementation according to local conditions' (*yin di zhi yi*) (Goodman 1994).



***Oscillation process: 1949 to 1978***

After 1949, there was an oscillation between economic centralization and decentralization until the death of Mao (Unger 1987; Zhao 1994; Qian 1999b). During 1953-57, the period of the First Five-Year Plan, China began to implement heavy industrial development. By doing so, the prices for products and essential materials were distorted by the centre. And resources and budget distributions were also centralized under the control of the State Planning Committee in Beijing. The number of enterprises subordinated to the central government increased from 2,800 in 1953 to 9,300 in 1957; and the number of items in material allocation under central planning increased from 55 in 1952 to 231 in 1957 (Table 4-1) (Unger 1987; Qian and Weingast 1996).

**Table 4-1: Decentralization prior to 1978**

	1953	1957	Dec 1958	1963	1971-1972
the number of materials subject to unified distribution by central departments	227	532	132	500	217
the number of enterprises under direct central control	2,800	9,300	1,200	10,000	2,000
the number of industrial products controlled by the State Planning Committee	55*	231	67**	370***	49
<b>decentralization- centralization</b>					

Note\*, \*\* and \*\*\*: the data for the number of industrial products by the State Planning committee was that in 1952, 1959 and 1965 respectively.

Source: from Huang (1996b) and Nolan (1995)

In late 1957, Mao called for decentralization for many reasons. First, he deliberately deviated from the Soviet model after China broke up with Russia; and second, he also built up support by playing to the provinces (Shirk 1992; Zhao 1994). He argued that administrative decentralization would mobilize provincial initiative in accelerating

economic development.<sup>56</sup> Therefore, new system of ownership by local governments to people communes was introduced (Unger 1987; Zhao 1994). By 1958, the items of industrial products and projects originally administrated by central government were reduced drastically (Table 4-1 above). This is the first round of the centralization-decentralization.

Many provinces established their own self-sufficient industrial complex as a consequence of the 1957 decentralization, resulting in economic turmoil over production and inefficient resource allocation (Zhao 1994). Such self-sufficient development was followed by the Great Leap Forward (GLF) movement, which became economic and political disasters (Cannon 2004). The radical decentralization during 1957-1958 was the institutional basis of the GLF movement. Therefore, in the wake of its failure, China called for a restoration of economic centralization in 1959. Almost all large- and middle-sized enterprises, which had been previously transferred downward to local governments, were returned to the central government in the early 1960s (Table 4-1 above) (Unger 1987).

But due to the considerations of the on-going Vietnam War and already-deteriorating Sino-Soviet relations, most national investment, which was highly associated with military construction through 1960s and 1970s, was again decentralized to the interior regions of China, particularly in the so-called 'the Third Front (*san xian*) Region' (Naughton 1988; Ma and Wei 1997). In 1970, the centre asked each provincial government to establish an independent and comprehensive industrial system. Local

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<sup>56</sup> In 1957 in his famous speech *lun shi da guan xi* (On the Ten Major Relationships), Mao pointed out the importance of decentralization. Mao argued: 'Our territory is so vast, our population is so large and the conditions are so complex that it is far better to have the initiatives from both the central and the local authorities than from one source alone. We must not follow the example of the Soviet Union in concentrating everything in the hands of the central authorities, shackling the local authorities and denying them the right to independent action' (cited from Qian and Weingast 1997).

governments were given the freedom to invest in 19 non-industrial sectors, such as agriculture, cattle breeding, fishing, and transportation, and the like. In addition, authority over industries, for example, artificial fertilizers, cement, and coal, and so on, were also decentralized to the local and regional governments (Zhao 1994; Qian 1999b). By 1971, only 140 of the very largest factory complexes remained in central ministerial hands, compared with more than 10,000 factories in 1965 (Unger 1987). To sum up, in terms of the numbers of materials and enterprises subject to the control of the central government, there was a recentralization in the early 1960s and then decentralization in the 1970s. This was the second round of re-centralization and re-decentralization.

### *Summary*

By the late 1970s, Mao's China had already experienced an oscillating process of centralization and decentralization. There are three points that need to be made about this. First, the process of local-central dynamics in Mao's period intertwined political and economic factors (Cannon 2004). In the late 1950s, Mao's political motivation for decentralization was to build up his provincial supporters in order to counter his political opponents in Beijing (Bo 2000b). In the late 1960s and the early 1970s, the other political concerns for decentralization was to establish self-sufficiency military preparations during the Cold War (Qian and Weingast 1996).

Second, despite the alternating phrases of recentralization and redecentralization, the overall trend was still toward greater economic decentralization, particularly compared to the vertically integrated system established in the early 1950s (Zhao 1994). In 1978, the share of industrial output of state-owned enterprises controlled by the centre remained less than half of the national total. More than 300 counties and municipalities set up small steel mills due to the then principle of self-reliant local industrialization.

About 90% of counties built up agricultural machinery repair factories. The development of the local economy on the basis of such self-reliance, which was officially sanctioned and encouraged by the centre, in reality not only prompted many localities to further strengthen their economic capacities as well as eroded central planning and the centre's power to control regional economies (Goldstein 1995; Qian and Weingast 1996; Qian 1999b).

Third, however, in terms of political concerns, China was still under the tight control of the central government in Beijing. In other words, prior to 1978, the rigid ideology of the centre with control over military and media had dominated policy and the decision-making process for local economic development, depriving local leaders of the incentives to risk their political fates for local interests. Unapproved changes would be stopped soon after they got found and the leaders of these jurisdictions were purged.<sup>57</sup> As a consequence, uniform local compliance was general, strengthening of central control at the expense of local discretion (Zweig 1991; Hong 1997; Cao, Qian et al. 1999).

#### **4-3 Economic Decentralizations to the Local**

In China, the first and foremost process since 1978 was the devolution of government authority from the central to local level (Qian and Roland 1998). It must be noted that there was also a setback for recentralization after decentralization in the 1980s. The crackdown on dissent in the 1989 'Tiananmen Incident' and its aftermath created a

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<sup>57</sup> For example, in the late 1950s, two local party secretaries, DENG Zili of Zigong prefecture and ZHANG Fengwu of Jiangjin prefecture introduced new policies to abandon public canteens and to establish a contract system in rural areas. In the end, however, the implementations were halted and the leaders were purged (Hong 1997).

reverse policy environment against decentralization. From 1989 to 1991 an austerity program to cool down the then overheated economy was tried. The idea of the possibility of 're- collectivizing' agriculture was even discussed (Qian and Weingast 1996).

Despite this reserved oscillation, however, at least two differences between the recentralization prior to 1978 and that after 1978 can be identified. First, Mao's decentralizations maintained a continuing communist and centrally planned economic system. Prices were not decided by the market mechanism but set by central bureaucracy (Perkins 1988). By contrast, decentralization after 1978 went along with a process of marketization and deregulation, as shown in Chapter Two. The second difference is in whether or not there was local resistance as a consequence of such setbacks for recentralization. Previously, the turn to decentralization after recentralization was basically triggered by the central government in Beijing. However, after 1978, the new round of decentralization following the 'Tiananmen Incident' was partly due to Deng's South Tour and partly because of strong disobedience and resistance from market-oriented local reformers. The recentralization of trade management and planned prices failed as most of the coastal regions refused to comply with the new policies (Hao and Lin 1994; Zhang and Zou 1994).

### *Administrative decentralization*

The main effects of economic decentralization after 1978 can be identified as administrative and fiscal decentralizations in relation to greater economic autonomy. Administrative decentralizations in post Mao China covered many dimensions of economic activities, including investment, land use, and management of public-owned companies. For example, in terms of investment control, defined as review procedures

and approval authority for investment, the items approved by the State Planning Committee fell from 41% of all products in 1981 down to 33% in 1990 (Zhang and Zou 1994; Huang 1996b). Related to that, local governments were granted much greater powers to manage trade and FDI activities, which I have discussed in Chapter Two. And power over land use was also decentralized. Defining the purpose of land use and assigning land use rights had become primarily local government decisions. Land use right became saleable items after the 1988 amendment of the Constitution. As a consequence, local governments exerted influence on the pricing and transfer of land use right. And industrial and commercial land use had been subject to various newly imposed levies, including urban real estate tax starting from 1986, an urban land use tax from 1988, and a capital gains tax on land appreciation from 1994. These levies constituted a major source of local government revenue (Yeh and Wu 1999; Lin 2001).

In addition, in the early 1980s, more state-owned enterprises were delegated to local governments. By 1985, state-owned industrial enterprises controlled by the centre accounted for only 20% of total industrial output, while provincial and municipal governments controlled 45% and county governments 9%, and the rest 26% came from township enterprises (Montinola, Qian et al. 1995). Moreover, there was an increasing number of establishments of township and village enterprises (TVEs). In the case of the TVEs, local officials were *de facto* owners of TVEs with various types of bidding and leasing arrangement, acting just like entrepreneurs of local profit-seeking companies (Oi 1995; 1998; Edin 2000).

### *Fiscal decentralization of budgetary revenue prior to 1994*

The fiscal local-central relationship during Mao period was modelled after the Soviet Union. Local governments remitted most of their taxes and profits to the centre and then received transfers for expenditures from the national budget according to expenditure needs approved by the centre (Tong 1989; Wei 1996). The limitations of such the centralized revenue collection along with inter regional budget transfer included: a lack of incentive for local fiscal efforts, excessive control of local revenue and expenditure by the centre, a lack of fiscal power for sub-provincial administration, and one-size-fit-all programs without taking account of regional differences (Tong 1989). After 1978, fiscal decentralization was introduced as the most important big-scale transition reform package in China (Oi 1995; Solnick 1996; Oi 1998).<sup>58</sup> Two stages of fiscal decentralization can be identified with 1994 as watershed.

The first stage of fiscal reform took place from the early 1980s until 1994. The package was characterized by the fact that the centre negotiated with each provincial government a fixed lump sum or proportion of its revenue that they had to hand over to the centre for the next several years, and then the provincial governments retained the remainder after fulfilling their obligations. The diversified contract-based schemes were applied to different provinces (Wei 1996; Bahl 1998; 1999; Bird and Wong 2005). For example, in the first run during 1980-1984, the central government in Beijing allowed Guangdong and Fujian to retain 100% of their above-quota revenues in order to support their pioneer reforms. By contrast, Beijing, Tianjin and Shanghai, three centrally administrative municipalities, were only allowed to retain small portions of their

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<sup>58</sup> Facing the uncertainty of transition, privatization is the main focus of transition in Eastern Europe and Russia and largely driven by the centre. Instead, major tasks of privatization in China were initiated by some local governments which gained greater economic powers after fiscal decentralization (Qian and Roland 1998).

revenues (Table 4-2). Such fiscal contract system (*chai zheng cheng bao zhi*), also known as 'eating in separate kitchens (*fen zao chi fan*)', basically applied to the relationship between provincial and their prefecture governments and the relationship between prefecture and county governments, and so on.

Table 4-2: Fiscal reforms in post-Mao China

Stage	Period	Change Policy of Fiscal Regimes
stage I	1980-1984 fiscal Contracting System, 'eating in separate kitchens'	<ul style="list-style-type: none"> <li>■ Fixed rate of remittance (Jiangsu);</li> <li>■ Sharing specific revenue (15 provinces);</li> <li>■ Ethnic minority system (8 provinces);</li> <li>■ Metropolitan system (Beijing, Shanghai and Tianjin);</li> <li>■ Fixed-quota transfer (Guangdong and Fujian)</li> </ul>
	1985-1987, revenue-sharing revised	<ul style="list-style-type: none"> <li>■ Fixed rate of total revenue retained by province (14 provinces)</li> <li>■ Province retaining own revenues with receiving fixed quota from centre (13 provinces)</li> <li>■ Province retaining own revenues with paying fixed quota to centre (Guangdong, Heilongjiang, Shandong)</li> </ul>
	1988-1993, negotiated-based revenue-sharing arrangements	<ul style="list-style-type: none"> <li>■ Basic sharing with growth (10 provinces and cities);</li> <li>■ Basic sharing rate (3 provinces);</li> <li>■ Incremental sharing (3 provinces);</li> <li>■ Fixed quota with growth (2 provinces);</li> <li>■ Fixed quota to state (3 provinces);</li> <li>■ Fixed payment to deficit provinces (16 provinces and Cities)</li> </ul>
stage II	1994- tax sharing system	<ul style="list-style-type: none"> <li>■ Tax-assignment system (all provinces)</li> </ul>

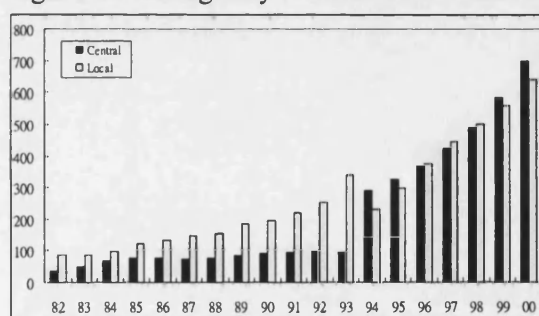
Source: modified from Bahl (1998)

Two points are noteworthy. First, the *ex post* tax retained for the local in China was very similar to the *ex ante* plan contracted between the central and the local governments (Litwack and Qian 1998; Qian 1999c; Blanchard and Shleifer 2000; Jin, Qian et al. 2005). It means that the centre did not expropriate the rewards of unusually high local fiscal revenues. Before 1994, the revenues of the local governments grew much faster than that of the centre (Figure 4-3). But many provincial governments were still able to retain 100% of the addition to total local revenue, which effectively made them residual claimant. Such consistency between the *ex-ante* and *ex-post* situations was in sharp contrast to Russia, where the central government in Moscow continuously



broke the contracts with the local governments and sought to renegotiate its tax agreements with regions (Litwack and Qian 1998; Qian 1999c). Increases in cities and metropolitans revenue were almost entirely offset by decreases in shared revenues from the regional governments. It meant that the shift between *ex-ante* and *ex-post* revenue sharing arrangements hindered local governments' incentives for collecting tax as well as their provision of infrastructure for private business development (Zhuravskaya 2000; Alexeev and Kurlyandskaya 2003). From this regard, China's fiscal reform offered a more 'predictable' environment in that local officials were motivated to collect more tax because they knew that they would actually be able to retain more after fulfilling the central quota.<sup>59</sup>

Figure 4-3: Budgetary revenue of the centre and the local (unit: billion RMB)



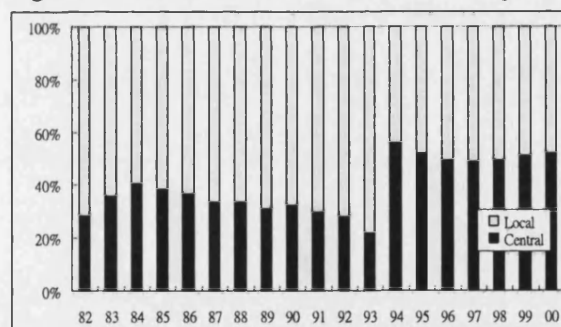
Source: China Statistics Abstract (2002)

On top of that, the central state's revenue raising capacities had been significantly weakened at this stage. By then, local governments were the tax collectors, levying taxes from taxpayers within their jurisdiction. In order to expand their local revenues, they made deals with local enterprises to hold back as much local funds as possible from central extraction (Wang 1994). The reasons why these businesspersons were

<sup>59</sup> However, it does not mean that the centre was just willing to follow the number in the contract by then. Shirk notes that then fact that fiscal contract remained fixed somehow was also a compromised and negotiation process between the central and the local governments (Shirk 1992; 1993) ( See Chapter Five, below).

willing to comply were also because local officials could help them to reduce tax revenue and look for more resources. As a consequence, local governments could just collect enough tax to fulfil basic quotas set up by the central governments, and set many reduced tax rates and granted *ad hoc* tax relief to enterprises in order to keep the wealth in the localities (so-called '*cang fu yu min*') (Qian and Stiglitz 1996). For example, local officials in Guangdong in the early 1990s made such an 'innovation' in raising their budgetary revenue by the way that local enterprises were usually 'encouraged' to pick up the tabs for certain public expenditures (Qian and Stiglitz 1996). In 1988, 10 billion RMB of national taxes were reduced in such ways (Zhang and Zou 1994). The declining central revenue can be seen that the gap between central revenue and local revenues were getting bigger since reform started in the 1980s (Bahl 1998; Wang and Hu 1999). Before 1994, the central revenue only consisted around 20% to 40% of the total revenue (Figure 4-3 above and 4-4).<sup>60</sup>

Figure 4-4: Revenue share of the central government, 1982-2000



Source: China Statistics Abstract (2002)

### ***Fiscal reform in 1994***

The second stage of fiscal reform started as an experiment in nine provinces, autonomous regions and separately-planned cities (*ji hua dan lie shi*) in 1993 before

<sup>60</sup> However, fiscal autonomy was actually geographically uneven among provinces. Wedemen argues that without central subsidies, all but eight provinces still remained dependent upon the centre for budgetary subsidies in 1992 because they received 'net transfer' from central budget (Wedeman 1999).

being finally implemented nationwide in 1994. The so-called 'tax sharing system (*fen suan zhi*)' involved several changes. First, rather than a negotiated contract, the reform clearly divided the taxes into three distinct categories: central,<sup>61</sup> local,<sup>62</sup> and a shared value added tax (VAT) (Zhang 1999). VAT was introduced to become the major indirect tax to be collected by the centre and be shared by local government at a fixed ratio of 75% to 25%. Second, the tax structure was simplified and tax rates were standardized and applied to all provinces. Third, tax administration was centralized in order to resolve the abuses remitting from the 1980s local governments' *de facto* control over tax collection administration. Instead of entrusting local tax offices with the task of collecting virtually all taxes, the centre now established its own revenue collection agency. Discretionary power of subnational governments in this area became much more limited than before (Wang 1997; Bird and Wong 2005).

There were also certain political and economic background factors encouraging the centre to introduce new programmes. First, due to the uneven regional development over a decade, some officials from interior regions would like the central government to do more, such as reformulating fiscal policy, to establish better and fairer macro development environment. Second, in some cases the party secretary and province governor within a single provincial unit competed against each other. The lack of political cohesion within a locality tended to undermine the locality's degree of autonomy, giving the centre an opportunity to intervene. And the central state still

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<sup>61</sup> Central revenue includes customs duties, the consumption tax, VAT revenues collected by customs, income taxes from central enterprises, banks and non-bank financial intermediaries; the remitted profits, income taxes, business taxes, and urban construction and maintenance taxes of the railroad, bank headquarters and insurance companies; and resource taxes on offshore oil extraction.

<sup>62</sup> Local revenue consists of business taxes (excluding those names above as central fixed incomes), income taxes and profit remittances of local enterprises, urban land use taxes, personal income taxes, urban construction and maintenance tax, real estate taxes, vehicle utilization tax, the stamp tax, animal slaughter tax, agricultural taxes, title tax, capital gains tax on land, state land sales revenues, resource taxes derived from land-based resources, and the securities trading tax.

possessed the most powerful resource, of appointment and removal of provincial-level leaders (Yang 1994).

Of course, the central government in Beijing made great efforts in order to implement the new fiscal program. In 1994, the then PRC president JIANG Zemin and then vice-PM ZHU Ronji took extensive trips to each province to convince individual local officials to accept the new reform. Zhu also strategically had one-on-one sessions with local chieftains rather than call a large meeting of the 'warlords' to avoid any possibility that the latter ganged up together on him (Yang 1994). A more important thing was the 'material exchange'. The central government in Beijing promised to guarantee the revenue level of provinces compared to the base year 1993 with the adoption of a special transfer payment mechanism to the provinces (*shui shou fan huan*) (Zhang 1999; Qian 1999c; Hsu 2000).<sup>63</sup> In terms of budgetary revenue, after 1994 the centre successfully retained more fiscal and financial power than they did in the 1980s. The central revenue rose dramatically up to around 50%-60% of the total revenue raised (Ma and Norregaard 1998) (Figure 4-3 and 4-4 above).

### ***Extrabudgetary and extra extrabudgetary revenues***

However, the sharing of budgetary revenues was only one aspect of fiscal decentralization under the period of post-Mao China. The other was the so-called extrabudgetary and extra-extrabudgetary revenues (Bahl 1999; Zhang 1999; Wong and Bhattasali 2003; Bird and Wong 2005). The extrabudgetary revenue referred to the funds not arranged and managed by governmental budgets but self-raised and used by

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<sup>63</sup> The tax repayment mechanism consisted of the base-year revenue and revenue increases in the provinces. The former was the shortfall of revenue suffered by an individual province under the new system in comparison with retained revenue in 1993; the latter represent 30% of any increases in the central government's revenue from VAT and consumption tax in that province over the previous year (Zhang 1999). Also because of the tax repayment mechanism, Hsu (2000) argues that the fiscal reform after 1994 seemed not so successful in raising the revenue extractive capacity of the centre.

various localities, governmental sectors, state-owned enterprises and institutions, within the limits of relevant administrative regulation. And the extra- extrabudgetary revenue, genuinely new in the Chinese public budgetary system appearing in the 1980s and exploding in the 1990s, concerns other funds self-raised by various local governments and their departments, without approval from the State Council, the Ministry of Finance and the State Planning Committee of central government (Fan 1998; Wong 1998; Ma 2000).<sup>64</sup> Even when cities and regions lost from the resharing of budgetary revenue after 1994, many of them managed to improve their resources through enhanced collection of extrabudgetary and extra-extrabudgetary revenue with legally-ambiguous or even illegal means of local taxes and fees.

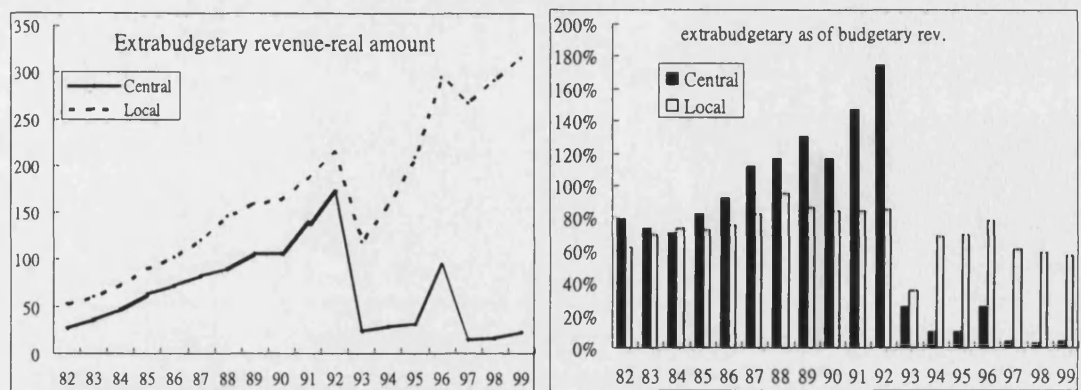
Extrabudgetary revenue can be divided into two parts. The first involved a set of taxes that were controlled by the local government financial department, including public utility surcharge or urban construction and maintenance taxes. The second was the retained earning and depreciation funds of locally-owned public entrepreneurs (Bahl 1998; Ma 2000). Such extrabudgetary funds could be as large as the formal revenues, making a complex system of 'fiscal dualism' (Wong 1998). Both the central and local governments had collected extrabudgetary revenues since the early 1980s. However, after 1994, the volumes of central extrabudgetary revenue and the proportion in its total revenue were dramatically decreased. By stark contrast, the local extrabudgetary revenue had a key role, growing in absolutely term and amounting to about 60 % of total local budgetary revenues in the late 1990s (Figure 4-5).<sup>65</sup>

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<sup>64</sup> So far scholars still make no consensus on the suitable terms for extra-extrabudgetary revenue. Wong (1998) and Fan (1998) use 'off-budget (*yu suan wai*)' to refer to extra-extrabudgetary revenue; but Ma (2000) terms 'off-institutional (*zhi du wai*)' revenue as extra-extrabudgetary revenue and then combines extrabudgetary and extra-extrabudgetary revenue together as 'off-budgetary' revenue. Moreover, several other terms used for the same category, such as 'out-of-system', 'unregulated', 'off-record', or 'self-raised', and 'extra-establishment funds' also can be found in the literature.

<sup>65</sup> One point needs to be noticed that the importance of extrabudgetary revenue is uneven distributed

Figure 4-5: Extrabudgetary revenue since the 1980s



Note: the left is the total amount of extrabudgetary revenue collected by the central government and local governments. The unit is billion RMB. The right is the proportion of extrabudgetary revenue in terms of budgetary revenue.

Source: China Statistics Abstract (2002)

Regarding extra-extrabudgetary revenue, five sources can be identified: social security funds, public contribution to local government projects, funds shifted from budgetary revenue and extrabudgetary funds, ‘little pots of gold’ (accumulating from the governmental business operated by various governmental departments and from illegal administrative charges), and self-raised funds and collected funds of township governments (Zhang 1999; Ma 2000). Ma (2000) tries to quantify extra- extrabudgetary revenue that total amount of extrabudgetary revenue in terms of local fiscal revenue in each year was estimated to be around 20% before 1993 and around 15% from 1993 to 1998. To sum up, on the revenue side, the size, growth and increasing complexity of extra-extrabudgetary revenue corresponded to an erosion of central Beijing power to tax (Brean 1998).

across provinces. Lin (2005) finds out that in 2000, there are five provinces ( Shanxi, Beijing, Ningxia, Jiangxi, and Fujian) with more than 5% of extrabudgetary revenue in terms of GDP, along with seven provinces (Tibet, Heilongjiang, Inner Mongolia, Hebei, Tianjin, Hubei, Qianghai) less than 3%.

### *Politics beyond economic decentralization*

There are many reasons why a wide-range of decentralization in economic fields took place after 1978. First of all, after the disaster of the Cultural Revolution, some reformers in the centre viewed fiscal decentralization as a way for China to narrow the scope of state intervention and then head in the direction of a market economy (Wang 1994). On top of that, from the late 1970s, in order to tackle the problems accumulated during the Cultural Revolution, China implemented many new social and economic programmes. Therefore the centre ran a huge fiscal deficit. In 1979 and 1980 alone, the total deficit reached RMB 34.8 billion, exceeding the total deficit in the previous 29 years of RMB 24.8 billion. In order not to risk inflation, the centre did not print more bank notes. Therefore, the only one way left for the centre was to require localities to bear more financial responsibilities (Wang 1994). This is why the burden of fiscal expenditure was decentralized as well as revenues as local governments assumed greater responsibility for providing culture, education, science, health, housing and local infrastructure and so forth (Qian and Weingast 1996; Lee 1998; Zhang 1999).

In addition, such economic decentralizations offered material incentives to those local leaders who devoted themselves to transition policies. The material incentives, like salary, bonuses and fringe benefits, including luxury cars and travel and large expense accounts, were pegged to local public revenue. Under the new fiscal programs after 1978, local revenue left after remitting to the central government could be used to sponsor housing projects, to increase bonuses, to provide various forms of local collective welfare, and so on. It means that in some cases the larger the volume of local revenues local officials collected, the more likely the local officials would personally benefit from fiscal revenue decentralization (Wang 1994; Li 1998). With a case study in Zouping in Shandong province, Morduch and Terry (2000) found that local officials

had continued gaining benefits from the pace of reforms by taking advantage of preferential access to wage employment and productive assets involved with the operation and effectiveness of township and village enterprises. It means that there was a strong economic incentive for local officials making innovation to raise revenues for the local economy as well as for themselves.

Moreover, as discussed in Chapter Two, there was a power struggle in Beijing between market-oriented reformers and the conservatives. Any opening-up and quasi-market reforms took place in an oscillating process with cyclical fluctuations (Crane 1990; Howell 1993; Zhu 2005). Phases of reform and relaxation alternated with phases of relative restriction and retrenchment. The former can be called expansions of deregulation (*fang*); and the latter contractions (*shou*). For example, in the first run from 1978 to 1979, 'criterion of truth' debate, and democracy wall and the third plenum of the 11<sup>th</sup> central committee in 1978 were followed by the arrest of WEI Jingsheng, a famous dissenter, and the announcement of four cardinal principles. Further expansions and contractions took place in turn in the 1980s (Table 4-3). These cycles of reform expansion and contraction showed vividly the intensification of factional conflicts between market-minded reformers and the conservatives and requiring periodic personal intervention by Deng (Shirk 1993; Baum 1994).<sup>66</sup>

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<sup>66</sup> Of course, the factional politics was only one of the effective factors to explain the circle of expansion and contraction. Other factors, such as the aftermaths of the unexpected death of HU Yaobang, or the impact of the unexpected democratic movement in East Europe in the late 1980s, also have to be considered (Baum 1994).



Table 4-3: China's cyclical reforms in the 1980s

<i>year/phase</i>	<i>Key events</i>
First round 1978 ( <i>fang</i> )	'Criterion of truth' debate Democracy Wall The 3 <sup>rd</sup> plenum of the 11 <sup>th</sup> central committee
1978 ( <i>shou</i> )	The Arrestment of WEI Jiangsheng Four Cardinal principles
Second round 1980 ( <i>fang</i> )	Local elections
1981 ( <i>shou</i> )	Economic readjustment Bai Hua criticized
Third round 1982 ( <i>fang</i> )	Consitution revised 'humanism' and 'alienation' debate
1983 ( <i>shou</i> )	Anti-spiritual pollution campaign
Four round 1984 ( <i>fang</i> )	Urban reform and 'open cities' Cultural and artistic freedom
1985 ( <i>shou</i> )	Economic retrenchment Critique of bourgeois liberalization
Fifth round 1986 ( <i>fang</i> )	Student demonstration
1987 ( <i>shou</i> )	HU Yaobang dismissed Campaign against 'bourgeois liberalization'
Sixth round 1988 ( <i>fang</i> )	Neo-authoritarianism (late 1987) Administrative reform
1989 ( <i>shou</i> )	Economic reform frozen (late 1988) Tiananmen crackdown

Source: Baum (1994)

In order to win the power struggles, there were two strategies manipulated by reformers. One was the dual-track system, discussed in Chapter Two. The other, more relevant to the local-central relationship was a strategy of 'playing to the local'. The leadership structure within the central committee of CCP enfranchised three major blocs: officials from the government and party in Beijing, from the provinces and from People's Liberation Army (PLA) (Shirk 1992; Marti 2002; Sheng 2005).<sup>67</sup> Of the three, the

<sup>67</sup> The package of the three agents in CCP central committee is to some extent useful to understanding China's politics. After the 'Tiananmen Incident', Deng was reported to have forged a negotiated alliance among these three. The PLA supported Deng's reform agenda with a condition that the centre promised to finance continued military modernization. The provincial leaders who wanted to practice more market reforms were urged to offer more revenue to the central government for the maintenance of social

provincial groups were the largest bloc within the central committee of CCP since 1978. In terms of the structure of the politburo of CCP Central Committee, the provincial shares held steady at around 14-20 % from 1985 (Sheng 2005). In order to strive for more support, market-oriented reformers in Beijing attempted to build supports for their initiatives by making coalitions with advocates of provincial reforms. By a strategy of 'playing to the provinces', certain powers were devolved to the provinces rather than retaining them in the ministries (Shirk 1992). Consequently, the reformers in Beijing were unwilling to see that their reform-minded local allies became targets of critics by their conservative counterparts. The centre allocated more autonomy and power in order to help them tackle development problems. In certain policy cases, central officials even intentionally turned a blind eye to local discretionary acts carried out by their pro-reform allies (Cheung 1994).

#### **4-4 Political Centralization under the Party**

##### ***Local leaders not elected but assigned***

By moving from the Maoist version of Marxist-Leninism to a pragmatic market-oriented approach, a shift in ideology undoubtedly had underpinned the reforms since 1978. For example, the rhetoric of socialism had been changed to 'socialist market economy' in November 1993. The new CCP chapter had been changed to allow capitalists to apply for memberships of CCP in the beginning of 21<sup>st</sup> century. However, there was the persistence of a very strong party-state at the central and local levels in China, referring to its penetration into the market and its dual roles as regulators and participants in economic production, capital accumulation and urban development (Ma and Wu 2005). Local leaders at all but village and township (and some county) levels

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stability by the centre (Marti 2002).

were assigned by the next upper government rather than elected directly by the local people. This is a major difference from most western and post-communist economies where political devolution or decentralization in recent years was to localities with local elections. In China, however, upper-level governments controlled the personnel appointments to the lower-level governments. It means that beyond economic decentralization, the centre politically still could manage local governments (Huang 1996a; 1996b; Edin 2000).

### *Mechanisms of personnel management*

As shown in Chapter Three, the significance of post-Mao China still being dominated by one-party communist control is that basically the party still overrides the administrative, legislative, and judicial systems. Party 'documentations (*wen jian*)' outweigh laws and regulations. Apart from that, the Leninist principle 'the party controls the cadres (*dang guan gan bu*)' involved a unique personnel management system, namely, the *nomenclature*, which consists of two main mechanisms. First, there is a list of leading positions over whose appointments the Party exercises full control. Second, there is another list of those persons suitable to fill the positions, the so-called cadre reserve (Burns 1987; Heilmann and Kirchberger 2000; Chan 2004). Under the *nomenclature* system, the upper-level governments exercised authority over the appointments of party cadres and government officials, including promotion, dismissal and transfer. The appointment decision is based on a relatively systematic screening of the credentials and the past history and performance of the candidates under consideration. In 1984, there was a decentralization of *nomenclature* (*bian zhi*). The central committee of the CCP in Beijing kept the power of personnel management for the top two levels of the hierarchy (namely, the central and provincial levels), but not to posts below that. Similarly, provincial governments and parties only kept control the

appointment for prefecture-level posts and decentralized their *nomenclature* power over county-level posts to the prefecture leaders (Huang 1996a; Tsui and Wang 2004).

Without local elections, there are several mechanisms of personnel management of local leaders, including cross-posting, rotating and promoting to upper positions (Huang 2002). First, cross-posting refers to a practice whereby an official was simultaneously posted to two positions: one seat in the governmental position and the other seat in party position. For example, provincial party secretaries double as the politburo of central committee for CCP and speakers of provincial People's Congress (Huang 2002). Second, rotating is a practice whereby officials are shifted among equally-ranked positions (Huang 2002; Edin 2003a). In China, four main bureaucratic ranks can be identified: ministry (*bu ji*), department (*ting ji*), division, and section (*ke ji*). Each rank covers two to three echelons. In between are semi-ministry level (*fu bu ji*) in the middle of ministry and department. And similarly, there were semi-department (*fu ting ji*), semi-division (*fu chu ji*), and semi-section (*fu ke ji*) (Table 4-4) (Lieberthal and Oksenberg 1988; Yang 2003). Provincial governors can be rotated to be governors of other provinces or ministers of departments in the State Council. Prefecture-level party secretaries can be rotated to department heads in the provincial governments (Huang 2002). Finally, there is related to the second, promotion of officials to upper-rank positions.<sup>68</sup> In most cases, the promotion involves a one-echelon upgrading, such as from section level to semi-division level. But in some exceptional cases, these may be two-echelon upgrading, such as from section-level directly to division-level; or from department-level directly to minister-level (Huang 2002).

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<sup>68</sup> It also needs to be noted that the latest development in China is that some local governments are experimenting with the separation of cadre rank from place rank, for example, Guangdong practices a new system that chiefs of counties are able to be ranked as department scale (*ting ji*) as political promotion, depending on their economic performance. As expected, such the new system very well stimulates cadres' enthusiasm for work of local economic development. News source: *xin hua wang* (Guangdong channel), 2005/08/19.

Table 4-4: Main bureaucratic ranks

<i>name</i>	<i>party or government positions</i>	<i>Echelon</i>
--	General secretary of CCP, or president, premier	1
--	Politburo members, politburo candidate members, vice president, vice premiers and state council member,	2-3
<i>bu ji</i>	ministers, provincial party secretaries, provincial governors	3-5
<i>ting ji*</i>	bureau chief (in the party and in the State Council), department head (in the provinces), and prefecture-level administration party secretaries and chiefs	5-7
<i>chu ji</i>	division heads, county-level administration party secretaries and chiefs	7-10
<i>ke ji</i>	section head, township-level administration party secretaries and chiefs	9-12
--	Depute section heads, section clerks, ordinary clerks	9-15

Note: '*ting ji*' also covers bureaus in the party (*ju ji*) or in the State Council (*si ji*)

Source: from Lieberthal and Oksenberg (1988) and Yang (2003)

### ***Performance-based appointment system***

Furthermore, through centralized *nomenclature*, personnel management is more or less performance-based. The significant roles of factions and tests of loyalty to communism in the cadre-selecting process in China politics during the Mao period during the Mao period have been widely emphasised (Tsou 1986; Fewsmith 2000; Li 2001). However, since the late 1970s, the reformist leaders began to stress the importance of monitoring on-job performances. In a national organization work conference held in 1983, for the first time CCP started to discuss the importance of moving away from the subjective evaluations of political attitudes and work styles- which were now characterized as special measures for the Cultural Revolution- to greater weight to assessment of concrete economic achievements (Whiting 2001).

In order to perform the task of evaluating the local performance, the central government in Beijing first established two specialized institutions. One was the General Auditing Administration (GAA) in 1983 to audit investment and fiscal affairs of government

agencies and firms. The other was the Ministry of Supervision (MOS) in 1987 to detect and discipline those officials engaging in illicit conducts. However, both GAA and MOS encountered difficulties in performing effective monitoring because of 'dual leadership'. The central MOS and GAA set guidelines for local operations; however, they did not have authority over local personnel. The local MOS and GAA had resident inspectors to supervise and audit governmental behaviours but their budgets were borne by the very units they were sent to monitor (Huang 1996b).

Since MOS and GAA failed in the task of supervising and evaluating local performance, China tried another solution to gauge the competence of local leaders. In 1988, the CCP Department of Organization established official guidelines for an annual evaluation of party secretaries and government executives at the county and township level. Called 'target responsibility system', the guidelines were an attempt to standardize and systematize evaluation of cadre performance on a wide range of functions at the local level ) (Edin 2000; Whiting 2001; Edin 2003a; Tsui and Wang 2004). These used three main categories of indicators. First were economic measures including aggregate growth rates and per capita GDP levels, state taxation and local fiscal capacity, urban and rural living standards, agricultural production and agricultural development, state asset management, enterprise operation and development, infrastructure (like transportation, telecommunication, water, urban construction, and power stations). A second related social development and spiritual and civil conditions, including numbers of petitions to higher levels of governments, fertility control, social stability, education, culture, environmental protection. The third involved about party performance, such as ideological and political conditions, building a leadership team, building of a democratic appraisal meeting, and building of party grassroots organizations (Edin 2003a; Tsui and Wang 2004).

Saich (2000) further notes that the performance indicators vary in priority, including both hard and soft targets. Soft targets cover the social development and spiritual and civil conditions, for example, the eradication of influence of *falun gong* or meeting family planning quota targets. But more important are hard targets, which primarily involve economic indicators. Whiting's research on one county in Shanghai in 1989 demonstrates the greater weighting given to hard targets (Whiting 2001). The indicators of township- and village- run industry and agriculture growth (hard targets) are more crucial in evaluation than that of party building, education, and family planning (soft targets) (Table 4-5).<sup>69</sup>

Table 4-5: Weights for performance evaluation

<i>Items of performance</i>	<i>Points</i>
development of township and village enterprise, including --increase in gross value of industrial output, --increase in industrial profit, --increase in profit rate in gross value of output, --township raking by profit rate on total capital --increase in total value of exports	33
Agriculture --sales to the state of grain and vegetables --sales to the urban markets of pigs --sales to the state of oil-bearing crops --sales to the state of leather and cotton	30
party building --building of party organizations --building of party spirit and discipline' --education of party members	21
Education --completion rate for compulsory education --participation rate for worker training --scale of funds dedicated to education	9
family planning --family planning compliance rate	7
<b>Total</b>	<b>100</b>

Source: Whiting (2001)

<sup>69</sup> In my field trip, I was told that there have been seven key development indicators in relation to leader's performances: GDP, fiscal revenue, industrial output, foreign direct investment account and items, total export and import, income per capita and employment rate. Interview Source: KO-06.

In other words, local officials could no longer totally count on loyalty and trust as sufficient to ensure their promotion. What they needed was to be seen as technically and administratively competent in dealing with economic matters as demonstrated by measured outcomes for their own key indicators (Tan 2002). This mechanism shapes the relations between careerism and political incentives of local officials to make policy innovations to upgrade economic performance of the jurisdiction under their leadership.

### *Careerism and material bonus as incentives*

Given this context of political centralization in relation to careerism, the greater economic development growth, the better chances there are for the local leaders to get promotion, along with increasing power and many tangible and intangible perks (Edin 2003a; Zheng 2005). Quantitatively, with regression models of the relation between mobility of provincial leaders and economic performances during their tenures, two statistical researches confirm the potential for careerism to provide political incentives. Bo (2000a) identifies that elite factionalism and localism of natives did not statistically explain the political mobility of provincial leaders but economic performances did. He further argues that provincial leaders with great records of contributing to the central coffers were more likely to be promoted than to be demoted. In addition, Li and Zhou (2005) also conclude that Chinese central government tended to terminate provincial officials who badly performed in local economic development. The higher the economic growth rates relative to the immediate predecessor, the less likely it was that provincial officials would be terminated.<sup>70</sup>

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<sup>70</sup> Related to that, there are other more 'subtle' ways of political promotion: one is cross-posting and the other administrative upgrading of jurisdictions. The former refers to the appointment to new concurrent posts as promotion. For example, county leaders do not leave their post at the counties, but still move up one rank in the party hierarchy. The latter covers the practice of promoting the status of the whole localities in connection with expansion of tangible benefits. Counties upgrading to county-level cities (*xian ji shi*) or prefecture cities upgrading to vice-provincial status are all cases in points (Edin 2003b, Ma 2005).



With a comparison of development in Jiangxi and Fujian around the 1990s, Tan's research (2002) further addresses the greater importance of creating good economic performance records than of showing obedience to central policies. The history of Fujian development and records of leaders' career paths together show that the assertiveness in steering local economic growth around 1990, which actually played an important role in the take-off of Fujian's economy at the time, was a set of policies in sharp contrast to the current central austerity programmes. Although the local discretion obviously did not follow the central government's policies, these leaders who were technically and administratively competent in dealing with economic matters, as expected, easily attracted the attention of upper-level governments and then gained promotion (Tan 2002). Moreover, based on a case study of Shaanxi province, Kwong and Lee (2000) argue that local officials were eager to make innovations in the form of tax concession or selective credit for more capable local enterprises. The selections were based on whether these enterprises could generate more tax and non-tax revenues to finance local expenditure obligations, absorb rural surplus labor and contribute to the provision of communal welfare to local residents, which were the key criteria for judging leaders' economic performances set by the upper level governments (Kwong and Lee 2000). In other words, for local officials seeking career advancement, one of the strongest considerations is how to promote local economic development, regardless of obedience or disobedience to the central policies or regulations. Political conformity, which was the only important pre-reform criterion for promotion, has given way to economic performance and other competence-related indicators.

Top down evaluation also offered direct economic rewards/ punishments to local officials who succeeded/ failed in achieving or surpassing targeting performance

numbers (Edin 2000; Saich 2000; Whiting 2001; Zheng 2005). For example, in February 1995, forty leading cadres from thirteen counties of Shanxi provinces were punished with temporary pay-cuts and published reprimands for failure to fulfil January's economic targets (Gore 1999). With Puding county of Guizhou as case study, Wong (2000) offers a detailed account of how performance management systems motivated local officials promoting local economic development. Puding received a revenue growth target of 20% for 1997 from the fiscal department of Guizhou provincial government. To meet this target, the county finance bureau set contracts mandating annual revenue growth of 15%, 20% and 25% with its eleven subordinate townships and villages. Those meeting the targets would be given rewards of 10,000-30,000 RMB; while the township leaders would receive 3-5,000 RMB as salary. However, those not meeting the targets would be penalized by equivalent amounts.

#### **4-5 Janus-faced Consequences of Asymmetric Decentralizations in China**

To sum up, there is no doubt that China has been successfully transformed from a communist centrally planned system to a global market-like economy. Along with that are increasingly important roles played by local governments in promoting development through the so-called economic decentralization, particularly focusing on fiscal revenues and taxations, investment and trade activities, land use, management of public-owned companies and so on. However, politically, operations of local governments are still controlled by the CCP. Upper-level governments appoint and remove of the officials and cadres at the lower levels with the performance-based personnel management system.

I call such a combination of 'economic decentralization to the local' along with 'political centralization under the party' 'asymmetric decentralization'. The term 'asymmetric' also refers to the concept that the centre (or upper level governments) actually still has in the upper hand. In terms of personnel management on a basis of performance-based appointment system at the township level, Edin (2003a) argues that state capacity, defined as the capacity to monitor and control lower level agents, has increased. The removal of YE Xuanping, the then Guangdong governor, is a case in point at the provincial level. YE, then Guangdong governor in the 1990s as a famous leading provincial figure who used to against the central policies, was forced to quit Guangdong governor in the early 1990s to the end (Gao 1999). A similar case also can be found from Bo's research (2000b) on the case of CHEN Xitong, a former Beijing mayor, who felt he was worthier of being Deng's successor than Jiang, then-China President, and sometimes blatantly challenged Jiang in the early 1990s.<sup>71</sup> Chen was placed under house arrest and then charged as embezzlement. The charges of Chen's corruption by the centre revealed the dynamic that while the strong local officials may defy the power of the centre, but the centre had to control these local leaders in order to command the whole country.

In this section, I argue that the concept of 'asymmetric decentralization' can better account for several consequences of post-Mao's regional economic developments. At least, four situations may be pointed out. At a local/ region scale, certain local innovations for better economic development were encouraged so that the local leaders were able to get the attention of the central government. However, with only limited

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<sup>71</sup> For example, in late 1994 Chen Xitong was reportedly that he told to his colleagues that the 'core' (means Beijing central government) is not bestowed; the 'core' is something you have to reply on for everyone to support you.

functions of check and balance and little civil society participation under one party control, local governments could easily focus only on unsustainable development, or even worse, abuse their powers. At a national/ aggregate scale, relatively high fiscal decentralization did not cripple certain capacities of the centre because the centre was able to control the local governments in carrying out their investment preferences. But under such ‘asymmetric decentralization’, there was serious territorial competition resulting in uneven spatial development. These scenarios, which look contradictory or incompatible on the surface, can be better understood through the models of ‘asymmetric decentralization’ (Table 4-6).

Table 4-6: Janus-faced consequences of ‘asymmetric decentralization’

	<i>bright side</i>	<i>dark side</i>
local / individual region scale	policy innovation	abuse of powers
national / aggregate scale	national stability*	serious territorial competition

Note: \* refers to the comparison to other transition or developing economies

Source: compiled by author

***Serious territorial competition, particularly resulting in uneven development***

Decentralization is likely to trigger territorial competition. Theoretically, instead of the concerns of spatial equity by national top-down ‘regional policies’, territorial competition implies that successful places may be in a better position to gain more resources to apply to competitive activity and to keep their stakes larger. Therefore, there is a reasonable expectation that it would actually exacerbate spatial inequalities as a consequence of decentralization and territorial competition (Cheshire and Gordon 1996; 1998). Empirically, despite different forms of devolutions and regional financing of Spain, Mexico and the USA, regions with highest GDP per capita enjoyed a greater capacity for expenditure than poorer regions did. (Rodriguez-Pose and Gill 2003)

China seems to provide a clear case of more uneven regional development as a result of serious territorial competitions and decentralization (Wei 1999; 2002a).<sup>72</sup> There has been a positive relationship between fiscal decentralization and regional inequality since 1978. It can be elaborated into quantitative and qualitative aspects. Quantitatively, by the examination of Gini-coefficients and coefficients of variation for two key economic indicators GDP per capita and household income per capita, in the provincial, regional, urban, rural and urban-rural dimensions, Zhao and Tong (2000) find that the degree of spatial inequality in China has been rising since 1985 and has been exacerbated in the 1990s. However, Rodríguez-Pose and Gill (2003) report that while there has been a consistent growth in the share of subnational expenditure since 1980, regional inequalities in China fell from 1980 until 1990 and then rose again to similar levels during the following decade. Qualitatively, fiscal decentralization is associated with a decline in inter-governmental transfers to the central government and thus in redistribution by the centre (Wei 1996; Duncan and Tian 1999). Shanghai, one of the richest provincial-level municipalities, in 1993 turned over only about 8.5% of its GDP, and the net remittance of newly rich Guangdong was only 0.4% of GDP. Accordingly, subsidies to poor regions by fiscal transfer fell sharply (Wang and Hu 1999). Bird and Wong (2005) also argue that such inter-provincial transfers were dominated by tax rebates that favoured the rich localities, reinforcing the disequalizing characters of 1994 tax sharing system itself.

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<sup>72</sup> However, it is noted that whether regional disparity has taken place in post-Mao period or not is still academically debatable. Wei argues the reasons why different researches come with controversial conclusions are because they use varying scales (such as inter-regions, inter-province, or intra-province). and indicators (income, industrial output and so on, or total amount or per capita) (Wei 1999; 2002a).

### *National stability*

Under the context decentralization, local governments were likely just to spend local revenues along with few restrictions on subnational borrowing, inevitably producing debts and fiscal deficits at both central and local levels and growing tensions between central and subnational administrations (Rodden 2002; Rodriguez-Pose and Gill 2003). Prud'homme (1995) also argues that decentralization in general makes it more difficult for central governments to stabilize macroeconomic fiscal situations. In the 1990s, Brazil lowered the share of the central taxes and gave the local states more freedom to set tax rates. As a consequence, the central government's ability to conduct macroeconomic policies was reduced in following years (Prud'homme 1995). In addition, due to a lack of effective monitoring to subnational borrowing and the general absence of adequate local bankruptcy procedures, there has been a significant negative relationship between fiscal balance and fiscal decentralization in transition economies like Russia, Ukraine, Estonia, and Czech Republic (Dabla-Norris 2006).

However, such an unstable situation has not resulted in China, although the centre is fiscally weaker than other developing countries under the context of low share of central expenditure and revenue in terms of GDP. China performed much better in tackling inflation than the average of developing countries (Table 4-7).<sup>73</sup> Huang (1996a) argues that given the unprecedented scale of economic and fiscal devolutions over decades, the reason why China still could maintain the national macroeconomic stability in terms of monetary centralization is because of political centralization, namely, Chinese local governments had carried out central investment preferences under political centralization mechanism. With shortening tenures and promoting

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<sup>73</sup> It should be noted that some scholars argue that central fiscal capacity was not so weak as shown because such calculation did not take extra-budgetary and extra-extra budgetary revenues into consideration (Zhang 1999).

frequent rotations of local leaders, the centre effectively controlled most (if not all) sub-national officials, who tended not to pursue major investment projects of their own (Huang 1996a). Control was increased after 1994 when the PM ZHOU Rongji took over the governorship of the central bank and centralized its monetary authority. After that, the Central Bank refused to grant credit allocation decisions to local governments (Qian and Weingast 1996; Ma 1997; Qian and Roland 1998; Cao, Qian et al. 1999).

Table 4-7: Central government's fiscal positions and inflation

	<i>central expenditure*</i>	<i>central revenue**</i>	<i>Inflation***</i>
<b>China</b>	10.2 % (1990-1991)	6.1 % (1990-1991)	12.9 % (1988-1993) 5.3 % (1974-1993)
Developing countries	26.4 % (1985)	22.7 % (1985)	51.0 % (1983-1987)

Note: \* and \*\* refer to share of GNP; and \*\*\* is measured by the growth rate of GDP deflators

Source: Huang (1996a)

Similarly, from with a comparative study between Russia and China, Blanchard and Shleifer (2000) conclude that such political centralization counted for China's relative economic success compared to Russia. They argue that the reason why China rose but Russia collapsed is because the former involved *de facto* federalism with political centralization while the latter represented federalism without political centralization. Russia implemented local elections; therefore, it was difficult for the declining central government in Moscow to withdraw local governors who benefited from illegal rent-seeking and bribes by killing local economic development. By contrast, China carrying out fiscal decentralization with political centralization has been in a stronger position both to reward and to punish local administration, encouraging local economic development while reducing the risk of local capture (Blanchard and Shleifer 2000).

### *Local policy innovation*

In western cases, politicians are encouraged to make innovation in policy-making or implementation in order to win local elections and gain potential funding for this purpose, which is a key feature of political decentralization. Altshuler and Zegans (1990) argue that most competition in the public sphere is election-based, driving and inspiring many politicians to welcome new ideas. Voters needed effective government and expected elected politicians to demonstrate their energy and capacity by championing innovative ideas (Altshuler 1997). The more decentralization, the more participation of local civil society, local enterprises and local officials, the more likely suitable and diverse ideas are created for good governances and better local development as a result. In addition, local awareness of needs and opportunities and local involvement in strategy development also facilitated in searching for more solutions towards the particular policy problems and straightforwardly provided feedback on the effectiveness of the actions that are undertaken (Litvack, Ahmad et al. 1998; OECD 1999; Bardhan 2002).

However, in China, without political decentralization in local elections, I argue that local officials were still encouraged to make innovations in order to accomplish certain economic achievements for their own political or material rewards. For example, along with 'hard budget constraints' generally more applying to sub-national governments in China (Dong 1998),<sup>74</sup> as compared to 'soft budget constraints' in transition Russia (Burawoy 1996; Dong 1998; Qian and Roland 1998), state-owned enterprises (SOEs) with directors appointed by local governments were more likely to make bolder

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<sup>74</sup> According to the Budget Law that was passed by China's People Congress in 1994 and took effect in 1995, local governments must have a balanced budget. Local expenditures could not exceed revenue without special approval by the State Council or by some special legislation. Local governments could not issue bonds (Dong 1998). The key point is 'balance'. However, the law did not regulate how to balance. It means that local institutions were able to spend more as long as they could 'innovatively' generate enough revenues.



innovative decisions in the 1990s in reducing workers' wages and bonus in case of poor performance than the enterprises with directors appointed by the centre. This also can explain why the privatization program of small SOEs was initiated by local governments rather than forced to be in place by the centre (Qian and Roland 1998; Cao, Qian et al. 1999)

In addition, cadres skirted fiscal and budgetary regulations in order to increase local development. Infrastructure finance is one of the best examples to show how local governments made innovative decisions for local economic development in post-Mao China, where the demands on capital for infrastructure construction are high but supply of budgetary revenue for construction is limited. With infrastructure finance in Gujiao of Shanxi as a case study, for example, Herrmann-Pillath and Feng (2004) find infrastructure being financed partly through bargaining with upper-tier authorities for a greater share of revenue, but also more innovatively, with 'reverse Build-Operate-Transfer contracts', privatisation of public services, government enterprise, sale of land use rights and public-private partnership. Various innovative decision-making bodies have also been established in some places in order to legitimate expenditure on public projects, such as creation of a financial committee of the local People's Congress (in Qingde town of Zhejiang province), or a Board of Directors for Public Projects (in Shahe town of Guangdong province), comprising an selected group of the local elite (Fan 1998). In other words, the variety of programs and projects initiated at the local level enhanced flexibility in management of local public revenues and expenditures (Brean 1998).

### ***Local unsustainable development***

In the western liberal democratic context, local economic development can be shaped by various pro-growth or anti-growth regimes, depending on the political mobilizations of different agents (Ward 1996; Cox 1998; Dowding, Dunleavy et al. 1999). However, 'asymmetric decentralization' in China offered very limited check and balances because all administration, legislations, juridical systems, and media were under the control of CCP. In addition, due to very little political space for civil society, any anti-development interest groups still needed time to offer their alternative goals to the public, meaning that anti-growth or sustainable development policies were hardly evident (Zhu 1999). The absence of check and balance also means that economic activities by authorities may be purely wasteful and/or involve abuse of powers, as in the case of local 'clientelist' state or even local 'predatory' states' (Baum and Shevchenko 1999).<sup>75</sup>

In the former case, agents have formed 'clientelist' ties, favouring certain entrepreneurs who have better and 'right' connections (Yeung 2001). In Xiamen, Wank (1996) notes a type of patron-client relations between entrepreneurs operating trading companies and co-operative officials. The local officials provided the entrepreneurs with access to crucial information and resources, lowered the transaction cost of daily administrative chores and secured better terms for investment contracts, while in return, entrepreneurs offered officials material rewards or favours. Related to that is local protectionism to make full use/abuse of their administrative powers to assist enterprises under their

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<sup>75</sup> Baum and Shevchenko's research (1999) suggests four kinds of officials' involvement in economic activities crossing two dimensions. One dimension concerns whether or not agents are motivated to promote economic growth; and the other is whether or not agents have a direct stake in the economic performance of local enterprises. Therefore, the four interrelated types include: entrepreneurial, development (shown in Chapter Three), and clientelist and predatory.

jurisdictions. This is because in certain places, local cadres could easily rely on market barriers to boost their short-term local industrial output and associated economic performances, which were linked the political promotion of local cadres. In the case of 'local predatory states', local officials exacted illegal fees, levies, and fines from overburdened peasantry and investors (Baum and Shevchenko 1999; Lin 2005). The most common cases covered so-called the three arbitraries (*san luan*), arbitrary taxation (*luan shou fei*), arbitrary fines (*luan fa kuan*), and arbitrary apportionments or expropriation (*luan tan pai*), forcing local residents to contribute money, materials, and labours to local public works projects. By 1990, rural tax rates were close to 10-40% of farmers' income in some areas, compared with legal limits of 5% set by the central government in Beijing (Wedeman 2000).

#### **4-6 Conclusion**

Undoubtedly, there has been a global trend of economic decentralization over the past two decades, affecting China as well as western countries, with local governments being granted more powers to deal with local development issues. However, the restructuring of the local-central relationship in these two contexts has been quite different. In Europe, some powers of central governments have been conceded downward, but generally to democratic sub-national governments. In China, the political operation is still in the context of 'political centralization under the party', which involved two kinds of political features: first, party overrides all administrative, legislative, and juridical systems, and second, the leaders of local governments are not elected by the people but assigned by upper-level governments- with promotion and demotion linked to the economic-performance management strategy. The better the economic growth rates of a jurisdiction, the more likely its leaders are politically

promoted or materially rewarded. I call this combination of economic decentralization to the local with political centralization under the party 'asymmetric decentralization'.

The concept of asymmetric decentralization offers a better framework to explain the Janus-faced consequences of political economy of regional development, including the phenomenon of local policy innovations, which is the focus of the thesis. Four of these may be highlighted. First, at the national/ aggregate scale, asymmetric decentralization shaped China's relatively stable transition, as compared to volatile economic and political situations in many decentralized developing and post-Socialist countries. However, secondly, because of 'asymmetric decentralization', there was territorial competition causing uneven regional development within China. Thirdly, and positively, at a local/ individual region scale, policy innovations were more able to be made through the system of careerism in the local officials who wanted to present better performance in order to get more attention from the upper-level governments. But, fourthly, there were also certain misuse of administrative powers, partly because of limited checks and balances within one party control, and partly because of a performance management system totally tightly focused on economic indicators.

In addition, it must be noted that within the general pattern of 'asymmetrical decentralization', there was a variety of local-central interactions across China as a whole (Goodman 1994; Segal 1994). From the case of agricultural decollectivization in the early 1980s, Chung (2000) has argued that there are at least three different types of local-central interaction, characterized as 'pioneering', 'bandwagoning' and 'resisting'. The first, the 'pioneering' model, was found in Anhui where local implementers went far ahead of others in carrying out central policy. The leaders tended to maximize the leeway for provincial initiatives within the constraints of central policy. Second, the

'bandwagoning' pattern was typified by Shandong, where local officials maintained extreme caution by not implementing central policy too fast or too slowly, though the leaders often became ardent implementers of economic reform after schemes were officially promulgated. The third is the 'resisting' model exemplified by Heilongjiang. Local implementers here did not fully comply with the central government but either delayed the execution of a given policy or bent it to serve parochial interests. The leaders were sceptical of market-oriented reform and still clung to some Maoist policies such as collectivized agriculture and the centrally planned system (Chung 2000). In addition, in terms of local-central dynamics, the formation and transformation of development zones also show that there are two different ways of being granted national title: locally initiated projects and local implementation of centrally initiated projects (see Chapter Two). Therefore, the perspective of a variety of local-central strategic interactions becomes particularly important to understand political dynamics in relation to local policy innovations during post-Mao period, and this is the focus of the next chapter.

## CHAPTER FIVE

### Policy Innovations and Local-Central Dynamical Interactions

'policies from the top and coping strategy from below'  
(*shang you zheng ce, xia you dui ce*)

#### 5-1 Local-Central Interdependence and Local Economic Development

##### *Interdependence between central and local governments*

In China, local-central strategic interaction is embedded in a situation of interdependence between central and local governments, for two particular reasons. First of all, it is about a gap between policy formulation and policy implementation. In many policy domains, central governments could dominate in decision making but had limited executive powers and monitoring competences to follow how these policies were carried out, particularly for those involving local development issues. Therefore, central governments were to some extent 'forcibly' dependent on local institutions which had 'sufficient' delivery competences (as well as 'responsibilities', from the viewpoint of the centre) to implement those central policies (Rhodes 1986; Painter, Isaac-Henry et al. 1997; Atkinson and Wilks-Heeg 2000; Chou 2004). From this perspective, such interdependence is embedded in a sense that the (more or less exclusive) power to implement is the local governments' most important source of 'autonomy'.

On top of that, there is the ambiguous status of local development policy in terms of the division of powers between central and local governments. In fact, there are three kinds of power: a centrally dictated policy zone, a locally dictated policy zone; and an

overlapping policy zone between central and local governments (Zheng 2005). The first two refers to powers clearly and exclusively belonging to either central or local governments, such as, national defense and diplomacy for the former and social welfare for the latter. However, the field of local economic development is ambiguous, being neither purely dominated by the centre nor by the local, but with powers more or less shared between them. As mentioned in previous chapters, functionalities, responsibilities and competences of local institutions have been changed, substantially since the 1970s: from a passive role of social welfare distribution to a proactive role of being directly involved in economic development by all means. From this perspective, the powers that local governments are able to deploy are more than before, not only for policy implementation but also policy formulation. Since both local and central governments have several material and non-material resources which can be used to institutionally initiate policies and influence each other, this inevitably results in a situation of interdependence between local and central governments.

The concept of interdependence is useful to understand post-Mao China's local-central dynamic relations. An old Chinese saying that goes 'the sky is high, the emperors are far away (*tien gao huang di yuan*)' is exactly to the point. Due to the huge size of China's territory and population (Greer 2004), as well as complex levels of central and subnational governments (Ma 2005), policy implementation has always been a challenging task both for most of dynastic China empires over the past thousand years and for Communist China after 1949. The post-Mao period particularly saw a great relaxation of restrictions to economic decentralization - with local governments able to operate with unprecedented power over local development issues. Many researchers argue that with a strong implementation bias, central policies either involved heavy bargaining and negotiation between central and local officials or, even worse, for the

centre, were directly distorted in ways advantageous to local 'implementers' (Lieberthal and Lampton 1992). From this perspective, the post-Mao Chinese system is better understood as a 'fragmented' authoritarian regime. On the one hand, under one party control and without any political progress, China remains necessarily authoritarian, as compared to most western countries. On the other hand, since local authorities had powers to negotiate and bargain with the centre, such authority was nevertheless seen as highly fragmented rather than unified (Lieberthal and Oksenberg 1988; Lieberthal 1992).<sup>76</sup>

Moreover, the power struggle between market-oriented and conservative-minded reformers in Beijing created a certain political space for such interdependence, or so-called 'reciprocal accountability' between central and local governments (Shirk 1993). The different factions in Beijing to some extent each 'occupied' certain places to practice their policies (Zheng 2005). For example, while Guangdong was selected for pioneer marketization and deregulation experimentation, Shanghai was unable to do so because it was the powerhouse held by CHEN Yun, the leader of the conservative camp (Saich 2004). Market reformers in Beijing did, on the one hand, have the right to appoint and remove officials and cadres at local level. With the so-called 'asymmetric decentralization' (discussed in Chapter Four), careerist local officials were encouraged to utilize their resources in order to operate the different strategies for development, so as to gain political capital and improve their chances for promotion. On the other hand, however, in order to compete with the conservatives for reform legitimacy, central reformers also needed the economic performances undertaken (either initiated or implemented or both) by their local counterparts. By deploying a strategy of 'playing to

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<sup>76</sup> The 'fragmented authoritarianism' model refers to the fragmentation not only taking place between central and local authorities but also between ministries and departments within the centre (Lieberthal and Lampton (ed.) 1992).



the local' (or for some scholars like Shirk, a kind of 'political decentralization'),<sup>77</sup> reformist leaders in Beijing and in the coastal provinces formed coalitions to push through reforms (Gallagher 2002). In such a context, some of the local officials either became capable of forcing the central leaders to implement economic reforms in favour of local economic growth, or else took advantage of the central reformers who would be most likely to 'intentionally' turn a blind eye to those local innovations that are legally-ambiguous or even illegal. Those discretions resulting from such interdependence occurred on many occasions, for example, when the centre did not have any proper policies or when the policies of the centre did not satisfyingly meet the scopes and scales of development that local officials planned to do. To sum up, the interdependence between local and central governments is allowed by the political mechanism that gives local officials a say in decision-making at the central level.

### *Strategic interaction and local economic development*

The best way to describe strategic interactions between central and local governments in relation to policy innovation in China is with the saying: 'policies from the top and coping strategy from below' (*shang you zheng ce, xia you dui ce*). The 'interactive' approach identifies local policy innovations as taking place in the context of interactions between central and local governments each of which has several channels available to influence the other (Painter, Isaac-Henry et al. 1997; Li 1997a). In the context of post-Mao China, the centre has resources such as personnel appointment and dismissal, propaganda, media, economic resources and policies, and military forces. Instead, sub-national governments can substantially operate several decentralized

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<sup>77</sup> It should be noted that such a 'political decentralization' argument does not necessarily conflict with what I call 'political centralization' under the party because both of them have different focuses. The main point of the 'political decentralization' argument is to explain the political mechanism in which local officials play a role in decision making at the centre. Therefore, it does not address the question under what kinds of circumstances are good behaviours rewarded or/and bad behaviours punished, which is the focus of the 'political centralization' argument (See Chapter Four above).

powers, like to control policy implementation, to command large numbers of organizations and local economic resources, and to have multiple channels of communication with international markets (Zhao 1994; Breslin 1996; Li 1997a). On the one hand, there was the influence of central policies on local governments at different scales, resulting in local discretion exercised to varying degrees in responding to such influence. On the other hand, there were potential impact from the use of such discretion upon the policies of the centre (Li 1997a).

For example, Gore (1999) concludes that there were channels of 'fishing' by the central government and 'reverse-fishing' by the provincial governments. 'Fishing' was a particular terminology to describe the way that central government intentionally left large funding gaps in their planned projects in order to motivate the localities to fill these gaps with their own local budgets when they bid for the projects to be implemented in their localities. It means that the 'fishing' can be understood as a strategy that central government used to remedy its weakened control over investment and to influence the investment behaviour of the localities. However, in reality, some of the provincial governments also deployed 'reverse-fishing' strategies to strive for their provincial interests. First, localities might persuade the central government to incorporate the locality's own projects into the state plans, perhaps by intentionally under-estimating the cost of the project. Once the projects were under way, the locality might use various excuses not to foot its own share of the bill. Second, localities might lure the central government into a joint venture by putting some money into a project first. As soon as the centre got involved, it would find itself stuck with an ever-growing bill. Third, the bids of localities or local enterprises for the projects might leave no funds for operation costs. All these situations made Beijing face a dilemma: whether to pump in additional funds or to let the projects sit idle (Gore 1999).

In addition, on the basis of the interactive approach, there are two basic categories of local-central interactions in terms of policy process: one is top-down initiated and the other is bottom up. Regarding the former, the centre might initiate development policies but local governments might or might not completely obey them. I call this category 'local implementation of centrally initiated projects'. As to the latter, local governments were able to implement policies initiated by themselves rather than by the centre. I call this category 'locally initiated projects'. As mentioned in Chapter Two, the route to becoming national-level development zones has provided a good case in point for both. In the former type, local governments implemented zones which were mainly decided and financed by the centre directly. In the latter type, local governments established zones without any permission from the central government, with national status granted some years later.

### *Structure of the chapter*

After focusing on policy innovations as a local response to both stimulus of global economic restructuring (Chapter Three) and of transforming governmental structure in connection with responsibility and competence in change (Chapter Four), the focus in this chapter will be on the local-central dynamical interactions in relation to local policy innovation. The main argument is that local policy innovations are able to be institutionalized in the context of strategic interactions in the sense that both central and local governments act as institutional constraints on one another, while both exercise choice within the context of these constraints. Therefore, the rest of the chapter is organized by three main sections. First of all, a literature review on local-central interactions in relation to local economic development is offered. Second, I point out that the category of locally initiated projects includes mechanisms of 'state-intention to

tolerate', of '*ex-post* state endorsement', and of '*ex-ante* state adoption'. And in the third section, the category of local implementation of centrally initiated projects covers mechanisms of 'marginalizing the local', of 'local obedience', and of 'local flexibility'.

## **5-2 Local-central Interactions in post-Mao China**

The issue of local-central interactions in connection with the phenomenon of the post-Mao China's local economic development has long been a subject of great interest to academicians, policy makers and China-watchers. At least three different aspects have been distinguished, relating to: first, the constitutional dimension; second, localities' stock of political capital in the centre; and third, the entrepreneurial roles of local officials. In this section, I review these three approaches first and then elaborate their implications on dynamic local-central interactions and policy innovations.

### ***Non-constitution and de facto federalism***

According to the China's Constitution, it is a unitary not a federal state. The State Council could define the specific functions and powers of local governments, nullify the policies and decisions of the local governments, impose martial law in the localities, and so on. However, the operational relationship between central and local governments was neither clearly articulated nor enshrined in the PRC's Constitution. Therefore, in the absence of constitutional orders, local-central relationships become more a question of political dynamics than of constitutional rigidity. The dynamics is intensified in the context that there are no clear-cut legal systems under one-party control. As mentioned in Chapter Three, all kinds of documents (*wen jian*) by party and governmental apparatus at both central and local levels played an important role in political operations (Wu 1995). Therefore, on the one hand, the centre might

decentralize administrative powers in order to stimulate local enthusiasm and carry out policies that relied on local initiatives; but later on the centre might also launch a political campaign to recentralize the powers to rectify local discretions. On the other hand, the local government could also utilize localized competences, as well as political leeway left by such non-constitutional regulations, to devise strategies to cope with these changing central policies.

Economic powers of 'special policies and flexible measures' decentralized to Guangdong in the early 1980s are a case in point. These decentralized competences were only based on a couple of 'documentations' by the centre.<sup>78</sup> Since it was not on a basis of constitution, the operations of such preferential policies could be suddenly changed by the central government in Beijing unilaterally (for example, when there were political struggles between market-oriented and conservative-minded reformers). In addition, Guangdong also use their own discretions to strive for their regional interests by neglecting interests of the centre (Cheung 1994; 1998). With the absence of constitutional bills, different provinces formulated various strategies to cope with the centre, which in return made different policy schemes toward varied provinces.

Some scholars even argue that China actually became a *de facto* federal country, the so-called 'Federalism, Chinese style' or 'market-preserved federalism', whose characteristics include the limitation of the central government's control over the economy, fiscal and financial decentralization, authority of provincial, municipality and county governments in charge of economic affairs, competition among local

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<sup>78</sup> The key documentations include *zhong fa* (1979) No. 50, *zhong fa* (1980) No. 41 and *zhong fa* (1981) No. 27. These three documents formed the first package of the gist of 'special policies and flexible measure (*te shu zheng ce ling huo cuo shi*)' in Guangdong (Cheung 1998). None of them were added into the PRC's Constitution.

governments, and a degree of political durability built into the system (Montinola, Qian et al. 1995; Qian and Weingast 1996; Cao, Qian et al. 1999).<sup>79</sup> In general, there was a concept of the ‘laboratories of democracy’ as observed in the federal countries.<sup>80</sup> With the United States since the 1980s as a case study, Osborne (1988) argues that many progressive reforms to cope with the problems left over by New Deal were introduced in particular cities or states first and then gradually institutionalized at the federal level. In particular, territorial competition in the post-Mao period provides with a range of positive incentives to all levels of governments to make policy innovations in order to foster local economic development. To sum up, this ‘*de facto* federalism’ argument implies that under the system of ‘federalism, Chinese style’, local governments were often regarded as ‘laboratories’ to pursue different policy experiments of development without risking the rest of China (Cao, Qian et al. 1999).

### ***Local stock of political capital***

From the second perspective, there are continual attempts to assess the localities’ stock of political capital in Beijing in relation to a range of local-central interactions. The political capital can be gauged by either informal relationship or formal arrangements. Informally, a province may be able to gain greater access or resources from the centre through personal connections between local and central leaders. Back to the Mao period, for example, provinces where there were hometowns of prominent central leaders were major beneficiaries of the ‘Third Front’ (Naughton 1988).<sup>81</sup> During the reform period,

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<sup>79</sup> The wording ‘federalism, “Chinese character” ’ is because China’s situation is different from western federalism, where they typically root in an explicit system for protecting individual rights as well as implementation of democratization and political rights into their constitutional foundations. Clearly, none of these factors are presented in post-Mao China (Montinola, Qian et al. 1995).

<sup>80</sup> Louis Brandeis, a Supreme Court Justice of the USA, argued in 1932 that one of the happy aspects of the federal system that a single courageous State may, if its citizens chose, serve as a laboratory and try novel social and economic experiments without risk to the rest of the country (Osborne 1988).

<sup>81</sup> Examples include: Hunan was the hometown of Mao Zedong and Liu Shaoqi, Hubei was the hometown of Lin Biao and Li Xiannian, and Sichuan was the hometown of Zhu De and Deng Xiaoping. These provinces were major beneficial locations of the Third Front program.

the personal-oriented political capital in Beijing still played an important role in helping local economic development. In the early 1980s, LIANG Lingguang, then Guangdong Governor, successfully lobbied YANG Shangkun to persuade the People's Liberation Army to open up the Shantou military airport. Prior to then vice executive chairman of the Central Military Commission, Yang, who had a good personal relationship with Liang, was former Guangdong secondary party secretary (Cheung 1998). The so-called 'Shanghai gang (*shanghai bang*)' also refers to the local economic development of Shanghai taking advantage of a group of central leaders whose careers had advanced due to their political associations with JIANG Zemin, then president of China, when he was the mayor and party secretary of Shanghai (Jacobs 1997; Li 2001).<sup>82</sup>

Formally, localities' political capital can be examined by the numbers of representatives coming from different areas in the Central Committee of the Chinese Communist Party, or its politburo. On a basis of regressions relating state sector construction investment received by each province to their provincial representation on the CCP Central Committee, Su and Yang (2000) argue that from 1978 on, provinces enjoying greater representation on the CCP Central Committee had more political capital to participate in central policy making, and could translate this political clout into economic resources like construction investments. In other words, these researches imply that the more the political capital held in the centre by a sub-national jurisdiction, the greater the opportunities for local economic development.

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<sup>82</sup> It is worth to note that some scholars rejected the concept of the 'Shanghai gang' working on behalf of Shanghai. For example, Shanghai natives like CHEN Yun and QIAO Shi very seldom helped Shanghai marketization programs in the 1980s (Jacobs 1997).

### *Local entrepreneurial leadership*

The third dimension highlights the importance of entrepreneurial local leadership. The beginning of the reform period was politically uncertain and ideologically ambiguous in the absence of constitutional regulations. As a consequence, the transition evolved with an *ad hoc* rather than rule-based approach. However, in order to loosen ideological restraints, central leaders reduced the use of coercion, such as purges, labelling and demotions of local leaders who proposed different economic ideas. The effect was that the entrepreneurship roles of local officials (namely, the personality, commitment, vision and power of charismatic local leaders) were encouraged as means of giving a great push to interact with the central government so as to make certain local economic development programs efficient and effective (Qian and Weingast 1996).

Therefore, local entrepreneurial leaders were advised to have guts (*dan liang*) and courage (*yong qi*) to replace three fears (*san pa*) with three dares (*san dan*) in order to achieve certain ambitious local development projects. The fears include: fear for risks, for input, and for blame on mistakes; and three dares cover: dare to take responsibility, to put in resource, and to overcome hindrances to productivity growth (Lam 1999).<sup>83</sup> Another saying, prevalent in Guangdong at the beginning, uses ‘traffic lights’ as a metaphor to vividly describe how entrepreneurial local leadership acted to promote economic development. Like traffic lights that have three signs: green, yellow, and red, local governments also treated central policies in three ways. For policies forbidden by the centre (meaning a red light), local officials did not stop and wait but made an innovative detour to secretly proceed with whatever they wanted to do. When facing policies that were arguable and had not been decided on (meaning a yellow light), local

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<sup>83</sup> The argument of ‘three fears’ and ‘three dares’ was by LIANG Weisu, Panyu party secretary of Guangdong province in 1987, tried to encourage local leaders to be more entrepreneurial in order to achieve the county’s ambitious objectives (Lam 1999).



officials just ignored it and kept going. For policies which are legally approved by the centre (meaning a green light), local government rushed ahead in full swing for development. Despite differences among three scenarios, the common element is that many local entrepreneurial leaders were able as well as willing to make bold, flexible and innovative strategies in response to central policies, resulting in diverse types of local-central interactions.

This approach can also explain why places which shared similar 'given' geographical locations and 'pre-given' central preferential policies developed at different paces (Chung 1999a).<sup>84</sup> With entrepreneurial leadership, locally initiated projects, not approved by the central governments, could be introduced. In addition, flexible and ambiguously-legal local implementations of centrally initiated projects were able to be carried out. With a comparative study between Qingdao and Dalian, Chung (1999b) argues that the cosmopolitan, open-minded, risk-taking leadership in Dalian was one of the key reasons why it could develop better than Qingdao. Addressing the question why Xiamen developed better than Fuzhou in the 1980s, Howell (1999) notes that the entrepreneurial drive of Xiamen officials took full advantage of special policies, in contrast to Fuzhou's conservative and risk-averse counterparts who focused more on their ailing state-owned enterprises. In addition, from looking at Nanhai and Panyu in the inner Pearl River Delta, Lam (1999) argues that the market-oriented or conservative-minded attitudes of their upper governments were crucial factors in the degree of local economic development during the 1980s. The conservative approach of

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<sup>84</sup> 'Given' and 'pre-given' conditions along with 'local entrepreneurial leadership' are categories of factors that may shape local economic development. 'Given' nature factors refer to sub-provincial cities not being able to change their specific configurations, like scarcity or abundance of nature resources, the location advantages close to container ports and so on. 'Pre-given' category refers to administrative arrangements and target policies granted for local economic development, particularly preferential policies and special subsidies from the central government, which officially and legitimately allow the localities more autonomy to expand and organize their resources and attract more investment (Chung 1999a).

Guangzhou, which was Panyu's direct upper government, worked against the growth of Panyu. Instead, Nanhai benefited considerably from the aggressive approaches of Foshan, its higher government.

***Beyond strategic interactions: compromise and innovations***

Of the three approaches to explaining the diverse local-central interactions, the first two can more or less be regarded as related to the structural dimension. The non-constitutional argument addresses the operation of *de facto* 'federalism, Chinese style' structure. The absence of clear constitutional regulations on the division of labour between central and local governments made it easier for post-Mao local governments to devise their own strategies towards the centre. The argument in terms of localities' political capital in the centre relates to the formal and informal structures of power distributions connecting the centre and the localities. Localities whose political capital is greater than others are able to deploy more types of local-central interactive strategies for economic development. In contrast to the previous two arguments focusing on the structural dimension, the third, entrepreneurial local leadership, pays more attention to the agency dimension by addressing the importance of flexible and entrepreneurial behaviours of local officials, who are willing as well as capable to innovatively mobilize their resources for better economic development.

These viewpoints each offer certain useful insights for understanding the complicated issues of local-central interactions in relation to local economic development. Together, they imply the need for an 'interactive' approach to analysis of the process of local policy innovation. Integrating structural and agent perspectives, the 'interactive' approach views policy changes and innovations, local- central relations, and local economic development in more dynamic and behavioural terms. Because both central

and local governments had resources to institutionally influence and constrain each other, policy formulation and implementation in the post-Mao period were better characterized not in terms of 'total victory or total defeat' but as a 'non zero-sum game' (Li 1997a; Li 1998). The approach suggests that there is fixed balance between processes of central control and those of local flexibility or disobedience but continuing interaction. Discrete strategic interactions were deployed both by the centre and localities in order to communicate, persuade, bargain and concede with each other with regards to particular sets of policy issues. Despite the fact that during the post-Mao period overall sub-national autonomy had indeed expanded as a result of economic decentralization, a reduction in central imposition did not always result in increased local autonomy, and vice versa (Chung 1995; Edin 2003b).

The formation and transformation of fiscal reform since the death of Mao is a good case in point. Powers over local revenues and expenditures had been greatly decentralized in the tax contract system in the 1980s, raising local enthusiasm for economic reforms and eroding the central controls of national fiscal stability. However, in the interactive process, Beijing had still been willing and capable of balancing central preference and sub-national fiscal autonomy by many means. First, the centre decentralized several fiscal responsibilities to the local (Wang 1994; Zhang 1999), and second, the centre controlled fiscal transfer and subsidy (Wedeman 1999); third, the centre often readjusted downward provincial budgetary sharing rates (after the contracts expired), reclassified certain taxes, and appropriated some of the most profitable enterprises in like the automobile, petrochemical, shipping and such industries (Shirk 1992; 1993). Fourthly, the centre even institutionalized a system of 'forced loans', by which Beijing 'borrowed' money from the provinces under a variety of pretexts but never paid it back (1995).

However, local entrepreneurial officials also deployed negotiating strategies toward these central policies. For example, in the early 1980s, when prices of textiles were still administratively controlled, changes in these by the central government brought textile-producing localities to Beijing for compensation. Moreover, when shifting a factory from local management to central management, there was also a battle to recalculate revenue and expenditure shares. This was related to the varying negotiating power of different provinces (Shirk 1992; 1993). Similarly, while the 1994 big-scale tax sharing system, which was kind-of fiscal recentralization as compared to the 1980s local-central fiscal situation, can be seen as a direct reaction to the fiscal decline on the part of the central government, it must also be noted that the final version of the 1994 new fiscal system was not the original one designed by the centre. During the experimental phase in several provinces and cities during the early 1990s, strong local resistance forced the centre to revise the program by taking more local interests into considerations (Zheng 2005). To sum up, policy changes and innovations are better understood as a matter of local-central negotiation and compromise interactions, than of a settled power distribution.

Moreover, from the viewpoint of policy diffusion, such strategic interactions and interdependence between central and local governments also produced a more secure policy innovation environment to overcome certain risks and uncertainties easily associated with the post-communist transition process. In order to 'safely' cross the river by touching stones (*mo shi tou guo he*), some policies that were promoted to a national scale by the centre had been previously tried out, or locally initiated, in some experimental locations. The practice of the one-stop service for allocating FDI (started from Guangdong) (Zhang 1994), the agriculture decollectivization program (started

from Anhui) (Chung 2000), development zones (Gallagher 2002), and the privatization of state-owned companies (initiated from Sichuan, Guangdong, and Shangdong) (Cao, Qian et al. 1999) are all cases in point. From this perspective, policy diffusion of national promotion can be regarded as a central reaction to good performances of previous small-scale experimentations in different localities.

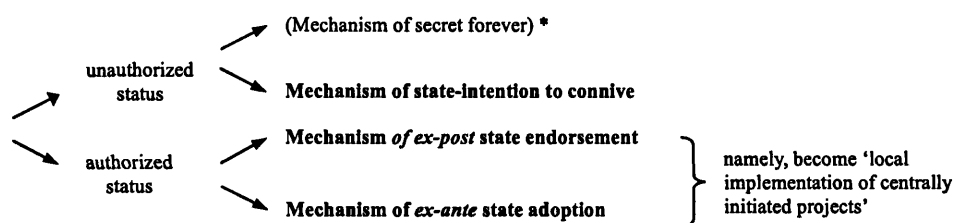
A famous story involves Deng's comment when the Yangtze Delta with Shanghai as a core was officially opened up, with the announcement of the Pudong Project in the 1990s, ten years later than Guangdong. He said that he regretted not opening up Shanghai earlier in the 1980s (Jacobs 1997; Saich 2004). Obviously, from the perspective of local-central strategic interaction, Deng's feeling of regret reflected a simple central reaction to the profound (or at least relatively much better) economic achievements created in Guangdong. In addition, however, this reaction was also related to the power struggles in the 1980s when the centre used Guangdong's experience to peacefully and convincingly defeat the conservatives in Beijing, who kept blocking Shanghai from opening-up. To sum up, the perspective of local-central dynamical interactions is a useful perspective to understand policy innovations in relation to post-Mao local economic development.

### **5-3 Typology for Locally Initiated Projects**

The type of locally initiated projects refers to all kinds of projects that were neither initiated nor proposed by the centre. Theoretically, a typology of four mechanisms can be identified: 'secret forever', 'state- intention to connive', '*ex-post* state endorsement', and '*ex-ante* state adoption' (Figure 5-1). The 'state' I mention here is the central government in Beijing. These four mechanisms can be further grouped into two parts

with a dimension as to whether there was any permission authorized by the central government when local officials actually conducted such policy innovations. The first two mechanisms were categorized as a group of unauthorized status, while the latter two as a group of authorized status.

Figure 5-1: Typology in locally initiated projects



Note\*: In terms of local policy innovation, the types of 'mechanism of secret forever' and 'mechanism of state inability to rectify' are only theoretically possible but most unlikely to happen in reality

Source: Author compiled

However, the first one may need to be ruled out because while the scenario is theoretically feasible, it is practically almost impossible. The mechanism requires that local governments intentionally did not report to the centre when making innovations in new policies, and such innovations were kept secret forever. It means that such implementations of policies had never been found by any other agents, including the central government. However, if local innovation succeeded in making local economic development better, local regions would most likely want to make it well-known in order to get greater resources and investments from elsewhere. Moreover, local economic development issues also involved a group of people whose interests might be intertwined or even in conflict with each other. As a consequence, it is quite difficult to keep all participants silent all the time.

### *State-intention to connive*

The other scenario in the category of the unauthorized involves the central government refraining from using its capacity to prevent local government from proceeding with these innovations after these have been discovered. One famous case is the 'decollectivization experimentation' right after the end of Cultural Revolution. Anhui stood in the forefront of the reform by being first to implement controversial decollectivization policies, before the central government in Beijing made a decision to endorse them. In 1978, a group of households in Fengyang county of Anhui province began in secret to contract with the local officials for delivering a fixed quota of grain in exchange for farming on a household basis. Eighteen households swore themselves to secrecy to keep the adoption of the new system from becoming known.<sup>85</sup> Clearly, the reason why the decollectivization program was so controversial was because the concept of decollectivization completely overturned the Mao's communist ideology.<sup>86</sup>

Their success was revealed to the public in 1979. By then, because there was no official endorsement from the centre, it was not surprising that the action of decollectivization attracted a lot of criticism from the conservatives. However, the market-oriented leaders intentionally turned a blind eye to the decollectivization innovation for many reasons. First, it was reported that Deng and other leaders in the centre had no concrete ideas of their own for rural reforms, but adopted a wait-and-see policy. Second, WAN Li, then provincial governor of Anhui, played an important role in insisting that the household

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<sup>85</sup> The 'secrecy' can be shown in that the group of households even swore an oath of loyalty whereby they promised to take care of the families in the vent of any team care being arrested for allowing the system to go ahead.

<sup>86</sup> Prior to decollectivization, there was a national wide practice of collectivization movement since the mid 1950s. By then, on a basis of communist ideology, the production team, which consisted of about 50 households, was a basic unit for production and distribution. The commune had the authority for allocation quota for most of agricultural products. Such collectivization system had survived for two decades, resulting in a systemic crisis of shortage of food and falling productivity in the rural areas by the mid of 1970s.

responsibility system was preserved. Even although a critical editorial appeared in the *People's Daily*,<sup>87</sup> Wan still told local cadres not to waver from the experiments. In addition, Wan's close relationship with Deng and HU Yaobang, then PM of China, also helped him persuade the central leaders not to openly act against such unauthorized practices (Chung 2000; Edin 2000).

### *Ex-post state endorsement*

In the 'authorized' group, local innovations have been made by local governments initially and in the end got authorized status from the centre. Here I make a distinction between *ex-ante* or *ex-post* official recognition. Regarding '*ex-post*', it means that local innovations received central endorsements some time after they had been implemented in the regions. For example, Auhui's decollectivization case had been offered the centre's official approval two years after its unauthorized start (Chung 2000). Another example is Guangdong using collective assets as investment in joint ventures. At the beginning of reform, the centre did not allow any type of cooperative joint ventures. However, without any permission, Guangdong still successfully tried to use existing properties as an asset to establish joint operations with foreign investors. In the end, the centre endorsed such innovation and promoted it to other provinces (Zhang 1994). In terms of privatization of small or medium-size SOEs, Zhucheng city of Shangdong started privatizing in 1992, followed by Sichuan, Guangdong, and Heilongjiang joining in privatizing SOEs since 1994. The centre sanctioned the privatization process in July 1997, which means that the central's *ex-post* endorsement only came after the programs had been extensively practised in the provinces (Qian and Roland 1998; Woo 1999b).

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<sup>87</sup> On 15<sup>th</sup> March 1979, *People's Daily* (the so-called CCP mouthpiece) published a letter from the readers which severely criticized the work group based responsibility system for destroying the Maoist collective system of agricultural production.



### *Ex-ante state adoption*

Concerning the 'ex-ante' category, local governments recommended fresh ideas to the centre, and they executed these innovative policies only after the centre adopted their ideas. For example, during 1976 and 1977, several provinces proposed revenue-sharing experiments and persuaded the central government in Beijing to adopt their proposals. Jiangsu suggested a 'fixed-rate responsibility' to split the provincial revenues with the centre, with 58% for the centre and 42% itself, such percentages remaining unchanged for four years. Beijing allowed Jiangsu to experiment with this policy in 1977. By 1980, Jiangsu's experiment was judged as a success in motivating the province to expand production and revenue as well as to contribute more revenue to the centre. Then, in 1982, ten of the fifteen provinces originally on different fiscal programmes shifted over to the Jiangsu-style 'fixed-rate responsibility' (Shirk 1993).

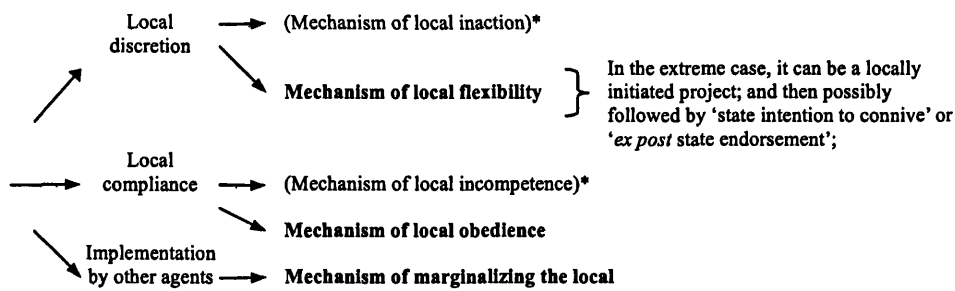
The conversion of the airport of Qingdao from a military to a purely civilian role in the late 1980s is another case in point. In order to connect globally, Qingdao initiated the policy recommendation to convert the military airport. The recommendation was initially rejected by the State Council and the Central Military Commission. But YU Zhengsheng, then Qingdao mayor, was reported to have frequently flown to Beijing to persuade the central officials, and finally attained their approval to turn the military airport into a civilian one. Later, Qingdao again proposed to open direct flights to Japan and South Korea, since the investors of these two areas had generated more FDI in Qingdao than investors of other places. At the beginning the State Council disagreed with them, but after a series of persuasive efforts by Qiangdao, the centre adopted the proposal (Chung 1999b).

Moreover, such mechanisms also can explain the interaction between Shanghai and the centre for key development projects. During the process of Shanghai initiating the Pudong project, local officials advocated the policy to the central government. After the central government adopted the idea, Shanghai further recommended details of the Pudong project to smooth the process of policy implementation. What Shanghai did in the policy process of Pudong development project was not to confront the central government, but to keep all procedures and implementation as fully recognized by the centre as possible (Li 1997b; 1998). From this perspective, the mechanism of 'ex-post state endorsement' and 'ex-ante state adoption' means that these projects were permitted by the state to become centrally initiated projects. The operations afterwards can be regarded as the cases of local implementation of centrally initiated projects (Figure 5-1 above).

#### **5-4 Typology for Local Implementation of Centrally Initiated Projects**

In relation to local implementation of centrally initiated projects, five mechanisms of the policy process can be identified: 'local inaction', 'local flexibility', 'local incompetence', 'local obedience' and 'marginalizing the local' (Figure 5-2). These five can be categorized into three groups, depending on the degree of discretion and involvement of local governments. The first two types refer to the situation of local discretion, meaning that local governments implemented the centrally initiated projects in many different scales and procedures. The following two types are regarded as a group of local compliance. In those cases, local governments conformed to the central government when they implemented the centrally initiated projects. And the last one means that the policy was implemented not by local governments but by some other agencies.

Figure 5-2: Typology of local implementation of the centrally initiated projects



Note: \*Mechanisms of ‘doing nothing’, and ‘local incompetence’ cannot be regarded as policy innovation, because the outcomes of both patterns are neither new nor better.

Note: \*\* Pattern of creating new projects means the category of ‘local initial projects’

Source: Author compiled

Of these five, two cannot be called means of policy innovation: one is ‘local inaction’ and the other is ‘local incompetence’. The former means that nothing new would happen. The latter refers to situations where the outcome of policy implementation turned sour due to the lack of competent capacity in local governments. As aforementioned, there are three necessary criteria for an innovation: newness, better outcome and overcoming uncertainty. In the first of these two cases, there is no newness. In the latter, there are no better outcomes. I discuss the other three scenarios in turn.

### ***Marginalizing the local***

In the case of ‘marginalizing the local’, the central government directly implemented the policies in the locality, giving little or no roles to local governments. One of the most common examples involves the central governments setting up their own agencies in the localities in order to undertake particular activities. For example, after 1994 the central government set up its own taxation branches for collecting national- categorized tax. Prior to 1994, tax collection solutions, including the effective tax rates and bases, had been basically in the hands of local governments, despite the fact that they did not

have the authority to alter the statutory rates and bases. Local governments offered varying degrees of tax concessions to enterprises and moreover, sometimes shifted budgetary funds to extrabudgetary funds, thus minimizing tax sharing with the central government (Qian and Stiglitz 1996; Wang and Hu 1999). After 1994, taxation power was centralized to the central government by limiting the involvement of the local or even excluding the local, that is, the pattern of 'marginalizing the local'.

Similarly, since the late 1990s, several newly-centralized or centralizing institutions bypassing local officials have been established as a brand new phase of economic management and regulations in monitoring the economy, standardizing commercial practices as well as combating local protectionism. These new institutions can be divided into three types: administrative regulation (such as the China Taxation Bureau, Land Resource Bureau, the Administration for Industry and Commerce); financial services (like China Securities Regulatory Commission, China Construction Bank Auditing Department); and commodities management (for example, electric power, coal safety, and grain management) (Mertha 2005; Mertha and Zeng 2005).

### *Local obedience*

In the category of local obedience, local officials basically just followed directions and policies of the central government. Studying inflation control in China in the 1980s and 1990s, Huang documents that many local governments actually complied directly with the central austerity policies. For example, when the central government's macroeconomic policy became tighter over the course of 1986 and 1987, LI Ruihuan, then mayor of Tianjin, announced a goal of reducing local fixed-asset investment by 21.9%. In 1987, Li convened a rally attended by most municipal officials to create momentum for investment reduction. In October and December 1988, Tianjin

government terminated or suspended about 130 local projects. These projects were budgeted to spend 869 million RMB in total, equal to 28% of the fixed-asset investment target originally set for 1988 (Huang 1996a). Another case is that in 1992, Shanghai obeyed the state policy to first abolish its administrative bureaus of industrial management and then handover the powers to different non-government-organization-based industrial-related associations in order to better coordinate market functions. The reason why Shanghai was willing to do so was reportedly related to the then vice PM Zhu, whose prior job was mayor of Shanghai (Unger and Chan 1995).

### *Local flexibility*

In this mechanism, local officials tried to use their discretion to make adjustments to the central policies. Local officials are able to do this because they are at the front line to implement most of the policies delivered from the centre. One example is the difference between the *de facto* attraction of FDI and *de jure* ceiling of FDI allowed by the centre. In the 1980s and the 1990s, provinces were allowed to attract FDI with a certain *de jure* ceiling on the total amount set up by the central government. It means that provincial governments were theoretically responsible for ensuring that the actual amount of investment spent within the jurisdiction in a particular year did not exceed the ceiling regulated by the centre. However, there had been flexibility and/or disobedience in policy implementation; for example, in Guangdong and Shanghai provincial-level jurisdictions. An excess rate was defined in terms of the ratio of *de facto* additional investment happening in the provinces divided by the *de jure* ceiling granted by the centre. In both cases, the ratios were well over 100%, though the ratios for Shanghai were much less than those for Guangdong, where the ratios averaged about 240% (Table 5-1). It means that compared to Shanghai, Guangdong was much more flexible and apparently unconcerned about the necessity of obedience to central policies.

Table 5-1: Differential between local performance and central plan for attracting FDI in Guangdong and Shanghai

	Shanghai		Guangdong	
	<i>de facto</i> */ <i>de jure</i> *	Excess investment rate**	<i>de facto</i> */ <i>de jure</i> *	Excess investment rate**
1985	N.A	N.A	15.6 / 5.5	284 %
1988	25.4 /13.0	195%	35.4 /12.8	240%
1991	19.2 /14.2	135%	41.3 /23.6	175%
1992	29.8 /22.0	145%	82.5 /34.5	239%

Notes: the Unit is billion Yuan.

Note\*: *de facto* means actual total investment happening in the provinces; *de jure* refers to the ceiling of total investment issued by central government.

Note\*\*: The excess rate is the ratio of *de facto* to *de jure*.

Source: Li (1997b)

In other words, local officials played a tremendously active role in circumventing the regulations imposed by the central government. Even where there were central regulations and policies, localities could try to implement them in ways more compatible with their interests, as many researches have shown. For example, foreign investors commonly complain that it matters less what the law says than what the persons sitting in the local government office who interpreted it would say (Yeung 2000; Lin 2001).

It must be noted that there are various degrees of scopes, procedures, and speed of local flexibility to centrally initiated projects (Chung 1995). In the situations of extreme degree of local discretion, local governments could bend (or 'implement') central projects by producing new kinds of projects completely different from what the centre wanted to promote. This scenario is understood as 'locally initiated projects', whose types of central local interactions are mentioned in the previous section.

## 5-5 Conclusion

In this chapter, I have argued that the concept of local-central strategic interaction, which is embedded in the context of interdependence between central and local governments, is a good theoretical basis for understanding of the relationship between dynamic local-central interactions and local policy innovation. Six types of such local central strategic interactions in relation to local policy innovation have been distinguished. The package of six types not only reflects the influence of local entrepreneurial leadership but also relates to the phenomenon of *de facto* federalism operating in the post-Mao period. Of the six, only two can be understood as under the full control of the centre, namely, 'marginalizing the local' and 'local obedience'. The other four types - of 'state-intention to connive', 'state *ex-ante* adoption', 'state *ex-post* endorsement' and 'local flexibility'- have actually been manipulated by local officials with different degrees of discretion, in order to maximize autonomy from the centre. In addition, the different types of local-central interactions in relation to policy innovation also can be understood through the lens of the (formal or informal) political capital held by the centre. Related to the absence of constitutional rigidity, informal political capital held by local leaders in the centre is a key factor, explaining, for example, why Shantou in Guangdong province successfully persuaded the centre to adopt their idea of converting their military airports to civilian ones (Cheung 1998), and how Anhui could initiate the agricultural decollectivization program with the connivance of the centre (Chung 2000; Edin 2000).

One more point which needs to be borne in mind is that these six types are logically distinguished but empirically mixed. The whole policy process of any project, spending

a span of time evolving different stages of policy development, can be better understood as a dynamic one involving local and central governments with a mixture of different types of local-central interactions. The case of the agricultural decollectivization program, which involved a type of 'state-intention to connive' to 'state *ex-post* endorsement', is a case in point. Guangdong's discretionary action to central government's loan management policy of separating working capital and investment loans is one of the good examples. According to central policy in the 1980s, local governments were assigned different quotas of loans for particular purposes, with loan for infrastructure investment being most tightly controlled. Guangdong, which did not agree with the central policy, practised a strategy of putting investment loans into joint consideration with other types of loan. Other provinces which followed the loan separation policy found it difficult to finance infrastructure investment, whereas Guangdong managed to successfully develop facilities in the province. As a consequence, its success got endorsement from the central government later on, as was formally noted in a report by the State Planning Committee in 1993. The report further suggested that in the light of Guangdong's experience, the centre should consider the existing policy rather than just tolerate Guangdong's 'illegal manoeuvres' (Li 1997b).

To sum up, in this theoretical part of the thesis (Part Two), I elaborate three approaches to understanding local policy innovations: policy innovation as a local response to global restructuring (Chapter Three), local policy innovation as a regional development consequence of asymmetric decentralization (Chapter Four), and local policy innovation as an expression of strategic interactions between local and central governments (the present chapter). These three dimensions each indeed provides certain insightful viewpoints, such as: the self-interested pro-growth development coalitions embedded in territorial competition in the context of changing global economic



environment since the 1980s; asymmetric economic and political arrangements of responsibilities and competences between central and local governments; and local-central dynamical interactions. Such a pack of theoretical viewpoints will be very useful (and also sophisticated enough) to aid our empirical analyses of the complicated process of formation and transformation of local policy innovations in post-Mao China. Before discussing the empirical cases in my field, the issue of methodology and considerations of selecting cases will be addressed, and this is the topic of the next chapter.

## CHAPTER SIX

### Research Design and Case Selection

#### 6-1 Methodology Debate

##### *Traditional regional geography, scientific method, and contextual approach*

There are at least three approaches to understanding the relationship between space and development in social science in general and Human Geography in particular: one is 'traditional regional geography', the second is the 'scientific detachment', and the third is the 'contextual approach'. The first one, which has been the most longstanding tradition among the three, stresses the important role of observational works through the medium of boots-on field studies. In the 18<sup>th</sup> and 19<sup>th</sup> century, works in such approach were produced mainly by European explorers and travel writers. In the 20<sup>th</sup> century, such approach is still popular to understand the relationships between environment, local cultures and landscapes. In the belief that every place is unique, this approach covers two steps: first, researchers make observations out of curiosity about the visible and tangible places, and second, they register the observations on detail and composition of scene in order to go beyond the superficial appearances to explain the occurrences. This approach has suffered from several lines of criticisms- pervasiveness of ocular-centralism, over reliance on description, and a focus on uniqueness limiting production or testing of 'general' theories, though such theories still serve to explain the unique cases (Gregory 2000b; Cloke, Cook et al. 2004).

The second approach of 'scientific detachment', on the other hand emphasizes the issue of generality in relation to how to 'scientifically' establish and test theories when doing geographical researches. Integral to the quantitative revolution in social science since the 1950s, the 'scientific detachment' approach operates with an absolute conception of place, in which time and space are only treated as external containers or frameworks as neutral grids. Particularly in the form of 'spatial science', a fusion of (mostly) quantitative techniques is used in order to explicate the 'basic and general spatial laws' governing the organization of human behaviours and production across places on the earth's surface. Instead of going out to the field, surrounded by sights and sensations, researchers adopting this approach tend to spend their time sitting in distant offices and laboratories to get statistical data and census surveys from public libraries and governmental offices. Then what they do is to control different variables by running statistics, mathematical interrogations, simulations and model- building.<sup>88</sup> In other words, in order to discover universal and generalized truths, the detachment approach intends to establish a set of correlation between limited numbers of variables isolated from the larger context. However, the detachment approach faces certain challenges, like ignorance of causality and poor applicability of generalization to all cases (Barnes 2000; Gregory 2000a; Yeung 2001; Cloke, Cook et al. 2004).

The third method, the 'contextual' approach, points out that the effectiveness of any universal grand theory is still constrained by specific time and space (or so-called particular contexts). Addressing a sensitivity of context that all theories are limited and partial, the contextual approach emphasizes that particularities of different contexts

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<sup>88</sup> The statistical methods include hypothesis testing using chi square, general linear, dynamic linear or non-linear model, and so on. The mathematical models involve social physics like gravity model, entropy-maximizing model, neo-classical economics like rational choice theory, and networks and graph theory in central place theory and transportation geography (Barnes 2000).

cannot be read off from any formulations of a grand theory- through such a theory want to explain how and why context makes a difference. There might be several philosophical and methodological looseness if researchers applied the conclusions of these grand theories to all cases without carefully reviewing the applications of theoretical frameworks in particular contexts (Lovering 1999).<sup>89</sup> Sayer (1985; 2006) also proposes a 'critical realism' concept, arguing that the objects contain within them necessary causal powers and liabilities to make things happen, but which are realized only under specific contingent conditions.

Therefore, from the perspective of the 'contextual approach', the grounding of observations is encouraged, in order to obtain a richer and more intimate understanding of various actors/networks in the researched fields (Rankin 2003; Yeung 2003). The researchers should conduct geographically- and anthropologically- specific research designs, namely, 'in *situ* methods'- with attention to available kinds of explanation of processes. These 'in *situ* methods' can thus be divided into two stages. First, the researchers establish a set of analytic frameworks (for example, to identify potential actors and networks and to address their possible mechanisms and effectiveness) by literature reviews of existing researches. Second, the researchers make their own 'in *situ* researches' in order to improve the validity of explanations for the analytic framework (such as how, why and under what circumstances these actors/networks are able to operate, present and interact in different time and spaces). From this regard, the

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<sup>89</sup> The famous example addressed by Lovering (1999) is a case of the gap between the theoretical argument on new regionalism and its empirical application to local economic development in Wales of the United Kingdom. He argues that the most serious problem of the gap is because the conclusions of these existing theoretical researches were based on case studies conducted in economically dynamic and distinguished regions either in America or Western European, where there are ambitious leading firms working with active local officials in the context of limited central state interventions and few active FDI and domestic small and medium size firms. However, such kinds of situations are very different from those of more deprived regions in Western Europe like Wales- needless to say transition economies in general and post-Mao China in particular.

approach can be regarded as a mediating solution between the 'traditional regional approach' and 'scientific detachment' approach. On the one hand, the approach recognizes the importance of universal principles (from the first stage mentioned above); but on the other hand, the approach realizes the potential significance of different contexts on the instantiations of the so-called general principles (in the second stage) (Gregory 2000a; Yeung 2001; Cloke, Cook et al. 2004).

The research design of this thesis actually is inspired by the contextual approach. As shown in Chapter Two, the chapters of the thesis are structured as a 'U' shape, moving from abstraction to cases and back (Figure 2-4 above). This thesis is organized in four parts. Part One offers literature reviews, first of the debates on innovation, particularly in relation to policy or decision making (Chapter One), and then of the general background of post-Mao transition since 1978 (Chapter Two). Part Two focuses on the concept of 'local policy innovation' in post-Mao China by three analytical perspectives: policy innovation as local responses to global restructuring (Chapter Three), local policy innovation in relation to asymmetric decentralization (Chapter Four), and policy innovation as local-central dynamic interactions (Chapter Five).

Following an understanding of the contextual approach (Chapter Six), Part Three then performs the tasks of looking for how and under what circumstances these three analytic dimensions operate through whom and why, in the real empirical cases (Chapter Seven and Eight). The observations on these empirical contexts offer more details and particularities- specifically on the dynamics of strategic local central interactions- to support, modify, or challenge the general principles. The conclusion, in Part Four, draws out certain particular implications of the analysis, both empirically in

relation to post-Mao China's transformation, and theoretically in terms of some further research agendas (Chapter Nine).

### *Qualitative-based case study*

The contextual approach specifically aims to provide a contextualized examination of particular situations, which is the backbone of the case study method. By inductively rather than deductively examining the interplay of variables identified by the general principles, the case study can offer a more holistic understanding of mechanisms and operating in particular contexts. The advantages are of flexibility and emphasis on contexts, through there are some disadvantages such as inherent subjectivity and high investment and time requirements (Orum, Feagin et al. 1991; Sjoberg, Williams et al. 1991; Yin 1994).

However, it must be noted that case study still can be operated by either qualitative-oriented or quantitative-oriented methods (Table 6-1). The former are proper for researches that focus more on interpretative, subjective, holistic and inductive ways to find out process-oriented and discovery-oriented explanations and explorations. By contrast, the quantitative method is more suitable for positivistic and objective researches conducted with deduction, outcome and verification-oriented procedures to control variables (Findlay and Li 1999; Becker, Dawson et al. 2003).

Table 6-1: Comparison between qualitative and quantitative research

	Qualitative Research Design	Quantitative Research Design
Ontology: research of being	<ul style="list-style-type: none"> <li>v subjective research;</li> <li>v knowledge is constructed</li> </ul>	<ul style="list-style-type: none"> <li>v objective research;</li> <li>v research can be randomly designed and statistically observed.</li> </ul>
Epistemology	<ul style="list-style-type: none"> <li>v research is different from case to case, so context is important</li> <li>v the relationship between the researcher and the researched is dependent</li> <li>v categories of the research can be adjusted and revised during the process of research.</li> </ul>	<ul style="list-style-type: none"> <li>v research can be based on the experimental setting, so context can be controlled by random.</li> <li>v the relationship between the researcher and the researched is independent</li> <li>v categories needs to be predetermined before conducting research</li> </ul>
Methodology	<ul style="list-style-type: none"> <li>v intensive</li> <li>v inductive.</li> <li>v the research process can be observations first, then inducing hypothesis and after, examining hypothesis by additional observations.</li> <li>v in-depth, cultural-bounded, contextualized structure, and value-laden.</li> </ul>	<ul style="list-style-type: none"> <li>v extensive</li> <li>v deductive.</li> <li>v all hypothesis needs to be established before research.</li> <li>v value-free, generalized hypothesis, and culturally centralized.</li> </ul>
Data resource	<ul style="list-style-type: none"> <li>v primary Data: interview, participant observation, ethnography, action research, case studies</li> <li>v secondary data: dairies, letters, autobiographies, biographies, literary sources, official documentations, paintings, photographs, films, the second recordings.</li> </ul>	<ul style="list-style-type: none"> <li>v primary data: statistical surveys</li> <li>v secondary data: data archives, census data</li> <li>v statistical analysis: descriptive statistics, correlation, regression, spatial statistics</li> </ul>
Advantages	<ul style="list-style-type: none"> <li>v causality finding;</li> <li>v flexibility to identify unanticipated outcomes</li> <li>v in-depth topic and rich information</li> </ul>	<ul style="list-style-type: none"> <li>v correlation findings.</li> <li>v research in more universal rules and standardized procedure</li> <li>v easy to access lots of data</li> <li>v efficiency in time and resource.</li> </ul>
Disadvantages	<ul style="list-style-type: none"> <li>v time consuming and expensive</li> <li>v difficulty in generalization</li> <li>v too personal, easy to be influenced by the quality of the researcher itself</li> <li>v the research outcome is easily influenced by interaction between the researcher and the researched.</li> </ul>	<ul style="list-style-type: none"> <li>v inflexibility to meet the new finding during research process.</li> <li>v too impersonal,</li> <li>v ignorance of extreme or special cases.</li> </ul>

Source: author compiled

It is clear that the contextual approach is more close to qualitative-based case study research. However, as shown, both qualitative and quantitative methods have advantages and disadvantages. Therefore, it leads us to use different sources and

methods at various points in order to build on the strength of both types of data collection and to mitigate the weaknesses of qualitative approach (Findlay and Li 1999; Becker, Dawson et al. 2003). The qualitative-based case study approach involves two key requirements: analytically speaking, it should employ a process of triangulation between qualitative and quantitative methods, while technologically, it should prolong the process of data gathering on site, to conduct double checks with the researched, and to engage in peer consultation (Becker, Dawson et al. 2003). Yeung (2003) points to four more specific forms of triangulation between qualitative and quantitative methods: first, data triangulations with respect to time, place, person and scale; second, investigative triangulations among multiple observers of the same phenomenon; third, theoretical triangulation among multiple theoretical perspectives with respect to the same set of objects; and finally, methodological triangulations through between-method triangulation (dissimilar methods) and within-method triangulation (variations within the same basic methodology).

### *Considerations for selecting cases in this thesis*

Qualitative-oriented case study should not proceed in a theoretical vacuum of simply looking for everything that is going on. Rather, from the point of selecting cases, the process should be driven by theory and by the basic features of the research questions. The selected case studies are designed to illustrate main dimensions encapsulated in the theoretical frameworks (Orum, Feagin et al. 1991; Sjoberg, Williams et al. 1991; Yin 1994). In the case of this thesis, the main analytic focuses include: innovation in general and policy innovation in particular in relation to local economic development, global restructuring, asymmetric decentralization, and local central interactions. Hence, the considerations for selecting cases include: firstly, coverage of the characteristics of innovation: newness, improvement as a consequence, and the process of overcoming



uncertainty. The policies to be examined have to be new at least to localities compared to their past and preferably in a wider context also, and the policies have to produce better outcomes as a consequence, and the policies have to involve some risks. Second, with a 'maximum variance' strategy (Przeworski and Teune 1970),<sup>90</sup> the selected cases are chosen to represent as many different policy actors interacting during the policy development process and as many diversified types of local central interactions as possible. Third, to be doable in research terms, the cases are chosen on the basis of relevance and completeness of information available. In the selected cases, information is expected to be abundant, either available first-hand for researchers, or already documented in other published sources on the details of local policy innovation.

From this regard, it is expected that more diversified cases of policy innovation are likely to be found in so-called 'leading development regions'. In any countries, these leading regions are more likely to have more relatively innovative policy cases than other economically lagging regions. These regions do not have prior domestic role-models, and have to initiate many regional/national policy innovations. In transition economies, leading regions are particularly likely to be in the forefront of innovations since the challenges of changes from a central planned economy to a functioning market economy with price mechanism, trade liberalization privatization and marketization are so great.

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<sup>90</sup> In terms of comparative studies, at least two different solutions can be identified: one is to look for any regression relationship among cases, and the other is to maximize variance among cases. Related to that is the considerations of selecting cases. The former is to choose cases by controlling most of the similar dependent variables; but the latter is to search for cases with as much variance as possible (Przeworski and Teune 1970).

## 6-2 Selections of Case Studies

### *Yangtze Delta as a leading region in post-Mao China*

As stated, development zone policy in particular and policy of liberalization in trade and FDI in general can be regarded as one successful institutional innovation process to transform post-Mao China from a central-planned communist system to a global market economy. However, there was uneven regional development in the FDI and trade over the past two decades. Greater growth and more open economy in coastal China went along with slower and less open development in central and western China. Under such a background, it is understandable that coastal China can be regarded as a leading region able to demonstrate more representative cases in local policy innovation in relation to such development of economic globalization.

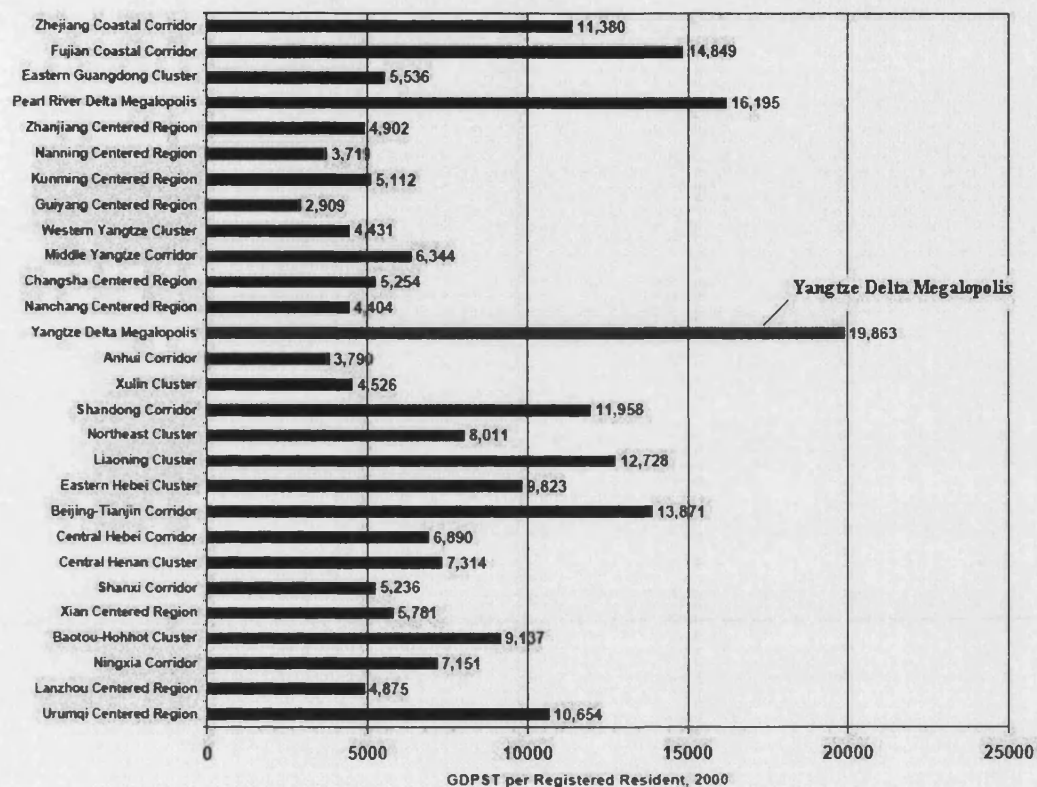
Geographically, eastern China includes 11 provinces. Yangtze Delta with Shanghai as its centre has become a worldwide economic magnet in terms of manufacturing and consumption markets. With 6% of the national population and 1% of the total area of China, the Delta contributed about 20% of GDP and took in 16% of state investment, generating around 30% of total trade and exports as well as attracting more than 30% of realized FDI (Table 6-2). In terms of non-agriculture sectors of GDP per capita, the Yangtze Delta is the highest among cities and regions in China (Figure 6-1). In many regards, the Delta is undoubtedly one of the leading regions in post-Mao China.

Table 6-2: Selected indicators of main sub-regions in eastern China in 2003

	Population	Area	GDP	Fixed investment	Trade	Export	Realized FDI	GDP per capita
National	100%	100%	100.0%	100.0%	100.0%	100.0%	100.0%	1
Yangtze Delta	5.89%	1.04%	18.3%	15.7%	28.2%	28.4%	33.8%	3.086784
Pearl Delta	2.04%	0.23%	9.1%	6.7%	34.1%	34.6%	28.5%	4.452628

Source: Decision Information for Leaders (*ling dao jue ce xin xi*), 2004/June, No.23

Figure 6-1: GDP per capita from 2<sup>nd</sup> and 3<sup>rd</sup> sectors by cities and regions



Source: Chreod Ltd. (2005)

### *Suzhou in the Yangtze delta*

There are 16 cities and regions in the Yangtze Delta, including Shanghai as provincial-status city, Ningbo and Hangzhou as vice-provincial-status, and other 13 prefecture-level cities belonging to part of southern and central Jiangsu and part of northern Zhejiang provinces (Figure 6-2). The city of Suzhou was the capital of the Prince of Wu (around 500 BC) and emerged as a military and economic centre for a vast surrounding area. With about 2,500 years of development history, Suzhou had already been known as ‘the paradise on earth’ for its scenery and tourist attractions. Over the past two decades of reform, Suzhou was further developed into one of the

most dynamic and developed regions in China. In 2001 the American magazine *Newsweek International* ranked Suzhou as one of the nine global high-tech cities in the information age.<sup>91</sup>

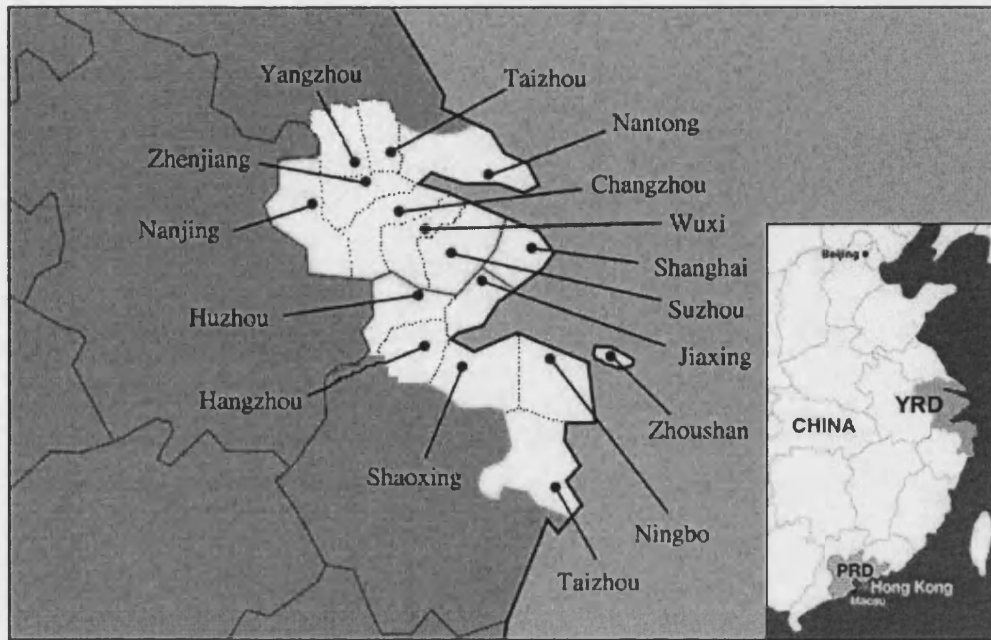
In addition, quantitatively, by 2003, the amount of realized FDI injecting in Suzhou was almost the same as in Shanghai. In terms of international trade and GDP per capita, Suzhou triumphed all cities and regions in Yangtze Delta except Shanghai (Table 6-3). Qualitatively, the process of Suzhou's continuously making innovations can be shown by a political slogan popular with many Suzhou leaders when I conducted fieldtrips- 'think of the menace when staying safe (*ju an si wei*)'.<sup>92</sup> It means that the leaders at different levels in Suzhou were reminded to keep making policy innovations for further development because of a feeling of fear to be surpassed by other regions. To sum up, Suzhou was famous for continuously making innovations in promoting its local economic development, transforming itself successfully transform from an agrarian society to be a globally competitive industrial location.

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<sup>91</sup> Other eight global high-tech cities are located outside China: Oakland in California, Omaha in Nebraska, Tulsa in Oklahoma, Campina Grande in Brazil, Huntsville in Alabama, Akron in Ohio, Barcelona in Spain and Côte d'Azur in France. News source: *Newsweek International* (based in New York), April 30, 2001.

<sup>92</sup> The idiom was written by WU Zixu, who was a famous Suzhou-native general 2,500 years ago. Wu was killed and his head was even cut off by his emperor WU who did not accept the advice to think of dangers when the emperor just defeated the enemy Yue. It was reported that general Wu was very desperate but angry when he was died. Unfortunately, the emperor WU lost the war to the enemy Yue after 20 years. The local government in Suzhou is reported to even think to erect a statue of General Wu's head with the angry face in one gate of the Suzhou old wall in the downtown to remind people the Wu's famous wording: 'think of the menace when staying safe'. News source: *nan hua cao bao* (based in Singapore), 2004/11/29; also interview code: KO-02; KO-06; SO-02; YO-04; YO-05.

Figure 6-2: Cities and regions in the Yangtze Delta



Note: YRD- Yangtze River Delta; PRD- Pearl River Delta

Source: downloaded from <http://yrd.tdctrade.com>, and author modified

Table 6-3: Selected development indicators by regions in the Yangtze Delta in 2003

	GDP	GDP per capita	Trade	Export	Realized FDI
Yangtze Delta	1,912.5	25,262	175.2	92.3	17.9
Shanghai	540.8	40,646	72.6	32.1	5.0
<b>Suzhou</b>	<b>208.1</b>	<b>35,733</b>	<b>36.4</b>	<b>18.6</b>	<b>4.8</b>
Hangzhou	178.2	28,150	13.1	8.5	0.5
Wuxi	158.1	36,151	9.7	5.2	1.7
Ningbo	150.1	27,541	12.3	8.2	1.3
Nanjing	129.7	22,858	10.1	6.0	1.5
Shaoxing	92.8	21,414	3.8	2.9	0.4
Nantong	88.7	11,356	3.9	2.5	0.2
Changzhou	76.1	22,215	3.9	2.7	0.6
Jiaxing	70.5	21,268	3.7	2.5	0.5
Zhenjiang	56.1	21,018	2.1	1.1	0.5
Yangzhou	55.9	12,368	1.5	0.8	0.3
Taizhou	50.5	10,021	0.5	0.4	0.2
Huzhou	42.3	16,454	8.9	0.7	0.4
Zhoushang	14.6	14,910	4.9	0.4	0.1

Note: unit for GDP is billion RMB, unit for GDP per capita is RMB, unit for trade, export and realized FDI is US\$ billion

Source: Decision Information for Leaders (*ling dao jue ce xin xi*), 2004/June No.24

**Brief on national zones in and around Suzhou**

Administratively, Suzhou is one of the prefecture-level cities in the south of Jiangsu province (Figure 6-3). By 2003, with 6% of the population in Jiangsu, Suzhou contributed 22.5% of GDP, 21% of fiscal revenue, 57.5% of trade, and 41% of FDI (Table 6-4). In terms of trade and FDI attraction, which can be regarded as the key functions of development zones, Jiangsu achieved better performance than Shangdong, Zhejiang, and Beijing (Table 6-5).

Figure 6-3: Jiangsu province in relation to China



Source: <http://www.ibiblio.org> and <http://french.people.com.cn/map/jiangsu.html>; and author modified

Table 6-4: Economic performance in Suzhou as a percentage of Jiangsu

	Population	GDP	fiscal revenue	Fixed investment	FDI	Trade	
						Export	Import
<b>Suzhou/Jiangsu</b>	<b>5.9%</b>	<b>22.5%</b>	<b>20.8%</b>	<b>26.4%</b>	<b>40.6%</b>	<b>60.6%</b>	<b>55.2%</b>

Source: Suzhou Almanac 2004

Table 6-5: Selected economic indicators in selected regions in 2001

	number of zones*	Trade	import	export	FDI
<b>Jiangsu</b>	<b>475</b>	<b>51.4</b>	<b>22.5</b>	<b>28.9</b>	<b>7.12</b>
Shandong	947	28.9	10.8	18.1	3.52
Zhejiang	758	32.8	9.8	22.9	2.21
Beijing	470	51.5	39.8	11.8	1.77

Note: unit: US \$ billion

Source: number of zones is from Decision Information for Leaders (*ling dao jue ce xin xi*) 2004/April, No. 15; other data is from 2002 China Statistics Yearbook

However, such vibrant global activities in relation to FDI and trade were every unevenly distributed in Jiangsu. Historically, Jiangsu can be divided into three sections: the poor northern Jiangsu (*su bei*), the richer southern Jiangsu (*su nan*) and the moderate central Jiangsu (*su chung*) (Figure 6-2 above).<sup>93</sup> The economic condition of southern Jiangsu was strengthened after Ming dynasty (13-16 century AD) by industrialization in cotton and silk production. With the construction of railways and the emergence of Shanghai in the early 1990s, southern Jiangsu developed dramatically with the establishment of modern enterprises and industries. However, by then central and northern Jiangsu were still relatively less developed. The historical gap between the north and the south has been further widened by the coalescence of state policy, local agents, and foreign investment in the post-Mao period (Wei and Fan 2000; Long and Ng 2001). Particularly after 1984, along with the industrial reforms and open door policies in general and more favourable and flexible policies for the development of FDI and TVEs in particular, inter-county inequality had been further intensified, resulting in widening gap between southern Jiangsu and the rest of Jiangsu (Wei and Kim 2002). Therefore, by 2001 southern Jiangsu generated more than 59% of GDP of

<sup>93</sup> Southern Jiangsu involves Suzhou, Wuxi, Changzhou, Nangjing, and Zhengjiang; central Jiangsu covers Nantong, Yangzhou and Taizhou, and northern Jiangsu includes Xuzhou, Huian, Yangchen, Liangyukang, and Suqian.

Jiangsu, attracted about 60% of fixed investment and around 90% of FDI in Jiangsu as a whole, and produced 85% of export and 70% of industrial output (Table 6-6). Moreover, the southern Jiangsu was also much more open and globalized than central and northern Jiangsu (Table 6-7).

Table 6-6: Selected economic indicators by sub-regions in Jiangsu in 2001

	GDP	Fixed investment	Export	Industrial output	FDI
<b>South of Jiangsu</b>	<b>58.0%</b>	<b>55.8%</b>	<b>85.0%</b>	<b>69.7%</b>	<b>87.4%</b>
Middle of Jiangsu	18.8%	17.5%	10.8%	16.0%	5.6%
North of Jiangsu	23.3%	26.6%	4.1%	14.3%	7.0%
Total Jiangsu	1000%	100%	100%	100%	100%

Source: Jiangsu Statistics Yearbook (2002)

Table 6-7: The importance of FDI by sub-regions in Jiangsu in 2001

	FDI/GDP	FDI/ fixed investment	Export by FDI	Industrial output by FDI
<b>South of Jiangsu</b>	<b>9.5%</b>	<b>29%</b>	<b>85.7%</b>	<b>82.5%</b>
Middle of Jiangsu	1.9%	5.9%	11.8%	11.4%
North of Jiangsu	1.9%	4.9%	2.5%	6.0%
Total Jiangsu	6.2%	17.8%	100%	100%

Source: Jiangsu Statistics Yearbook (2002)

#### *Role of locally initiated v.s. centrally initiated actions in national zones*

In terms of open economy, there were only little international trade and investment in Suzhou in 1990. After one decade, Suzhou had attracted US\$ 4,800 million FDI and generated US\$ 36,390 million for trade by 2002. Economic performance of trade and FDI in Suzhou were contributed by various zones, attracting 74% of its realized FDI and contributing 75% of trade. Moreover, among all development zones, national ones played a very crucial role. About 70% of FDI and 80% of trade in the record of development zones in Suzhou were produced by national zones (Table 6-8).



Table 6-8: Contribution of trade and FDI by development zones to Suzhou

	Realized FDI*	Trade		
		Total*	Export*	Import*
Suzhou in 1990	11	188	155	33
Suzhou in 2002 (1)	4,814	36,390	18,521	17,869
All Suzhou zones in 2002 (2)	3,580	27,385	13,260	14,125
National zones in 2002 (3)	2,229	22,294	10,634	11,660
National zone of all zones (3)/(2)	62.2%	81.4%	80.2%	82.5%
Zones as of Suzhou (%) in 2002 (2)/(1)	74.4%	75.3%	71.6%	79.0%

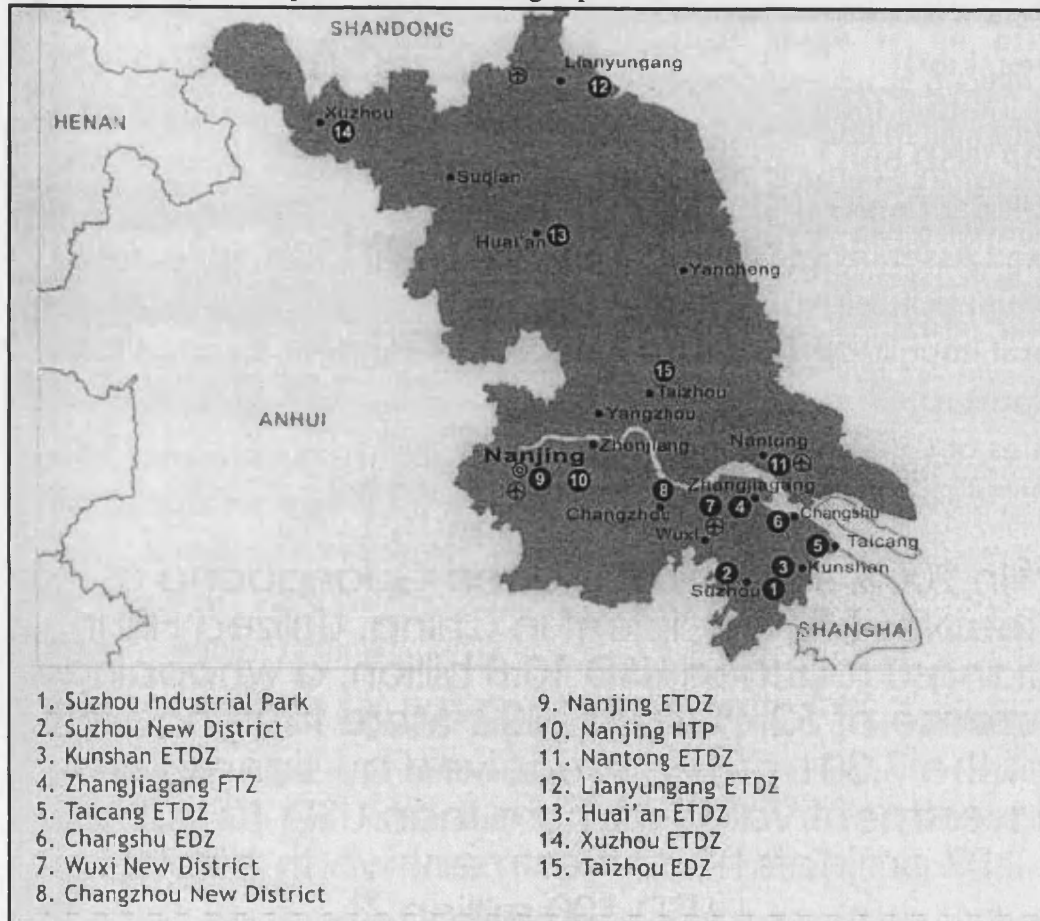
Unit: US\$ million

Source: Suzhou Almanac (2003) and Suzhou Statistics Yearbook (2003)

There were eleven national zones in Jiangsu by 2000. In chronological order of gaining national zone status, they are Nantong Economic and Technology zone (called Nantong), Lianyungang Economic and Technology zone (called Liangyungang), Kunshan Economic and Technology (called KETZ), Nanjiang High Tech Zone (called Nanjing), Changzhou High Tech Zone (called Changzhou), Suzhou New District (called SND), Wuxi High Tech Zone (called Wuxi), Zhangjiagang Bonded Warehouse (called Zhangjiagang), China Singapore Suzhou Industrial Park (called CSSIP), and Suzhou Tai Lake Tourist Zone (called Tailake (Suzhou)), Wuxi Tai Lake Tourist Zone (called TaiLake (Wuxi)) (Figure 6-4 and Table 6-9).<sup>94</sup> Regarding the type of zones, four belongs to economic and technological development zone, and four to high and new technological industrial development zone, and two Taiwanese investment zones, and one bonded area. In terms of regional distribution within Jiangsu, one is in the northern part and the other in the central part and other nine are located in the southern part. In terms of locations, five zones are located in the administration of Suzhou, two in Wuxi, and four in Nantong, Liangyungang, Nanjiang, and Changzhou respectively. And in terms of administrative status, one is of vice-provincial-level city status, eight of prefecture-level city status, and two of county-level status (Table 6-9).

<sup>94</sup> The newest national zone in Jiangsu was Nanjiang ETDZ, granted national status in 2001.

Figure 6-4: Key development zones in Jiangsu province



Note: the zones shown do not include two national Tai Lake tourist zones, but cover other six zones that are not discussed in the thesis due to their provincial status or late granting year. The six are Taicang ETDZ (no 5), Changshu EDZ (no. 6), Nanjing HTP (no 10, granted at national level in 2000), Huai'an ETDZ (no 13), Xuzhou ETDZ (no 14), and Taizhou EDZ (no 15)

Source: Beule and Bulcke (2004)

Table 6-9: Selected indicators in national zones in Jiangsu in 2002

	Local Implementation of Centrally Initiated Projects							Locally Initiated Projects*			
	Nan-tong	Lian-yun-gang	Wuxi	Zhang-Jia-gang	Suzhou-Tai Lake	WuXi-Tai Lake	CSSIP	Kun-Shan	Nan-Jiang	Chang-Zhou	SND
Established-year	1984	1984	1992	1992	1992	1993	1994	1985	1988	1988	1990
List-year	1984	1984	1992	1992	1992	1993	1994	1992	1991	1991	1992
Type	ETDZ	ETDZ	HNTIDZ	BA	TVA	TVA	ETDZ	ETDZ	HNTIDZ	HNTIDZ	HNTIDZ
Realized FDI (accumulated)	1,042.8	477.9	686.4	1,237.5	159.2	53.3	5,439.3	3,507.1	303.1	879.9	3,034.3
Export	321.5	94.4	2,262.8	116.1	4.5	12.9	2,252.7	3,652.3	145.5	162.5	4,302.2
Numbers of foreign company	261	548	695	321	63	32	990	931	325	577	672
Numbers of employee working in foreign companies	10,669	8,898	45,830	n.a.	1,584	1,800	42,018	120,768	6,500	20,237	76,149
Administration Status	Pref.	pref.	pref.	County	pref.	pref.	Pref	County	Vice-Prov.	pref.	pref.
regional	central	nothern	south	south	south	south	south	south	south	south	south
Location	Nan-tong	Lian-yun-Gang	Wuxi	Suzhou	Suzhou	Wuxi	Suzhou	Suzhou	Nan-Jiang	Chang-Zhou	Suzhou

Note\*: This table excluded National Nanjiang Economic and Technological Development Zone, which was locally established since 1992 but granted as national until 2001.

Note\*\*: Listed-year means the year that a zone was granted as national-level.

Note\*\*\*: As to type, ETZ refers to economic and technology zone, HTIZ refers to high-tech industrial zone, BONDED refers to bonded warehouse, and TOUR means tourist and recreation zone. With regards to administrative status: vice-prov. means vice-province-level city (normally capital of the province); pref. means prefecture-level city, county means county-level city.

Note\*\*\*\*: Unit: total industrial output-million RMB; trade-million US dollars; company number-company; employee number-person.

Source: Jiangsu Statistics Yearbook 2003

Of these 11 national zones, seven belong to the type of 'local implementation of centrally initiated projects', while four zones were categorized as the type of 'locally initiated project' (Table 6-9 above). Of the seven, Nantong and Lianyungang were two of the first fourteen national development zones established by the centre in 1984. Nantong and Lianyungang were sea-port and river-harbor cities located in central Jiangsu and north Jiangsu separately. Due to the location advantages, it is convenient for Nantong and Lianyungang to attract export-oriented foreign direct investment (Zweig 1999). In the early 1990s, a ministry-level National Science Committee (called NSC) started to foster hi-tech development by establishing several new national-level high technology zones. Wuxi was chosen to establish a national zone in the plan worked out by NSC in 1991.

Similarly, the concept of bonded warehouse was managed by the General Custom of the State Council (called the Custom). In 1992, China started to promote its tourist industry by establishing national tourist areas. Tai Lake, which is sounding by Suzhou and Wuxi prefecture-level cities, is one of the top tourist scenes in China. Therefore, the Suzhou Tai Lake tourist area and Wuxi Tai Lake tourist area were established under the support of the central government. After Deng's 1992 tour, the Custom also began to look for new places to expand bonded warehouse plan. Zhangjiagang was chosen in the plan proposed by the Custom in 1993 (Zweig 1999). Finally, Suzhou Singapore Park was set up in 1994, after Singapore and China Beijing central government sign 'Agreement on the Joint Development of Suzhou Industrial Park on the Joint Development of Suzhou Industrial Park in Beijing' in April 1994 (Yeung 2000; Pereira 2004a). Although the superintending organizations of these zones are different, the commonness among them is that all of these zones made limited, if not said that

localities ought not begin any physical construction before being granted national status. In short, they were not decided by local governments independently but more or less followed the decision making of the central government in Beijing.

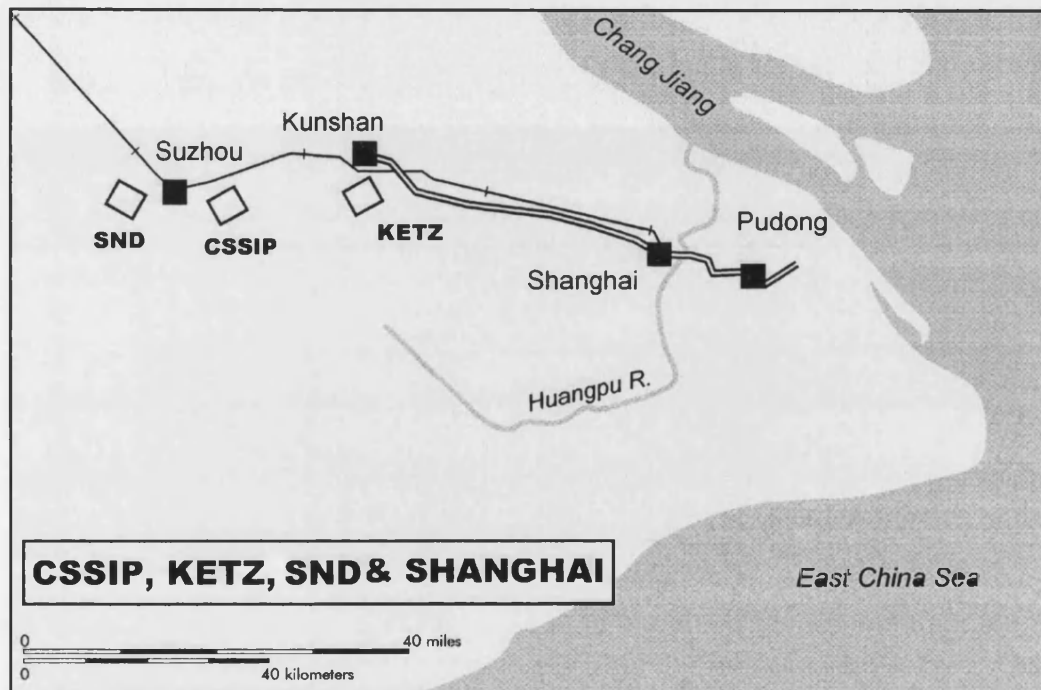
Regarding the second type, there is a gap between built-year and listed-year found in four national zones in Jiangsu (Table 6-9 above). KETZ was just a county-level government under Suzhou administration of Jiangsu province. In 1985, the officials in Kunshan decided to establish its own development zone in secret without any permission from either the central government of Beijing, provincial government in Jiangsu or Suzhou prefecture government. Fortunately, Kunshan zone was given a national title in 1992, becoming the first national-level zone to be administrated by a county-level government (Marton 2000; Wei 2002b). Nanjing Zone was started in 1988 by the Nanjing government, the provincial capital of Jiangsu with a vice-provincial city status. Nanjing zone was granted as a national HNTIDZ in 1991. Similarly, Changzhou was established in 1988 and granted in 1992. Suzhou New District was established by Suzhou government in response to a policy of ‘preserving old city of Suzhou by establishing new area (*bao hu kuo chen kai fa xing qu*)’ in 1990, and then granted as a national HNTIDZ in 1992 (Walcott 2002).

### ***Brief on KETZ and CSSIP***

As expected, more successful and representative experiences in policy innovation can be found in leading regions. Obviously, in terms of selected economic indicators for open economy like realized FDI, export, number of foreign companies, top three ‘leading national zones’ in Jiangsu province include: Kunshan, SND, and CSSIP (Figure 6-5). All three are in the administration of Suzhou. While the former two belong to the category of ‘locally initiated projects’; the latter falls under the category

of 'local implementation of centrally initiated projects'. The outstanding and representative performances between CSSIP and KETZ also can be shown by the comment by WANG Rong in 2005, the party secretary of Suzhou. Wang argued that the road of Kunshan (Kunshan *zhi lu*), and pro-business concept of CSSIP (*gong ye yuan qu de qin shang li nian*) are two key talismans of local economic development in Suzhou.<sup>95</sup>

Figure 6-5: The locations of KETZ, CSSIP and SND



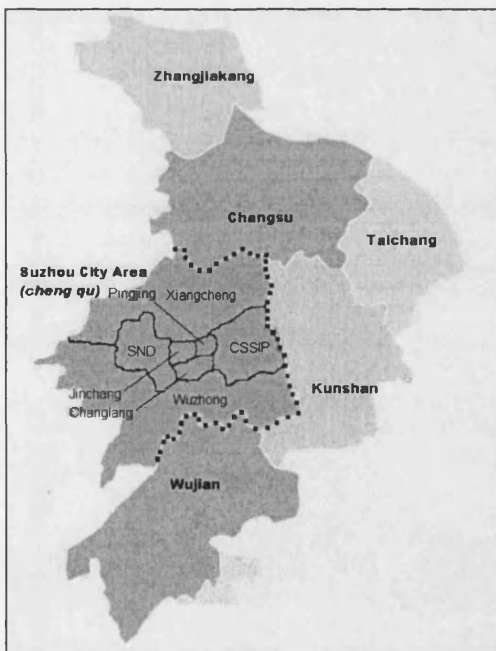
Source: modified from Walcott (2002)

KETZ, established by Kunshan local government, is the first development zone in Suzhou. Kunshan was one of the five county-level cities under Suzhou administration. These other four counties include: Changsu, Zhangjiakang, Tiachang, and Wujian (Figure 6-6). The economic performances in Kunshan in general and KETZ in

<sup>95</sup> Another Suzhou talisman is the spirit of Zhangjiakang (Zhangjiagan *jin shen*). News source: *zhong xin wang* (based in Suzhou), 2005/10/02.

particular were highly contributed by FDI. Until 2001, foreign- related enterprises contributed 60% of fiscal revenue of Kunshan city as a whole, 75% of sales of total products in Kunshan, 85% of industrial investment in Kunshan, as well as 98% of export generated in Kunshan (Zhang 2002)<sup>96</sup>. Among these FDI, Taiwanese FDI played an important role. By 2002, Taiwanese investment took a share of 70% of FDI in Kunshan in total, and 14% of Taiwanese investment in China (Lee 2003). Moreover, at least three different stages of KETZ development can be identified: a stage of secretly establishing zone in the mid of 1980s, a stage of seeking for the endorsement from the central government in the early 1990s, and finally a stage of persuading the centre to adopt an idea of ‘export processing zone’ as a new production space since the late 1990s.

Figure 6-6: Map of Suzhou Administration



Source: modified from [http://www.nanking.cn/nankingmap/sz/ovmap\\_sm.gif](http://www.nanking.cn/nankingmap/sz/ovmap_sm.gif)

<sup>96</sup> The citation was authorized by ZHANG Lei, who was then CCP party secretary and mayor of Kunshan from 2000 to 2003. The article was published in the *Qie Shi* Magazine, which is one of the key party propagandas of the centre.

In contrary, CSSIP was established in 1994 directly under the administration of Suzhou government. CSSIP was one of the seven districts in Suzhou city area (*cheng qu*). The other six city districts include: Changlang district, Pingjiang District, Jinchang District, Wuzhong District, Xiangcheng District, and SND (Figure 6-5 above). It is only one decade that by the end of 2004 CSSIP had attracted over 1,800 foreign-invested enterprises, including 52 of the Fortune Top 500 Multiple National Companies, with an accumulative contractual foreign investment of US\$ 20 billion and more than 7,000 domestic companies with total contractual investment of RMB 50 billion.<sup>97</sup> In contrast to Kunshan where FDI was quite dominated by Taiwanese investment, the composition of the sources of foreign investment in CSSIP is much diversified from USA, Europe, and Singapore and so on.<sup>98</sup> Moreover, also different from the KETZ that was initiated by the Kunshan county government itself, CSSIP started with a high profile and heavy involvement between the central governments of China and Singapore. The operation of CSSIP was dominated by Singapore for the beginning seven years under the concept of 'government- to- government cooperation project'. During that period, the local government in Suzhou was quite marginalized in terms of infrastructure construction and business promotion in CSSIP. While Suzhou seemed to obey the policies of the central government not to intervene in the Singapore-led project, it flexibly supported another national development zone, which is SND. From this regard, such flexibility can be regarded as a case of local discretions to the central policy of 'CSSIP as the priority of the all priorities'.

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<sup>97</sup> CSSIP Investment Guide (2005), page 50.

<sup>98</sup> CSSIP Investment Guide (2004), page 47.



Taken together, KETZ and CSSIP can be seen as two of the suitable cases for us to understand the complicated and diversified operations of local policy innovations in connection with the issues of 'local-central interactions', 'asymmetric decentralization' and 'macro and micro responses to global restructuring'. The focuses of the analysis include: what were the economic performances of these cases? Under what kind of circumstances did these two zones develop and evolve? How many different types of local-central interactions can be found in the cases and how to explain why and under what situations did these interactions take place? Apart from the central and local governments, how did the Taiwanese investors and the Singapore government, which are identified as key agents in the KETZ and CSSIP respectively, interact with other policy actors? What kind of roles and functions did these actors play in the process of local economic development, and why and how? Did these actors form certain types of pro-growth coalitions? If yes, how did these coalitions operate? What kind of economic powers were decentralized to local governments in these two cases and in what formats? What are the records of the career paths of Kunshan and Suzhou leaders? Is there any relationship between the economic performances of the zones and the careerism of the local leaders?

### **6-3 Data Collection in the Field**

With the concept of qualitative-based case study approach, data collections for the thesis involve three different methods: first, semi-structured interviews; second, written sources; and third, statistics. First, many scholars have identified that a useful way of conducting research focusing on local-central interactions depended heavily upon intensive interviews (Lieberthal and Lampton 1992; Chung 1995). Semi-structured interviews were conducted in a series of field trips in order to collect the first hand

information about selected issues in relation to policy innovation.<sup>99</sup> The interviewees in my field works can be divided into three kinds of occupations. At the beginning, I did some interviews with local officials, the interviews topics cover: history of development, formation and transformation of development strategies at different stages, economic decentralization empowered by the centre, performance-based personnel management under the system of political centralization, infrastructure financing, policy innovation and transfer, territorial competition, the interactions with different policy actors (central officials, foreign investors or officials), general development in Suzhou and Yangtze Delta, and so on.

On top of that, I arranged interviews with businesspersons who were directly involved with investment in KETZ and CSSIP. The questions covered in the corporative interviews were more specifically on whether or not the regulatory environments for market-like business operation have been changed. If the answers were affirmative, how, and what, why and when? And how did they interact with local officials? What did they think the performances of local leaders? That is very important part for me to double check the information that I gathered in the interviews with local officials. Apart from interviews with officials and businesspersons, I also conducted other 8 interviews with scholars and consultants whose researches or businesses are widely related to planning and local economic development in Yangtze Delta. Partly because of their indirect involvement to investment environments and partly because of relatively limited conflicts of interests (compared to local businesspersons and officials), the information gather from these professionals were very insightful too.

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<sup>99</sup> I went to China for interviews four times: June of 2001, December of 2002 to January of 2003; September to October 2003; and July of 2005. Each time I stayed in Kunshan, Suzhou or Shanghai for two weeks to one month. And I also went to Singapore in December 2004. Moreover, I cooperated with a team led by Professor JOU Suching at National Taiwan University and shared interview information together. These interviews are recorded either by handwriting or by a recorder.

64 interviews in total were completed. Regarding interviewee locations, in order to gather more information on the bigger backdrop of development and changes as well as to understand the similarities and differences between KETZ, CSSIP, Suzhou and other regions in Yangtze Delta, the interviews with both officials and businesspersons were conducted not only in KETZ and CSSIP but also in different counties, or cities and regions in Yangtze Delta (Table 6-10).

Table 6-10: Composition of 64 interviewees

	KETZ and Kunshan	CSSIP and Singapore	Suzhou and Other regions in Yangtze Delta
officials	10	8	16
businesspersons	8	6	8
Scholars and consultants	--	1	7
total	18	15	31

Source: author compiled

On top of that, several second-hand written materials were collected as supporting evidence to check the information from the fieldtrips. Such written materials can be categorized into two main groups: official reference and news sources (Chung 1998). As to the former, many kinds of biography, including dictionaries on 'Who is who' or 'Who was who' and the website China Vitae (*zhong guo ming ren lu*, <http://www.chinavitae.com>), are helpful to understand the background of local leaders in relation to their career paths. A series of chronologies, monographs and document compilations and gazetteers (*di fang zhi*) are also constructive because they are edited with a more specific issue-oriented focus (Chung 1998). Moreover, official research reports published by different departments in Kunshan and Suzhou local governments were also able to be collected either from local libraries or from official websites.

Regarding the latter, there are local or national level journals and periodicals which are published by government offices or academic associations. Some daily political opinions could be found in the media, especially local media for local opinions and the national versions for central government's ideas. Of course, foreign correspondents' dispatches are also useful for us to understand how international journalists understand and evaluate the performances of these two economically globalized zones (Chung 1998). Some of materials can be collected in the University Service Centre of the Chinese University of Hong Kong; and others could be gathered in the libraries and official published offices of Kunshan, Suzhou and Shanghai. In addition, thanks to digital technology, certain written sources also have been digitalized and can be accessed and surveyed with or without paid memberships though the internet.<sup>100</sup>

Third, statistical publications, including statistics yearbooks and a wide range of one-shot or non-periodic data compilations for particular sectors and issues, are useful as supporting evidence to 'triangulate' the different qualitative and quantitative arguments. These datasets of statistics were published by different related departments and bureaus in Kunshan, Suzhou, and Shanghai. Of all items in statistics, the most essential ones, of course, are related to economically globalized indicators such as FDI and trade and structure of FDI and trade by sources and by sectors. In addition, general economic performances such as GDP, real GDP per capita, annual growth rate of total GDP and GDP per capita, FDI, household income and others are also widely used to compare the economic development of CSSIP and KETZ.

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<sup>100</sup> The useful news database with paid membership include *zhong kuo shi bao* (based in Taipei), the Economist (based in London), *lian he zao bao* (based in Singapore), Far Eastern Economic Review (based in Hong Kong), South China Morning Post (based in Hong Kong). Thanks to the LSE library, China Academic Journals (<http://china.eastview.com/>), which is the most important and powerful database of academic and nonacademic journals in the People's Republic of China, can be accessed for free in the LSE campus.

#### **6-4 Conclusion**

To sum up, as compared to the 'traditional regional geography' approach and the law-seeking 'scientific' method, the contextual approach with a focus of qualitative-oriented case study is appropriately chosen as the main methodology for this study. The considerations for selecting the particular cases involved three concerns: coverage of the core characteristics of innovation; maximum variance among cases; and accessibility of information to relevant theoretical focuses of the thesis. From this regard, KETZ and CSSIP are suitably selected as two empirical cases- not only because they are both located in Suzhou, a prosperous city in the learning region of the Yangtze Delta, but also because the development of their history covers very diverse policy agents at various spatial scales and different types of strategic local- central interactions in relation to policy innovations. I will empirically examine the two cases in the following chapters respectively, starting with the KETZ case.

## CHAPTER SEVEN

### Policy Innovations in Locally Initiated Projects

#### Case study of Kunshan Economic and Technological Development Zone

*'Every locality is encouraged to learn from Kunshan to self-develop its own zone. After the zone has grown to some extent, the state will evaluate and then grant "the hat [of national title]" to become a national development zone'*<sup>101</sup>

#### 7-1 Characteristics of Kunshan and KETZ Development

##### *A change from the little sixth to the number one*

Kunshan Economic and Technological Development Zone (KETZ) is located in the Kunshan county-level city under Suzhou prefecture-level administration of Jiangsu province (Figure 6-5 above). Locally initiated by the Kunshan local government in 1985, KETZ was granted the national title in 1992 and now is one of the most prosperous and competitive national development zones not only in the Jiangsu province (Table 6-9 above) but also in China as whole (KETZ Administration Office and Party History Research Office of Kunshan CCP 2000; Beijing Institute of International City Development 2003).<sup>102</sup> And thanks to great contributions by KETZ, economic performance in Kunshan is very outstanding (Table 7-1). By 2001 GDP per capita in Kunshan was RMB 37,837, which was the highest for a county-level city in Jiangsu, and even higher than that in Shanghai or Beijing (of 30,674 RMB and 20,329 RMB respectively).<sup>103</sup>

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<sup>101</sup> The comment made by Li Peng, PM of China, July 1992. Chronology of KETZ, cited from (KETZ Administration Office and Party History Research Office of Kunshan CCP eds. 2000), page 443; also news source: *ren min wang* (based in Beijing), 2004/09/02.

<sup>102</sup> According to a survey on 'Top Ten Development Zone in China' published in 2002 by Horizonkey (*ling dian*), one Beijing-based consultancy, Kunshan was the best among other nine zones including Beijing, Tianjin, Pudong, Shenzhen, Dalian, Huangpo, Chendu, Wuhan, Chongqin.

<sup>103</sup> Jiangsu Statistics Yearbook 2002.

Table 7-1: Economic performance of KETZ and Kunshan

<b>Kunshan as a whole</b>	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Total Ind. Out*	4,584	5,070	5,894	7,818	14,925	20,665	25,180	27,706	22,372	26,513	30,583	33,245	41,480	50,091	74,593	104,353
GDP*	1,633	1,811	2,011	2,442	4,366	6,040	8,383	10,016	11,438	13,092	15,053	17,173	20,080	23,080	31,434	43,037
Realized FDI**	3	7	3	15	126	352	568	505	455	559	600	600	704	752	1,018	1,200
Export**	n.a.	n.a.	n.a.	n.a.	n.a.	193	341	554	777	1,089	1,263	1,545	2,034	2,494	4,323	7,215
Fiscal revenue*	120	123	132	123	168	303	442	511	602	737	861	1,272	2,013	2,736	4,152	6,625

<b>KETZ</b>	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Total Ind. Out*	460	505	555	1,167	2,100	3,014	4,504	6,522	10,013	13,001	15,548	18,567	25,340	34,750	53,520	85,211
GDP*	110	122	143	308	552	772	1,420	1,862	3,038	4,147	5,603	6,502	8,458	11,327	18,038	27,228
Realized FDI**	0	2	1	7	44	129	251	328	379	351	374	334	385	375	564	475
Export**	20	12	24	65	100	150	200	303	427	701	869	1,196	1,582	1,986	3,652	6,310
Fiscal revenue*	5	7	8	7	60	61	121	118	227	293	377	594	890	1,772	2,253	3,462

<b>KETZ of Kunshan</b>	<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Total Ind. Out*	10.0%	10.0%	9.4%	14.9%	14.1%	14.6%	17.9%	23.5%	44.8%	49.0%	50.8%	55.8%	61.1%	69.4%	71.7%	88.9%
GDP*	6.7%	6.7%	7.1%	12.6%	12.6%	12.8%	16.9%	18.6%	26.6%	31.7%	37.2%	37.9%	42.1%	49.1%	57.4%	63.3%
Realized FDI**	4.3%	26.6%	31.3%	47.6%	34.6%	36.7%	44.2%	65.0%	83.3%	62.8%	62.3%	55.7%	54.7%	49.9%	55.4%	39.6%
Export**	n.a.	n.a.	n.a.	n.a.	n.a.	77.8%	58.7%	54.8%	55.0%	64.4%	68.8%	77.4%	77.8%	79.6%	84.5%	87.5%
Fiscal revenue*	4.0%	5.5%	5.8%	5.4%	35.6%	20.2%	27.4%	23.2%	37.7%	39.7%	43.8%	46.7%	44.2%	64.8%	54.3%	52.3%

Note: Unit for \* as million RMB, unit for \*\* as US\$ million

Source: Kunshan Almanac in different years; Annual Report on the Development of KETZ (2003)

However, back at the end of the Cultural Revolution, Kunshan was just a rural economy. The primary sector represented over 60% of gross value production in 1977. Its industrial output was only RMB 331 million in 1983. Both records fell behind other counties of Suzhou (Table 7-2). As such, Kunshan was nicknamed ‘the little sixth (*xiao liu zi*)’ because its industrial output was ranked last among the six county-level jurisdictions of Suzhou (Yang 1991; Almanac Office of KETZ 2000; Wei 2002b).<sup>104</sup> Kunshan started as poor and over 20-25 years has become one of the top county-level jurisdictions in China. According to the list of ‘China’s Top 100 Economically-strong County-level Administrations (*jing ji bai qiang xian*)’, Kunshan was ranked 24<sup>th</sup> in 1991, upgraded to the 9<sup>th</sup> in 1995 (Wei 2002b), the 5<sup>th</sup> in 2001, the 2<sup>nd</sup> in 2003, and finally to be the best in 2005.<sup>105</sup>

Table 7-2: County-level cities in Suzhou in selected items and years

	agriculture as % of GVIAO in 1977*	industrial output (million RMB) in 1983**	agriculture as % of GDP in 2003	FDI (million US) In 2003**	Export (million US) In 2003**
<b>Kunshan</b>	<b>61.6 %</b>	<b>331(6)</b>	<b>2.3 %</b>	<b>1,201 (1)</b>	<b>721.5 (1)</b>
Changsu	44.8 %	1,030(1)	2.9 %	951 (2)	180.8 (4)
Zhangjiakang	55.7 %	883 (2)	2.3 %	602 (3)	198.0 (3)
Taichang	56.5 %	508 (5)	6.0 %	602 (4)	116.9 (5)
Wujiang	54.8 %	604 (4)	4.8 %	504 (5)	328.3 (2)
***Wuxian	52.4%	724 (3)	--	--	--

Note\*: GVIAO means gross value of industrial and agricultural output. Using GVIAO instead of GDP is because of constraints of statistics database in the 1970s

Note\*\*: The number in parenthesis means the ranking in Suzhou; in 1983

Note\*\*\*: There are six county-level administrations under Suzhou; and Wuxian was demolished due to the re-division of administration in 2000.

Source: Wei (2002b), Jiangsu Statistics Yearbook (2004)

<sup>104</sup> The nickname of ‘the little sixth’ was quoted quite often during my fieldtrip in Kunshan, for example, KO-01, KO-02, KO-06 and KO-07.

<sup>105</sup> The list was ranked by the National Statistics Bureau of State Council. The data for 2001 and 2003 was from Kunshan Statistics Yearbook (2004), page 303; and for 2005, *xin hua wang* (based in Beijing), 2005/09/19.



### *Dramatic industrialization and economic globalization*

This sea-change came about through two structural transformations: dramatic industrialization and economic globalization. As to the former, the agriculture sector in terms of GDP dropped dramatically from 50% in 1978 to 5.6% in 2000; while manufacturing grew rapidly from 28.9% in 1978 up to 60 % in 2000 (Table 7-3). Regarding the latter, by 2003, Kunshan attracted US\$ 1,200 million of FDI (Table 7-2 above) and produced US\$ 13.9 billion of trade (Table 7-4). The ratio of trade to GDP in Kunshan was 260%, and that of FDI to GDP was 23.1% (Table 7-4). The records mark Kunshan as one of the most industrialized and economically globalized county-level cities in China.<sup>106</sup>

Table 7-3: Structure of GDP in Kunshan in selected year

	I		II		III	
	Output*	%	Output*	%	Output*	%
1978	1.2	50.0	0.7	29.2	0.5	20.8
1990	4.5	22.4	11.4	56.7	4.2	20.9
2000	11.2	5.6	119.3	59.4	70.3	35.0

Note\*: unit as million RMB

Source: Hwahui Planning Co. and EDS Planning Co. (2002)

Table 7-4: FDI and trade by county-level cities in Jiangsu in 2003

	GDP (million RMB)	Trade (US\$ million)	Trade / GDP	FDI / GDP
<b>Kunshan</b>	<b>43,037</b>	<b>13,924</b>	<b>267.9%</b>	<b>23.1%</b>
Changsu	47,500	2,708	47.2%	18.3%
Zhangjiakang	47,506	5,124	89.3%	11.6%
Wujiang	28,105	7,347	217.2%	9.7%
Taizhang	21,001	2,264	89.3%	11.6%

Source: Jiangsu Statistics Yearbook (2004)

<sup>106</sup> In 2000, foreign capital as of GDP in all China as a whole was just 5.5%, trade as of GDP was only 43% (Table 2-3). Kunshan's records were around four times that of national average.

### *Electronic and IT industry by Taiwanese investment*

The characteristics of Kunshan's development may be further analyzed by industrial sectors and by investment sources. As shown, FDI has been a key driving force to promote local economic development in Kunshan, and within this, Taiwan has been one of the most important sources since the 1990s. Although there have been some political disagreements between the central governments of China and Taiwan, still, 60% of Taiwanese overseas investment went to China by 2000. More than 1,000 Taiwanese companies have invested in Kunshan over the past 15 years. In 1997, there were just 12 investment projects over US\$ 50 million in Kunshan, of which 8 were from Taiwan.<sup>107</sup> By 2002, Taiwanese investment in Kunshan was US\$ 4.5 billion, which was about 70% of FDI in Kunshan in total, and 14% of Taiwanese investment in China as a whole (Lee 2003).

In terms of industrial structure, by 1988 there were only three key industrial sectors in KETZ: cotton industry (mainly in glove production), mechanical industry (focusing on agricultural machines), and other light industry.<sup>108</sup> However, by 2002, the top four industries in KETZ included: electronic and information technology (IT) industry (47%), light engineering (25%), mechanical engineering industry (12%), and chemical industry (7%).<sup>109</sup> In Kunshan as a whole by 2004, electronics/ IT industry and precision engineering, together generated over 50% of industrial output. And about 9 million laptop computers as well as 3.8 million digital cameras were produced in Kunshan in 2002.<sup>110</sup> Taiwanese investment nowadays still focuses on electronic and IT industry and mechanical engineering industry. By 2002 the Taiwanese investment in

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<sup>107</sup> Kunshan Almanac (1994-1997), page 209.

<sup>108</sup> Kunshan Almanac (1988-1993), page 17.

<sup>109</sup> Annual Report on the Development of KETZ (2003), page 5.

<sup>110</sup> 2004 Kunshan Statistical Report on National Economy and Social Development.

these two industries together represented about 60% of total Taiwanese investment in Kunshan (Table 7-5). In other words, the process of dramatic industrialization and economic globalization had placed Kunshan and KETZ among the biggest high-tech manufacturing sites in China (Shen and Hu 2003; Tang 2003).

Table 7-5: Taiwanese FDI structure in Kunshan up to 2002 by sector

	Company numbers%	Investment amount %
<b>electronic and information technology industry</b>	<b>21.1%</b>	<b>40.8%</b>
<b>mechanical industry</b>	<b>28.8%</b>	<b>19.3%</b>
light engineering industry	22.1%	18.2%
textile industry	6.9%	6.5%
construction material industry	3.3%	3.3%
chemical industry	5.5%	3.2%
agriculture industry	2.3%	1.5%
investment consultants industry	4.1%	0.5%
Others	5.8%	6.6%

Source: Tang (2003)

### ***Kunshan as ‘little Taiwan’***

Taiwanese firms in Kunshan had invested not only in manufacturing industry but also in service sectors. There were lively streets and a profusion of Taiwanese businesses in Kunshan. Dozens of restaurants served Taiwanese-style cuisine, and Taiwanese-style karaoke bars enlivened Kunshan’s nightlife. People also could tune into any of the roughly 40 Taiwanese TV stations that reach Kunshan.<sup>111</sup> Moreover, there were also several civil facilities related to Taiwanese investors. Due to the difference of ideological education between Taiwan and China, there was a need to establish a complex-Chinese-based primary and high schools with Taiwanese textbooks as teaching materials in China for children of Taiwan businesspersons, managers and

<sup>111</sup> News source: the Charlotte Observer (based in Carolina), 2003/11/19.

engineers. In cooperation with Taipei city government, the school, which is the first one in the Yangtze Delta, was established in Kunshan in 2001.<sup>112</sup> The first Taiwanese bank service in China was also set up in Kunshan in 2003. The Chunghua Commercial Bank, one of biggest commercial banks in Taiwan, opened a branch in Kunshan to serve Taiwanese investors with banking and accounting services in both China and Taiwan.<sup>113</sup> All of these activities had successfully generated more of a Taiwanese home atmosphere in Kunshan than in other cities and regions across China. Therefore, it is understandable that Kunshan could be called 'Little Taiwan', increasing its ability to attract more Taiwanese FDI.<sup>114</sup>

### *Structure of the chapter*

To sum up, it is clear that Kunshan has successfully transformed from a planned and agricultural economy to a globalized and industrialized platform within 25 years. In terms of industrial sector and sources, this transformation was largely achieved in the high-tech IT industry sector and by Taiwanese foreign investors. Institutionally, KETZ played a very important role in enhancing industrial development and attracting Taiwanese investment. Researchers have argued that Kunshan's economic development, like that in most other prospering regions in post-Mao China, can be understood as outcomes of complicated process of triangulation between globalization, marketization, and decentralization, benefiting from: favourable macro-contexts for development provided by the centre; the locational advantage of being near Shanghai; the active role of the local leadership; the expansion of global capitalism seeking cheaper labour and markets; and industrialization triggered by active local publicly-owned enterprises

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<sup>112</sup> News source: *er shi yi shi ji jing ji bao dao* (based in Guangdong), 2004/06/09; also interview code: KO-02, KO-06, KC-04.

<sup>113</sup> Kunshan Almanac (2003), page 90; also interview code: KC-04, KC-06.

<sup>114</sup> News source: Far East Economic Review (based in Hong Kong), 2001/07/05; 2001/12/06; the Charlotte Observer (based in Carolina), 2003/11/19; *er shi yi shi ji jing ji bao dao* (based in Guangdong), 2004/06/09; *gong shang shi bao* (based in Taipei), 2001/11/30; 2003/10/19. also interview code: KC-04.

(Marton 1999; 2000; Wei and Fan 2000; Saich 2001; Wei 2002b). Other dimensions to be highlighted include: lower development costs in Kunshan than in other development zones (Monash International Pty Ltd 2003); technological innovation capacity in relation to industrial clusters of IT industry (Lai, Chiu et al. 2005); and economic security of Taiwan in relation to Taiwanese investment in China (Tung 2002; Chen 2004).

Relating these researches to my focus on the issue of policy innovations, this chapter aims to investigate the policy process in relation to the formation and transformation of different development policies, both in the 'locally initiated' KETZ in particular, and in Kunshan development more generally. The main questions include: what were the key stages in the history of Kunshan's development; how many different types of local-central interactions can be identified; under what kind of circumstances did these types of interactions take place; how did mechanisms of economic decentralization and political centralization operate in the KETZ development process; apart from economic contribution, what other kinds of roles else did Taiwanese investors play in the Kunshan institutional innovation process; and how was their effectiveness altered by the institutional innovations?

The rest of the chapter is organized into four sections. First, three detailed cases of the policy innovations process, those of 'establishing a secret zone'; 'implementing a land lease program', and 'promoting an export processing zone', are documented in order to understand why and under what circumstances these policy innovations took place. Second, local-central interactions during the period of Kunshan development are reviewed, focusing on the three types of interactions identified within the category of 'locally initiated project', namely, 'state-intention to connive', 'state *ex-post*

endorsement' and 'state *ex-ante* adoption'. Third, wider factors relevant to the policy innovation are discussed, including those of economic decentralization, career paths of local leaders, and Taiwanese involvement in policy making. Finally, the consequences of policy innovations for the effectiveness of development in Kunshan are discussed in the fourth section.

## **7-2 Policy Innovations in KETZ and Kunshan**

There are many instances of policy innovation during the development history of KETZ and Kunshan. The cases selected here are intended to characterize three key stages of economic transformation: the case of establishing secret zone, representing the stage from agriculture to industry (*you nong zhuan gong*); the case of implementing land lease policy, for the stage from domestic capital-based and inward development to FDI-oriented and outward growth (*you nei zhuan xai*); and the case of promoting export processing zone, for the stage from relatively low-tech to high-tech industry (*you di zhuan gao*).<sup>115</sup> Each case is elaborated in this section.

### ***Establishing a development zone***

Until 1983, Kunshan was still a closed and rural county. The most important thing then was to promote rural industrialization for local economic development. In January 1984, WU Kechun, then chief of Kunshan county, summoned all cadres at the village level and above to organize a conference on economic development. The meeting reached an agreement on three transformations for development: from a purely agriculture economy to rural industrialization; from planned economy to planned market commodity economy, and from inward-oriented economy to outward- looking economy.

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<sup>115</sup> Interview code: KO-02; KO-06.

After visiting Guangdong and Fujian, the two pioneer provinces for the opening up policy in the early 1980s, Wu proposed to build a new industrial area in July 1984. In February 1985, the project for a 'New Industrial Area (*gong ye xin qu*, the original name of KETZ)', with a planned first phase of 3.75 km<sup>2</sup>, was approved by the Kunshan local People's Congress without reporting to upper-level government (Almanac Office of KETZ 2000).

Developing KETZ in secret in the mid 1980s was a very risky strategy. The greatest uncertainty concerned 'politics in Beijing'. The market-oriented and conservative-minded reformers in Beijing were struggling over the transition policies in general (Lichtenstein 1991), and opening-up policies in particular (Crane 1990; Howell 1993). The scope and scales of development zones were one of the heated issues involving power conflicts. Any progressive reforms, even granted by the centre, ran a risk of being punished because of political uncertainty. Kunshan and KETZ could be in an even worse position due to the secret status without any *ex-ante* endorsement by upper officials.

Kunshan strategically developed KETZ by exploiting a combination of two national policies together. One was the so-called 'economic linkages at horizontal level (*hen xiang jing ji liang he*)'(Ma 1997), while the other was 'commercializing military enterprises in the "Third Front" (*san sian qi ye jun zhuan min*)' (Fei 2000). These two were national policies in the early 1980s to deal with economic difficulties in the wake of the Cultural Revolution. During Mao's period, for the considerations of communist ideology and military preparedness, on the one hand, the centre sanctioned localities to build up self-developed and self-reliant industries. At the same time, plenty of capital investment, mostly related to military preparation, was located in the safer 'Third Front'

in inner China (Ma and Wei 1997). However, after 1978, the centre called for a fundamental reorganization of industrial development at national scale. To begin with, the centre encouraged localities to exchange, co-invest or promote trades among one another, in order to expand supplies and demands for the economy. On top of that, the centre suggested that 'Third Front' enterprises should commercialize their products and technologies. For example, missile plants were instructed to apply part of their technology to making wash-basins and motor-bikes, either in the same factories or outside the 'Third Front', through 'horizontal linkage' (Kirkby and Cannon 1989).

These two policies were utilized by Kunshan to develop KETZ. Under a strategy of 'relying on Shanghai in the east and depending on "Third Front" in the west (*dong yi Shanghai, xi tuo san xian*)', KETZ took advantage of its location (as one of nearest towns surrounding Shanghai) to welcome the domestic enterprises which were seeking for opportunities to expand or shift their production capacities. The first domestic investment in KETZ was a Kunshan plant of the Shanghai Jinxin Television factory in April 1985. By October 1985, there were more than 60 Kunshan enterprises co-invested or merged with another 70 factories from the rest China. Of these 70, 38 were from Shanghai.<sup>116</sup> In addition, the Kunshan branch of Fonghua Refrigerator, one of manufacturing belonging to the former Ministry of Aerospace Industry, was relocated from Guiyang of Guizhou province to Kunshan. Other cases included Hongyan motor factory from Sichuan province, Jianghua electronic factory from Jiangxi province, Huangshi textile machine factory from Hubei province, and Hongshan ball bearing factory from Guizhou province (Yang 1991; Almanac Office of KETZ 2000).

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<sup>116</sup> News source: *ren min wang* (based in Beijing), 2004/09/02.



At this stage, Kunshan leaders also mobilized their informal political capital in personal networking to attract inward investment projects. An example is when in 1985, one of the reasons why Sichuan Hongyan motor factory established a joint investment project in Kunshan was because of CHEN Shishun, then party secretary of the factory, who was originally from Kunshan. When he made a business trip to Shanghai, Chen planned to visit JIN Bian, who taught him in the primary school. Jin told the news of Chen's visit to WU Kechun, then chief of Kunshan. Wu took this opportunity to invite Jin to invest in Kunshan. The first and second Kunshan textile factories were introduced by GONG Zhaoyuan, who was then economic consultant in the Shanghai city government and was originally from Kunshan. Gong introduced the business opportunity to Wu. Similarly, Shanghai Jingxing Television Factory was introduced to Kunshan by the connection of GU Ming, then vice secretary of the State Council who was also from Kunshan (Yang 1991).

Overall, compared to other national zones, Kunshan was relatively successful in developing the secret KETZ. By 1989, total industrial output in KETZ reached RMB 500 million, significantly higher than the average for national-level economic and technological zones (Table 7-6).<sup>117</sup> In absolute terms, KETZ could be ranked third, following Guangzhou (RMB 826.4 million) and Shanghai Caohejing (RMB 1,842.9 million). In terms of FDI, however, by 1989 KETZ had received less than US\$ 2 million in contrast to US\$ 25 million as the average per national zone (Table 7-6). It means that the great achievement in total industrial output at this stage was mainly contributed by domestic investments rather than FDI (Wang and Jiang 1999).

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<sup>117</sup> 14 national zones together produced just RMB 5,699 million in total, equal to about 400 million per zone.

Table 7-6: Performance comparison between KETZ and national zones in 1989

	Total industrial output*	FDI**
KETZ	505	1.73
Average single zone	407	24.92

Note: \* refers to million RMB; and \*\* refers to US\$ million

Source: China Special Economic Zones and Coastal Economic Technological Development Zone Almanac (1980-1989), Annual Report on the Development of KETZ (2003)

### *Implementing land-lease policy*

A policy of charging land-use fees to investors was launched in 1988 in Kunshan, the first county-level jurisdiction in China to do so. Land had been state-owned property since 1949, but the central government in Beijing amended the Constitution in 1988 by adding provision for land-use rights to be legally transferred, with the Land Administration Act being changed consequently to provide a legal basis for a land lease market. Declaring that land should be recognized as a special commodity, the new act provided for the use right of the land to be separated from ownership, and be leased (Yeh and Wu 1999; Sun 2000; Yeh 2005). But the centre took the cautious step of allowing only a few cities to practice such a policy, on a trial base.

Kunshan proposed to Jiangsu provincial government to practice the land lease policy before the centre implemented it national-wide in order to respond to two development difficulties it was experiencing: a limited FDI attraction and a shortage of infrastructure financing. As we have seen, KETZ was poor in attracting FDI compared to other national development zones. In 1989, KETZ only attracted 1.73 million US dollars of FDI, which was 6% of the average for national-level zones (Table 7-6 above). Therefore, Kunshan tried to create some unique institutional incentives. One of them was the land property right. This was proposed to Kunshan officials by the first foreign

investor in Kunshan, Miyoshu Haruo from Japan, when he was considering expansion in Kunshan, because he felt uncomfortable that his factories were situated on lands which were not legally leased to or owned by him. His proposal stimulated Kunshan to consider adopting the idea of land-lease policy which had just been promulgated by the centre.<sup>118</sup> Another fact was that, since KETZ was developed in secret, without any substantial financial help from upper governments, a source of cash was required to solve the problem of infrastructure financing. After successfully getting approval from Jiangsu, the first purchase of leasing a land lease in Kunshan for 50 years took place in April 1989.

However, there was an uncertainty over the implementation of this land-use policy, since it was arguably inconsistent with the communist principle that land ownership should be kept in the state's hand and out of those of private (particularly foreign) investors. Some conservatives argued that the land-use fee policy involved a 'forfeiture of sovereignty and an insult to the state (*sang quan ru guo*)' (Zhu 2005).<sup>119</sup> Kunshan officials made painstaking efforts, however, to persuade local people to accept the idea of land-lease policy and practiced it carefully (Ji, Jiang et al. 2000).<sup>120</sup> First, while transferring arable lands to industrial areas and then leasing to investors, Kunshan made an effort at converting of a certain amount of dilapidated lands into usable areas. Second, land lease policy was mainly applied to industrial rather than commercial developers. By 1994, 60% of leased land in Kunshan in general and 80% of those in

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<sup>118</sup> Interview Code: KO-01, KO-02, KC-01; also news source: *xin hua wang* (Shangdong channel), 2003/05/20.

<sup>119</sup> For example, Hainan provincial government proposed to deal a 70 year lease of 30 km<sup>2</sup> in Yangpu with a Hong Kong-based land development company in 1989, two years after the Land Administration Act was amended. The project was highly opposed by some conservatives who accused Hainan leaders of 'forfeiture of sovereignty and an insult to the state'. Despite advocatory efforts following up, the whole project was only approved in 1992 (Zhu 2005).

<sup>120</sup> The first author of the citation, Ji Jian-Ye, was the then Kunshan mayor and Party Secretary from 1997-2001. The article was published first time in *Suzhou ri bao* (based in Suzhou), 1990/10/23.

KETZ in particular went to industrial projects. Third, Kunshan forced investors to return any lands which had been leased but could not be developed within a certain number of years. By September 1995, the use right of 30% of leased-already lands has been successfully forced to return to Kunshan local governments (Kunshan Association of Scholars on Landuse 2001).

With a lease price of 100 RMB per 1 m<sup>2</sup> for 10,000 m<sup>2</sup>, the first purchase in 1989 earned KETZ RMB 100 million. Compared to the normal fiscal revenue in KETZ of RMB 661 million in the same year, this single land lease project was equal to one sixth of budget revenue. The land-use fee policy applied to more townships and villages in Kunshan by 1992 and became one of the key sources for infrastructure finance. By 1993, there were over 300 cases of land lease purchase covering an area of 38.4 million m<sup>2</sup> in total, earning accumulated land use fees of RMB 1,649 million for Kunshan. The accumulated budgetary revenue from 1989 to 1993 was just only RMB 847 million.<sup>121</sup> In KETZ alone, from 1990 to 1992 the accumulated land lease was RMB 340 million, compared to RMB 74 million as the accumulated fiscal revenue.<sup>122</sup> By 1998, all lands in Kunshan were subject to the land-lease policy, making Kunshan the first county-level administration to do so.<sup>123</sup> The importance of ‘cashing in’ on development by this land lease policy can also be seen in terms of the gap between fiscal revenue and infrastructure financing.

The infrastructure cost was only eclipsed by the fiscal revenue in total after 1996, clearly showing that a financial deficit so long as KETZ relied on conventional fiscal

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<sup>121</sup> Kunshan Almanac (1988-1993), page 494; and Kunshan Almanac (1993-1997), page 441; and Kunshan Almanac (1988-1993), page 152.

<sup>122</sup> Kunshan Almanac (1988-1993), page 166.

<sup>123</sup> Kunshan Almanac (1999), page 139.

revenues to fund infrastructure construction (Table 7-7). Land lease income was the key means in the 1990s to cope with infrastructure financing requirements (Li 2000).<sup>124</sup>

Table 7-7: Comparison in infrastructure cost and fiscal revenue in KETZ

	84	85	86	87	88	89	90	91	92	93	94	95	96	97
infrastructure cost	1	1	3	6	8	9	12	15	80	200	200	210	101	111
fiscal revenue	n.a.	n.a.	n.a.	n.a.	5	7	8	7	60	61	121	118	227	293

Note: unit as million RMB

Source: Annual Report on the Development of KETZ (2003)

Moreover, land lease was welcomed by foreign investors. For the first purchase, Kunshan advertised the news in many domestic and international newspapers. There were more than two thousand requests for application forms, and 11 companies paid a visit to Kunshan for investigation. In the end, five companies, one from USA, one joint venture, and three domestic companies, submitted applications. The name of Kunshan was therefore widely publicized domestically and internationally. By 1995, of 576 land lease projects, 168 were from domestic companies, while others were either from joint ventures between Chinese and foreign investors or from foreign companies (Hsu 1998). To sum up, land lease policy can be regarded as another successful policy to cope with the then Kunshan development troubles in relation to FDI attraction and infrastructure financing. Along with the granting of national status in 1992 (see below), KETZ and Kunshan were able to upgrade from inward investment to FDI-based development.

### *Promoting export processing zone*

In the late 1990s, Kunshan was keen to promote the concept of 'export processing zone (EPZ)'. The concept of EPZ involve a special enclosed area with a one-stop service

<sup>124</sup> The author of the citation was LI Quanlin, who served as mayor and party secretary of Kunshan from 1991-1996. Also Kunshan (1988-1993), page 152; also interview code: KO-02; KO-06; KO-09.

supervised directly by the General Customs with substantial coordination between police, tax office, container port and airport authorities, Commodity Inspection, Department of Financial Affairs, banks, foreign trade custom declaration companies, and so on.<sup>125</sup> Through computer systems networked between related departments and bureaus, the foreign companies established in EPZ enjoy a twenty-four hour clearance service with only a single application for documentation examination and commodity inspection.

All preferential policies tax exemptions that had been implemented in existing development zones would also be practised in an EPZ. Apart from that, there were some additional special treatments for investment inside an EPZ. First of all, companies investing there could enjoy more tax rebate, such as all capital goods being able to be exempted from custom duty and import-related taxes. Second, EPZ offered a more convenient business environment. Companies in an EPZ could freely transfer goods to other companies within the EPZ or between different EPZs without any restrictions.<sup>126</sup> Quotas and licenses were unnecessary inside the EPZ unless otherwise stipulated by the state, and the concept of 'inside the boundary but outside the jurisdiction of the Custom'. That is to say, for a company in EPZ, there was no imposed requirement of bank deposit system, custom registration system, VAT or consumption tax on processes products; or trade quota and export license. Imported cargo through EPZ can be exempt from tariffs and other complicated local duties before being exported. Therefore, banking systems and records for deposits and logistics were also simpler and easier in

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<sup>125</sup> It must be noted that actually the first development zone with the naming of 'export processing zone' in China occurred in Jinqiao of Pudong Project in Shanghai in the early 1990s. However, the basic functionality was just tax exemption by then. News source: *Shanghai tong ji* (based in Shanghai), 2001/06.

<sup>126</sup> For companies not in the EPZ, those products in different customs areas could not be transported directly. The only one policy was to export these products to Hong Kong and then import them again, the so-called 'Hong Kong One Day trip (Hong Kong *yi ri you*). Interview code: KO-03; KC-02; KC-03.

an EPZ than in other development zones (Table 7-8). To sum up, the EPZ system started from 2000 was the most preferential business environment offering the quickest custom service, the most favourite tax policy, the most convenient management, the most integral facilities, and the simplest procedures in reporting export and import goods.<sup>127</sup>

Table 7-8: Preferential policy in EPZs in general

	Special Policy only in Export processing zone
Exemption of import/ export quota or license	<ul style="list-style-type: none"> <li>■ Goods may be transferred freely between EPZ and other counties</li> <li>■ No quota or license is necessary unless otherwise stipulated by the state</li> </ul>
Exemption of import duty	<ul style="list-style-type: none"> <li>■ All capital goods, such as machinery, equipment, moulds and spare parts for maintenance used for production purpose and machinery, equipment, construction materials, and office appliance for infrastructure development are exempted from import duty and import-related taxes</li> </ul>
Bonded import materials	<ul style="list-style-type: none"> <li>■ Raw materials, components, packaging materials and consumables used for the production of export goods are fully bonded</li> </ul>
Record system with customs	<ul style="list-style-type: none"> <li>■ Instead of bank deposit account and logbook, enterprises in the EPZ need only record with the customs</li> </ul>
Fast logistics within EPZ and between EPZs	<ul style="list-style-type: none"> <li>■ Raw materials and semi-finished products can be transferred freely within EPZ.</li> <li>■ Tax is exempted for products, machinery, and equipment transferred between EPZs</li> </ul>
Tax exemption for Exports	<ul style="list-style-type: none"> <li>■ Processed products for export are exempted from value-added tax</li> </ul>
Tax refunded	<ul style="list-style-type: none"> <li>■ Goods from non-EPZ companies in China that enter EPZ are deemed as exports of which domestically produced machinery, equipment, raw materials, components, parts, packaging materials, and reasonable amount of construction materials entering EPZ are eligible VAT rebates</li> </ul>
Foreign Exchange Control	<ul style="list-style-type: none"> <li>■ No verification and cancellation procedure of foreign exchange income is required for exported goods; no verification and cancellation procedure for foreign exchange payment to outside mainland China is required for imported goods</li> </ul>
Tax for water and electricity	<ul style="list-style-type: none"> <li>■ Enterprises of production nature within EPZ can enjoy VAT rebate for water, electricity, gas used for exported goods</li> </ul>
Other incentives	<ul style="list-style-type: none"> <li>■ Enterprises in EPZ enjoy the same preferential policies as those outside EPZ</li> </ul>

Source: modified from 'Keynotes for experimental EPZ in China (*quan kuo jia gong chu kou qu shi dian gong zuo yao dian*)', see Yearbook of China Special Economic Zone and Development Zones (2000-2001), page 52-54; also *zhong guo hai guan* (based in Beijing), 2002/June

<sup>127</sup> News source: News source: *zhong guo hai guan* (based in Beijing), 2002/November. The news is a report of an interview with ZHAO Kuanhua, vice director of the General Custom. *zhong guo hai guan* is an official magazine published by the General Custom.

Concerning the policy process, the concept of EPZ was not initiated by the centre at the beginning, but actually first proposed by Kunshan. The background to why Kunshan proposed the idea of EPZ to the centre was that there were two development bottlenecks in the late 1990s. First of all, the custom service failed in satisfying the demands of ‘fast delivery for import and export (*kuai jin kuai chu*)’ for high-tech manufacturing in general and IT products in particular. For example, the then customs could not meet requirements of the so-called ‘principle of 955’, namely, 95% of high-tech goods have to be produced and then transported within 5 days after the orders are placed.<sup>128</sup> It means that the tardy custom environment became a problematic issue for Kunshan to upgrade itself from a low-tech production site to a high-tech manufacturing area.

On top of that, Kunshan still stayed at the lowest jurisdiction of county-level administration, despite its most industrialized and economically globalized performance. The low status constrained Kunshan’s capacity of effectively upgrading custom-related business environments.<sup>129</sup> Prior to the establishment of Kunshan EPZ, Kunshan custom representative office was under the customs offices of Suzhou, Nanjing custom office of Jiangsu, and the General Custom in Beijing. It took much time to pass the documentations level by level, or to wait for the General Custom to coordinate the four administrations to work out problems. But, the Songjiang development zone, which was right beside KETZ but located in the Shanghai jurisdiction, was under the direct management of the customs office of Shanghai government, one administrative level from the General Customs. There was no doubt that some investment problems could be more easily negotiated in Songjiang as a consequence.<sup>130</sup>

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<sup>128</sup> Interview code: KO-03; KC-02; KC-03.

<sup>129</sup> News source: *er shi yi shi ji jing ji bao dao* (based in Guangdong), 2004/06/09.

<sup>130</sup> I was told a story about the advantage of the Shanghai administrative level. The interviewee



Kunshan promoted the idea of EPZ and persuaded the centre to adopt the idea (discussed more below). Finally, Kunshan EPZ within KETZ was approved by the centre and went into operation from September in 2000. By then, Kunshan had reached five 'number one' records due to its well preparedness: the first place in China as a whole to propose the idea of EPZ, the first zone to prepare site planning and construction for EPZ, the first zone to pass the state's examination, the first zone to locate investment, and the first zone to be in operation in generating trades.<sup>131</sup> The establishment of Kunshan EPZ can be understood as a successful policy innovation to solve institutional and production difficulties. Under the EPZ policy, Kunshan was able to offer more efficient custom services. Moreover, Kunshan also built up direct links and contacts with the General Customs. Such links were further able to help Kunshan more efficiently to sort out new business demands and complaints.<sup>132</sup>

By the end of 2000, the total investment in Kunshan EPZ reached US\$ 810 million, covering different industries such as electronic and electrical engineering, precision engineering, and optical mechanical engineering. By 2001, 15 EPZs across China in total accomplished US\$ 900 million in trade, with Kunshan EPZ generating US\$ 450 million, around 50% of the national total.<sup>133</sup> The Kunshan EPZ also produced great input to KETZ. In terms of export, Kunshan EPZ contributed 30% of export to KETZ

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complained to the Shanghai mayor about the slower service of the Customs in Pudong airport after Shanghai moved its international airport from Hongqiao to Pudong. Then Shanghai mayor then negotiated with the General Customs in Beijing directly. Three days later the problems significantly improved. News source: *zhong guo shi bao* (based in Taipei), 2003/02/09; also interview code: YC-03.

<sup>131</sup> Kunshan Almanac (2001), page 172.

<sup>132</sup> One company invested in Kunshan EPZ wanted to import new machines that can operate in line with non-lead production procedures in order to comply with the latest European regulations. In order to do so, it needed to dispose of old machines that would not be qualified to discard because of the old Customs regulations. The company explained the problems to Kunshan officials who sorted out the problems in one week's time. It may not be possible to happen before the establishment of Kunshan EPZ. News source: *yuan jian za zhi* (based in Taipei), 2005/December.

<sup>133</sup> News source: [http://www.yangtse.com/gb/content/2002-02/22/content\\_287208.htm](http://www.yangtse.com/gb/content/2002-02/22/content_287208.htm).

in 2002, and up to more than 50% in 2003 (Table 7-9). It is understandable why export and GDP in KETZ increased more sharply after 2001 (Figure 7-1).

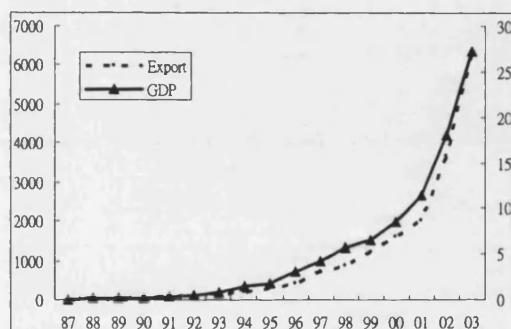
Table 7-9: Export in KETZ and EPZ

	2001	2002	2003
KETZ (1)	1,940	3,652	6,310
Kunshan EPZ (2)	180	1,157	3,257
<b>Kunshan EPZ as of KETZ (2) / (1)</b>	<b>9.3%</b>	<b>31.7%</b>	<b>51.6%</b>

Note: unit as US\$ million

Source: Kunshan Almanac (2002) to (2004)

Figure 7-1: Performance of export and GDP in KETZ



Note: left axis as export (US\$ million) and right axis as GDP (RMB billion)

Source: Kunshan Yearbook (2004); Annual Report on the Development of KETZ (2003)

### 7-3 Local-Central Interactions in Kunshan Development

#### *Process of unauthorized but state-intentional connivance*

KETZ was established in 1985 without any reporting to the centre. Due to its secret status, KETZ had to be largely self-financed. As mentioned, the land lease policy played a crucial role in infrastructure financing in the 1990s. Apart from that, Kunshan officials developed KETZ by many economical and prudent ways, particularly at the beginning. First, Kunshan did not expropriate lands and property immediately after they publicized the plan of KETZ. In other development zones, much of infrastructure

finance stayed idle in a land expropriation account before they found investors to pay the lease costs back. With a strategy of 'rolling development (*gun dong kai fa*)', Kunshan officials only took an appropriate amount of lands and property in the locations specifically required by investors who decided to act. It means that Kunshan tried not to spend money too early on displacement compensation before the industrial lands were ordered by investors (Wu 2000).<sup>134</sup> In addition, Kunshan offered a summer internship opportunity with limited payment to the civil engineering department at Tongji University to do survey practice. Later, they used the maps done by Tongji University to start planning and construction (Wang and Jiang 1999; Almanac Office of KETZ 2000).

Moreover, the location of KETZ was just beside the downtown of Kunshan with the strategy was to 'develop a new district by relying on the old town (*yi tuo lao cheng kai fa xin qu*)' (Yang 1991). Such a strategy was different from the locational practice of most national zones, which were settled in the outskirts of cities. The then convention, highly influenced by the experience of Shenzhen special economic zone, argued that development zones operating under market conditions should be far away from ordinary people in the downtown who had to stay within the planned and socialist environments (Lai, Zhao et al. 1992; Zweig 1999; Chung 1999b; Zhang 2003).<sup>135</sup> The proximity between KETZ and the central downtown of Kunshan offered many advantages, however. First, to expand the existing infrastructure to KETZ from

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<sup>134</sup> The author of the citation was WU Kequan, then chief of Kunshan County and the key architect of Kunshan development in the 1980s. The article was published for the first time in 1989.

<sup>135</sup> When Qingdao established a national ETDZ in 1984, instead of choosing the eastern part of the city with better transportation and infrastructure support, the then leaders in Qingdao decided to set up in Huangdao, which was far away from the city proper (Chung 1999b). Dalian began its ETDZ at Maqiaoshi, which was 33 km from the centre of Dalian (Lai, Zhao et al. 1992). Similarly, Nantong built its zone far away from the city because the conservative leaders in Nantong wanted to prevent its pernicious influence from poisoning Nantong's socialist nature (Zweig 1999). The location of KETZ was criticized since Kunshan people would be likely to be 'polluted' by western market ideas, such as the opening up policy.

downtown was easier and cheaper than establishing completely new networks. Second, the location beside the downtown where the county government resided meant that there was no need to build a new administrative office specifically to serve KETZ. Most of Kunshan officials were able to take care of the operation of KETZ. Besides, people were more willing to go out of downtown to work in KETZ, making it easier for incoming firms to hire suitable local workers (Almanac Office of KETZ 2000; Wu 2000). Overall, until 1989, Kunshan spent just RMB 27.1 million on infrastructure, only around 20% of the average cost for national zones (Table 7-10).<sup>136</sup>

Table 7-10: Performance comparison between KETZ and national zones in 1989

	Accumulated infrastructure financing*
KETZ	27.1
Averaged single zone	183

Note: \* refers to million RMB

Source: China Special Economic Zones and Coastal Economic Technological Development Zone Almanac (1980-1989), Annual Report on the Development of KETZ (2003)

Soon after the announcement, in January 1986 HAN Peixin took a business trip to Kunshan and was unexpectedly told of the construction of Kunshan New Industrial Area. Han, then party secretary of Jiangsu province, did not express strong disagreement immediately. Instead, he asked Kunshan leaders for details of the secret zone. After the trip, he encouraged other provincial leaders to pay a visit (Yang 1991). Therefore, more upper-level officials noticed Kunshan. In November 1987, ZHAO Zhiyang, then General Secretary of CCP, visited Kunshan and KETZ and offered his appreciation to Kunshan's self-developing KETZ. From this perspective, KETZ was developed in a process that was unauthorized but with a state-intention to connive.

<sup>136</sup> News source: *ren min ri bao* (based in Beijing), 1990/12/04.

### *Process of seeking for state ex-post endorsement*

Its great success in self-development (Table 7-6 and 7-10 above) gradually attracted the attention not only of upper-level officials but also heavyweight scholars and national-wide state media, including *xin hua ri bao* (based in Beijing), *jie fang ri bao* (based in Beijing), and *ren ming ri bao* (based in Beijing).<sup>137</sup> A famous economist XUE Muqiao and a sociologist FEI Xiaotong visited Kunshan and left their public affirmations (Yang 1991). However, the confidence based on the public affirmation and appreciation is just one side of the coin as to why KETZ and Kunshan government started to seek for support from the upper-level governments. The other side of the coin is that in terms of FDI attraction, KETZ was far below the national zones (Table 7-6 above). Kunshan had to sort out the difficulty in attracting FDI. Apart from the incentives created by the land lease policy, whether or not zones operated legally and officially under state regulations was a typical consideration when foreign firms selected investment locations. Moreover, with Kunshan's low county-level administrative status, foreigners had reasonably cast some doubt on whether or not it had enough competence to keep KETZ operating (Fei 2000).

The efforts to strive for upgrading to a national title started from the late 1980s. In 1988 the name of 'Kunshan "New Industrial District" ' was authorized by Jiangsu to be changed to 'Kunshan "Economic and Technological Zone" ', the same name as a national zone. In both 1988 and 1989, KETZ was invited to attend conferences organized by the State Council focusing on issues related to national development zones. All attendees but KETZ were from the 14 national development zones. KETZ was the only locally initiated project without any support by the state. In the 1988

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<sup>137</sup> Chronology of KETZ, cited from (KETZ Administration Office and Party History Research Office of Kunshan CCP, Eds. 2000), page 422-423.

meeting, Ji Chongwei, attending on behalf of the State Council made a final remark, strongly calling for the national development zones to learn from Kunshan how to spend smaller budgets with better economic performance as a consequence.<sup>138</sup> After that, there was a byword of '14 (national zones) +1 (Kunshan)' to describe the KETZ's performance with its particular non-state-status. In 1989, Kunshan was administratively upgraded from a county to a county-level city.<sup>139</sup> In January 1991, KETZ was selected by Jiangsu as one of the key development zones in Jiangsu. In June 1992, ZOU Jiahua, then vice PM, visited Kunshan and offered Kunshan his inscription 'Kunshan Economic and Technological Zone'.<sup>140</sup> In July 1992, Li Peng, then PM, further openly admired the performance of KETZ and encouraged other localities to learn from Kunshan. These inscriptions and appreciation to some extent represented unofficial state endorsement. Finally, in August 1992, the State Council granted KETZ national status.

Total FDI injections grew exponentially after Kunshan was granted the national-title in 1992 (Figure 7-2 above).<sup>141</sup> And the scale of investment project was also becoming bigger. From 1985 to August 1992, there were only six investment projects over US\$ 10 million per item. Only sixteen months after listing as a national zone, there were 22 additional projects over the same ceiling, at the end of 1993.<sup>142</sup>

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<sup>138</sup> Chronology of KETZ, cited from (KETZ Administration Office and Party History Research Office of Kunshan CCP, eds. 2000), page 425-427.

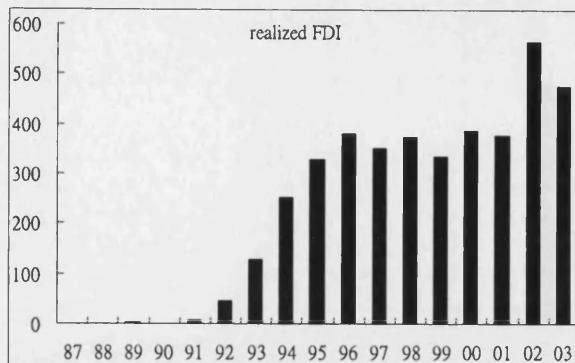
<sup>139</sup> 'guan yu Jiangsu sheng she li Kunshan shi de pi fu (Answer to Jiangsu province regarding establishment of Kunshan county-level city)', *min pi* (1989) No. 8, 1989/07/27. Kunshan Almanac (1988-1993), page 1-2.

<sup>140</sup> The strategy of seeking for inscription from upper-level leaders was popular for post-Mao local governments to strive for more resources. Zhangjiangan, one county-level city under Suzhou, also used the calligraphy of Li Peng, the then PM of China, to lobby the officials in the State Council to grant national-level bonded warehouse (Zweig 1999).

<sup>141</sup> Of course, I do not want to argue that FDI injecting to KETZ after 1992 was only because of its being granted as national-status. The macro context in China was also changed to be in favour to FDI after Deng's Southern Tour in 1992.

<sup>142</sup> Kunshan Almanac (1988-1993), page 271-272.

Figure 7-2: Realized FDI in KETZ



Note: unit as million US dollars

Source: same as Figure 7-1

One more interesting point is that outward-looking marketing and business promotion took place through the investor's networking. In the late 1980s when attracting Japanese investors, Miuoshi Etsuo and Yagi Keiji, the first and second Japanese investors in Kunshan, were good friends. In the 1990s, several foreign investors were from Taiwan, in which many of them were through the connections of WU Ligan and his network. Wu, a Taiwanese national, invested in Kunshan in 1991 and invited LIU Jinbiao, the chairman of Giant, the world-known bicycle brand, to visit Kunshan. Liu introduced Kunshan to his friend Lo, whose factory was one of supply chain for Giant (Yang 1991; 1996; Almanac Office of KETZ 2000).<sup>143</sup>

### *Process of persuasion for state ex-ante adoption*

As argued, Kunshan's low administrative status was inconsistent with its strong economic performance. Such status made Kunshan unable to either improve customs services or to create EPZ alone without support from the state. In March 1997 Kunshan leaders proposed the idea of EPZ to CHEN Shunhuan, then vice director of Office for

<sup>143</sup> Due to his contributions in introducing Taiwanese investment, Wu was of be nicknamed as 'Mayor of Taiwanese investors'. News source *tai shen za zhi* (based in Beijing), 1997/05; also interview code: KO-06; KC-01.

Special Economic Zone at the State Council in Beijing. Unfortunately, the centre did not make an affirmative decision. However, Kunshan officials did not give up on the idea of EPZ but continued trying to persuade the centre. In March 1999, Kunshan gave a presentation on the concept of EPZ to a conference focusing on FDI and development zones. Kunshan's speech drew the attention of the central government. WU Yi, then senior central official and the chairperson of the conference, ordered central officials to get involved and help. Afterwards, the General Customs organized visits by six groups to Kunshan.<sup>144</sup> In late 1999, the General Custom chose Kunshan to open the first committee hearings on EPZ. In April 2000, the General Customs approved 15 experimental zones as a pioneer trial, including Kunshan EPZ within KETZ. In September 2000, Kunshan EPZ was inspected and approved by the General Customs and was fully in operation during October. Overall, Kunshan officials were reported to have paid Beijing 84 visits in total in order to persuade and convince different ministries in Beijing (Kunshan EPZ Administrative Committee 2000).<sup>145</sup>

More interestingly, while Kunshan continued to persuade the central government to accept the idea of EPZ, they also made an effort to get the EPZ as ready as they could. A small area inside KETZ was selected as Kunshan EPZ. Certain preparations for land refilling, road construction, electricity and water supply, broad band communications, and standard ready-built factories as well as international marketing were also under way. Therefore, it is no surprise that Kunshan EPZ could be in operation almost immediately passing the inspection by the State Council (Kunshan EPZ Administrative Committee 2000).<sup>146</sup>

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<sup>144</sup> Kunshan Almanac (2000), page 118.

<sup>145</sup> News Source: *er shi yi shi ji jing ji bao dao* (based in Guangdong), 2004/06/09; and interview code: KO-03.

<sup>146</sup> Kunshan Almanac (2000), page 105-106, Kunshan Almanac (2001), page 113-114, 171-172.



### *Compromises beyond central and local interactions*

Three types of local-central interactions emerged sequentially in the case of KETZ and Kunshan development. These are worth examining to understand how and why central and local governments, each with their own lists of concern priority and different political resources managed to reach agreement on local innovations? I would argue that local policy innovation is a process in which different agents negotiate, with the outcomes reflecting trade-offs between both sides during the process with each side making use of the resources they have available.

The process of ‘*ex-post* state endorsement’ in Kunshan is a case in point. Despite granting Kunshan as the national zone, the state still did not provide the same rights to Kunshan as to the other national zones. The State Council agreed to KETZ in offering the preferential investment policies of 15% tax rebate to FDI investment, but did not allow Kunshan to enjoy the fiscal subsidy that the state had provided to other zones.<sup>147</sup> Generally speaking, the national- zone policy covers two main packages: FDI tax rebate policy on the one hand and financial subsidy to local governments on the other hand. Kunshan and the centre negotiated on the basis of their own considerations as to the importance of each package. Kunshan set the former as its first priority since at the time KETZ attracted very little FDI compared to other national zones. It could put the latter as a secondary consideration partly because it had established KETZ much economically than other zones (Table 7-10 above), and partly because the land-lease fees helped it to release the fiscal burden (Table 7-7 above).

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<sup>147</sup> ‘*guan yu she li Kunshan jing ji ji shu kai fa qu di pi fu* (Answer to an issue regarding establishment of Kunshan Economic and Technological Zone)’, *kuo han* (1992), No 104, 1992/08/22. Kunshan Almanac (1988-1993), page 2.

The centre judged the application differently but gave a similar priority of considerations as Kunshan did. On the one hand, Kunshan's economic performance had been utilized by the centre as a showcase and a role model to encourage other national-level development zones. The byword of '14+1' clearly shows that the centre recognized the achievement done in KETZ. On the other hand, in the context of the process of 'fishing' by the centre and 'anti-fishing' deployed by the local (discussed in Chapter Five), the centre was very cautious toward projects that were initiated by the local governments first and then keen to get financial support from the state (Gore 1999). In order to balance its appreciation of KETZ performance and keenness to avoid 'anti-fishing' scenarios, 'allowing FDI tax rebate but offering no state fiscal subsidy' was a basic attitude of the central government. The attitude of the centre was just matched with the considerations of the local officials in Kunshan. To sum up, the tricky offer of 'ex-post state endorsement' in 1992 was an example to show that the outcomes of local-central interactions reflected acceptable trade-offs to match the concern of priority of each side.

#### **7-4 Operations beyond Local Innovation Process in KETZ and Kunshan**

##### ***Economic decentralization with rescaling local-central relationship***

Economic decentralization refers to local governments being empowered with more competences over economic affairs. In this case, Kunshan actually gained more administrative and financial competences for promoting economic affairs than before, triggering better economic development. For example, in 1988, the centre agreed that an additional RMB 5 million in national tax base could be retained as Kunshan local revenue for infrastructure financing and economic development (Fei 2000). In March 1992, KETZ was further authorized by Jiangsu with more economic competences such

as the power to permit foreign investment projects up to US\$ 30 million, which was an equal administrative power compared to those of other national development zones.<sup>148</sup>

I would argue that economic decentralization can be analyzed in the format of rescaling the administrative relationship between county-level and other upper-level governments. Traditionally, there was a hierarchy such that a county contacted prefecture-level officials first, who on behalf of the former communicated with the provincial and central governments. But in the context of economic decentralization, the boundary between county, provincial, and central governments was blurred in at least two ways. First, certain powers belonging to provincial or prefecture-level administrations were passed down to county-level administrations. In some cases, along with that is to upgrade a county to be a county-level city (Ma 2005). This is what is typically called economic decentralization, which also happened in Kunshan. But, secondly, the administrative procedures requiring county governments to submit their documents to upper-level governments via prefecture officials were also simplified, making the county able to contact upper-level governments easier than before.

Examples of such ‘jumping scales’ interactions between Kunshan and Jiangsu bypassing Suzhou, or even with Kunshan directly contacting the centre, can be easily found in the case of KETZ and Kunshan. For instance, in March 1992 Kunshan was allowed to contact Jiangsu directly to apply for passports for officials’ business trips abroad, making it easy and convenient for Kunshan officials to go abroad for international marketing.<sup>149</sup> Before, Kunshan officers needed to send their applications

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<sup>148</sup> ‘*guan yu Kunshan kai fa qu wen ti de tong zhi* (Notice to an issue of Kunshan Development Zone)’, *zu zheng ban fa* (1991) No. 6; and ‘*guan yu jia kuai kai fa qu jian she ruo gan wen ti de tong zhi* (Notice to several issues on how to make development zones develop faster)’, *zu zheng fa* (1992) No. 36; KETZ Administration Office and Party History Research Office of Kunshan CCP (eds) 2000), page 84-89.

<sup>149</sup> ‘*guan yu jia kuai kai fa qu jian she ruo gan wen ti de tong zhi* (Notice to several issues on how to

forms to Suzhou. In October 2000, the Kunshan Customs was upgraded to be directly under the Nanjing Customs (Jiangsu level).<sup>150</sup>

Moreover, Kunshan and Beijing also established direct contacts. In 1992 Kunshan sent a representative to Beijing for the national title. ZHENG Huizhen, one of the vice mayors of Kunshan then, stayed in Beijing for a couple of months to collect first-hand information on what the centre needed. One day Zheng knew that Beijing needed an official document authorized by Jiangsu to show provincial solidarity with their application for the national title. She phoned her colleagues in Kunshan the same day, Kunshan officials made a draft for Suzhou and Jiangsu top leaders to sign and faxed the document back to Zheng just the day after (Yang 1996; Almanac Office of KETZ 2000). In addition, in 1999, at the request of the centre, Kunshan drafted the first version of management regulations for an export processing zone (EPZ) (Almanac Office of KETZ 2000). Furthermore, in 2003 the 'Handbook of Practicing EPZ (*jia gong chu kou qu cao zuo shi wu*)' was published by the General Custom as the only 'textbook' or so-called the operation manual in China for the practice of EPZ policy. But the 'Handbook' was actually edited by Kunshan officials on behalf of the General Customs based on their experiences in Kunshan EPZ.<sup>151</sup>

### *Career paths of the local leaders*

In Chapter Three, I argued that local entrepreneurial governance was driven by the self-interests of the local elites. In the context of one-party control, performance-based promotion in relation to careerism is discussed as the other key dimension for

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make development zones develop faster)', *zu zheng fa* (1992) No. 36. See footnote 148.

<sup>150</sup> Kunshan Almanac (2001), page 171-172.

<sup>151</sup> Kunshan Almanac (2004), page 87; Interview code: KO-03, also news source: *Kunshan ri bao* (based in Kunshan), 2004/12/14.

understanding the mechanism of local institutional innovations. Of course, it is difficult to investigate whether the motivations of local officials making institutional innovations are really triggered by careerism. Grandiose reasons (like serving the people) would be most likely mentioned in public. However, we still can trace the careers paths of the leaders to understand the relationship between careerism and local economic development. Kunshan was dramatically changed from the 'little sixth' to one of the most globally industrialized counties. On the basis of this, the career paths of the leaders could be expected to be quite brilliant.

Actually, Kunshan leaders were promoted significantly after leaving offices in Kunshan. It is reportedly called as the 'Kunshan phenomenon'.<sup>152</sup> There have been five ex-party secretaries since 1989 when Kunshan itself was upgraded from county to county-level city (Table 7-11). The first of them was WU Kechun (1984-1991), one of the most important figures in developing in the 1980s, who was promoted to be vice director of Suzhou People's Congress. He was also proposed as a vice mayor of Suzhou, but he turned this down due to health concerns, and retired from politics two years after at the regulation of age ceiling.<sup>153</sup>

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<sup>152</sup> News source: *gong shang shi bao* (based in Taipei) 2005/01/22; *nan fan zhou mo* (based in Guangdong) 2004/11/18; also interview code: KO-06; KC-04.

<sup>153</sup> Interview code: KO-06; KO-07.

Table 7-11: Party secretary of Kunshan since 1989

Party secretary	tenure period in Kunshan	Main positions after office	Notes
WU Kechun	1984/06-1989/11 1989/11-1991/02	vice Director of Suzhou People's Congress; vice director of CSSIP	retired due to age ceiling
LI Quanlin	1991/02-1996/11	vice mayor and mayor of Yancheng, mayor of Changzhou; vice governor of Jiangsu	--
ZHANG Weiguo	1996/11-2000/08	vice mayor and mayor of Zhengjiang; vice governor of Jiangsu	--
JI Jianye	1997/12-2000/08* 2000/08-2001/08	mayor of Yangzhou;	two echelon promotion
ZHANG Lei	2000/08-2001/08* 2001/08-2003/05	director of department of trade and foreign economy at Jiangsu province	two echelon promotion
Cao Xinpin	2003/05-present	--	--

Note: Ji served as mayor of Kunshan from 1997/12 to 2000/08; Zhang also served as mayor from 2000/08-2001/08

Source: author compiled

Wu's successor was LI Quanlin, serving as the Kunshan party secretary from 1991 to 1996, who was promoted to be vice mayor and mayor of Yancheng, and now is one of the vice governors of Jianusu. Similarly, ZHANG Weiguo, who succeeded Li, was promoted to be a leader in Zhengjian first and now is also a vice governor of Jiangsu. Yangcheng and Zhengjian were prefecture-level cities under Jiangsu. Jiangsu province was able to institute eight vice governors. Of eight incumbent vice- governors as of 2005, the four with local experiences had worked in just three county-level jurisdictions in Jiangsu (Table 7-12).<sup>154</sup> JIANG Dezhi was in Yangchong for 25 months, Zhang in Wuxian for 17 months and Kunshan for 47 months, and Li in Kunshan for 68 months. Kunshan is the only county out of more than 50 county-level administrations in Jiangsu to 'produce' two of their previous leaders to be vice governors.

<sup>154</sup> Other four are either working in provincial-level (like HUANG Li and WU Renlin), academic positions (like ZHANG Taoling), or central posts (like WANG Zhang) prior to the current posts. <http://js.gov.cn/gb/zgjs/zpd/tszf/zfld/lbh/index.html>, downloaded on 2005/11/01.

Table 7-12: Jiangsu vice governors' (as of 2005) local experiences

	County-level experience	Prefecture-level experience
JIANG Dezhi	Yangchong (25 months, 1994/10-1996/11)	Wuxi (2000/08-present)
HE Chun	--	Xuzhou (2001/05-present)
ZHANG Weikuo	Wuxian (17 months, 1990/08-1992/01) <b>Kunshan (47 months, 1996/10-2000/08)</b>	Zhejiang (2000/11-present)
LI ChunLin	<b>Kunshan (68 months, 1091/02-1996/09)</b>	Yanchen (1997/12-2000/12) Changzhou (2000/12-present)

Source: author compiled

After Zhang left, JI Jianye and ZHANG Lei assumed the office of Kunshan party secretaries successively. Ji was promoted to be the mayor of Yangzhou directly after Kunshan. Zhang serves as the director of Department of Trade and Foreign Economy of Jiangsu province. Ji and Zhang had exceptional promotions of two echelons in one step. Their upgrading was from division level (*chu ji*) to department level (*ting ji*) directly without serving in posts at vice department level (*fu ting ji*).<sup>155</sup> Taken together, the records of career paths of leaders in Kunshan show the high correlation between leaders' economic performance and their political promotions. One investor commented that the leaders worked so hard in making policy innovations for improvement of business environments and local economic development because they knew they could be promoted afterwards.<sup>156</sup>

### *Territorial competition beyond policy innovation*

I argue in Chapter Three that territorial competition is the other dimension to be considered for an understanding of the policy innovation process. This is very relevant for Kunshan since there are many development zones nearby. By 2003, 1,390 zones were established by various levels of governments in Jiangsu, Shanghai and Zhejiang

<sup>155</sup> News source: *nan fang zhou mo* (based in Guangdong) 2004/11/18; also interview code: KO-06; KC-04; KC-07.

<sup>156</sup> News source: *gong shang shi bao* (based in Taipei), 2004/11/01; also interview code: KC-03; KC-06.

(Table 2-16 above). Therefore, there was inevitably serious territorial competition between zones. Territorial competition between Kunshan and these other places also reflects the operation of 'local protectionism' within Yangtze Delta. Despite the geographical proximity of Kunshan to Shanghai, Kunshan belonged to Nanjing Customs of Jiangsu, which sometime competed with Shanghai Customs areas. It was reported that some Kunshan's products were 'obstructed' by being labelled with a 'non-Shanghai' icon and then transported and handled at a much slower pace than Shanghai products in revenge for a public appreciation by the General Customs of Nanjing Customs for being a more efficient service.<sup>157</sup>

In order to compete with other zones, Kunshan made a lot of effort to upgrade their business environment to be more attractive. Apart from the major policy innovations aforementioned, infrastructure standard in Kunshan was advanced. At the beginning, KETZ offered basic standards of infrastructure with five kinds of utilities and land refilling (*wu tong yi ping*). The five utilities included access to: electricity, roads, communications, water and sewerage. By 1989, KETZ raised its standard to seven utilities plus one land refilling (*qi tong yi ping*) by additionally offering access to steam and gas.<sup>158</sup> Nowadays, nine utilities including optical fiber and internet are provided along with land-refilling. In 1996, Kunshan established a 'foreign investor service centre', coordinating different departments to provide a one-stop-shop service. In 1997 Kunshan cancelled 73 items of fee and lowered the prices for another 44 items.<sup>159</sup> In addition, in 1997 Kunshan launched a campaign 'Never Say "No" to Foreign Investors'. In 1998, Kunshan applied a quota system with performance management in order to

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<sup>157</sup> News source: *xin hua wang* (Jiangsu channel), 2003/06/26.

<sup>158</sup> Suzhou Almanac (1987), page 68-71; Suzhou Almanac (1990), page 655-659.

<sup>159</sup> Kunshan Almanac (1994-1997), page202-203; (1999), page115.



create more incentives for members of staff marketing Kunshan and attracting FDI.<sup>160</sup>

Since 2001, Kunshan has even established the first county-level Bureau of Information in China in order to persuade the centre that they would have adequate local staff to manage an FDI investment involving CD ROM.<sup>161</sup>

### *A coalition with Taiwanese investors for local economic development*

The pro-growth development coalition is another dimension for understanding local entrepreneurial governance in relation to policy innovation. Due to the overwhelming importance of Taiwanese investments, it is understandable that Taiwanese investors played an important role in development coalition in Kunshan. The importance of Taiwanese investors can be observed not only explicitly in investment but also implicitly in the so-called ‘Honourary Citizenship of Kunshan (Kunshan *rong yu shi min*)’ and ‘Friend of Kunshan (Kunshan *zhi you*)’, which are certificates designed to show appreciation and affirmation of contributions to local economic development by foreigners. From 1996, Taiwanese took the majority of honorary citizenships (Table 7-13).<sup>162</sup> A similar pattern applies to ‘Friends of Kunshan’, of whom by 1998 Taiwanese were 9 out of 15, while in 2002 they were 3 out of 4.<sup>163</sup> These

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<sup>160</sup> Kunshan Almanac (1994-1997), page 134; Kunshan Almanac (1999), page 67.

<sup>161</sup> In 2001, one world-wide blank CD ROM producer wanted to settle down in Kunshan. However, blank CD ROM is categorized as a sensitive material able to contain news and ideologies, according to the regulations by Department of Information (DOI) at the State Council. At beginning, the staffs in DOI refused to grant permission for investment. Kunshan made an innovation in establishing Bureau of Information in order to settle down the case. News source: *er shi yi shi ji jing ji bao dao* (based in Guangdong), 2004/06/09; also interview code: KO-03; KC-03.

<sup>162</sup> Main benefits to be ‘Honour of Kunshan Citizenship’ cover: to be invited as guests to present the local people’s congress and discuss the development strategy; to be invited as economic consultants for economic policies; and to be prioritized to sort out some business troubles; to be privileged to take precedence over others to enjoy the preferential policies; to be free of charge to visit three tourist attractions in Kunshan; to be free of charge to health check in the Kunshan government-owned hospital; to be free of charge to subscribe Kunshan government-owned newspaper; to unrestrictedly choose schooling for their children.

<sup>163</sup> ‘Friends of Kunshan’ can enjoy all benefits of ‘Honour of Kunshan’ plus being special consultants to the mayor and party secretary and to be recorded in ‘Who is Who in Kunshan’ and Kunshan gazette. The numbers and nationalities of Friends of Kunshan are from Kunshan Almanac (1999), page 230-231, and Kunshan Almanac (2003), page 241.

overwhelming ratios demonstrate how heavily individual Taiwanese were involved in Kunshan development.

Table 7-13: numbers of Kunshan honorary citizens by nationality

Nationality	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Taiwanese (1)	14	15	21	14	26	22	22	26	25	20
Japanese	7	6	7	4	4	3	3	3	6	4
All others	14	6	5	9	5	9	7	7	6	6
Total (2)	35	27	33	27	35	34	32	36	37	30
Taiwanese (%) (1) / (2)	40.0%	55.6%	63.6%	51.9%	74.3%	64.7%	68.8%	72.2%	67.6%	66.7%

Source: Kunshan Almanac in different years

In addition, there was another organized way to institutionalize Taiwanese influence in decision making in Kunshan. Kunshan was the first county-level city to establish an official association of Taiwan investors, namely, Kunshan Association of Taiwan Investors (KATI). KATI was the only business association in Kunshan to be invited as a guest organization to audit the annual mayoral report to the Local People's Council since, starting in 1995.<sup>164</sup> When hiring a consultancy company for the Kunshan Comprehensive Development Plan in 2002, the then Kunshan mayor requested KATI to organize a special meeting to gather the opinions over a draft plan.<sup>165</sup> Regular bi-monthly meetings of a 'Taiwanese Investor Salon' were also organized by KATI and Kunshan officials focusing on the free consultant services on regulations of tax, environment protections, and the customs. Moreover, KATI hosted many domestic and international visiting groups on behalf of Kunshan officials, including local officials from China, and other countries who were interested in questions such as why and how Kunshan developed (Po and Pun 2003). When some teaching materials in the complex-Chinese-based high school and primary school in Kunshan were not allowed

<sup>164</sup> News source: *lian an guan xi yue kan* (based in Beijing), 1997/12. The news is a report for an interview with ZHENG Huizhen, who was mayor of Kunshan from 1994 to 1997; also *gong shang shi bao* (based in Taipei), 2004/06/01.

<sup>165</sup> Interview code: KC-04; KO-01; KO-02.

by the central government in Beijing, Kunshan and KATI again cooperated to persuade the centre to sort out the problems.<sup>166</sup>

The geographical location of KATI also displays a 'spatially' special connection with Kunshan officials. KATI was located in the 9<sup>th</sup> floor of the same building of administrative committee of KETD, next to the Taiwanese Affairs Office of Kunshan Government (TAOKG), with which it shared some staff. KATI is further reportedly known as the unofficial 'fifth' set of leaders in Kunshan<sup>167</sup> - along with the four official sets of leading group at each level, i.e., Party, Government, the People's Council, and the People's Political Consultative Conference- suggesting the heavyweight influence it is perceived to have in Kunshan public affairs (Po and Pun 2003).

### *Policy innovation and diffusion through Taiwanese investors*

As argued, there was a strong institutionalized relationship between Kunshan officials and Taiwanese investors. In this context, the perspective of diffusion and transfer of policy innovation offers another angle to understand the policy process for the EPZ in Kunshan. In this case, in order to persuade the centre, Kunshan was required to prepare enough information for the development of the proposals. One of the main resources for Kunshan to understand the operations of such EPZs was Taiwanese investors in Kunshan, who had experience of the more competitive customs management in Taiwan as well as having suffered from the dawdling and inconvenient customs services in

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<sup>166</sup> Taiwan and China had different concerns about the teaching materials. Taiwan insists that the content offered from the textbooks published in Taiwan can be only deleted rather than added. China declares that all icons and symbols related to Taiwan sovereignty, such as pictures of the national flag of Taiwan, have to be deleted. Then Kunshan officials and KATI worked to import Taiwanese textbooks and then marked all sensitive icons and symbols in black. Interviews code: KC-04.

<sup>167</sup> News source: *shang ye zhou kan* (based in Taipei), 2001/05, cited by Po, L. C. and N. Pun (2003); also interview code: KC-04.

China since the 1990s.<sup>168</sup> Those Taiwanese investors provided Kunshan officials with discourses and experiences about what was required for the latest development of global IT production system, such as ‘just in time’, ‘zero stock in supply’, the ‘955 principle (discussed above)’, and so on.

Moreover, they further helped Kunshan officials to arrange a ‘learning-cum-visiting’ tour in Taiwan. Starting from 1995, XUAN Binglung, a veteran Kunshan official, and other officials were arranged to visit Nantze export processing zone and Hsinchu Science Park to learn about the operation of IT manufacturing environment, including legal system and relating regulations, tax policy and structure of administrative organizations.<sup>169</sup> Nantze and Hsinchu were two powerful zones in IT industry in Taiwan. In other words, Taiwanese FDI in Kunshan played an important role in helping Kunshan to connect with the latest knowledge of international IT manufacture requirements in the world. The significance of this visit was reflected symbolically in an act of naming, which is one of key ways to display connections between learning regions and their models (Lagendijk 2001).<sup>170</sup> Two roads in Kunshan EPZ were named after Nantze and Hsichu as a reminder of this learning tour to Taiwan as well as appreciation for the help from Taiwanese investors as another selling point to attract more Taiwanese investment.<sup>171</sup>

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<sup>168</sup> Taiwan’s competitive custom service to meet international IT manufacturing standard also can be evidenced by the fact that Taiwan is producing 70% of international market in chip foundry services; 72% in laptops computer, 68% in LCD monitors, 66% in cable modems; 36% in semi-conductor packing service. News source: BusinessWeek (based in New York), 2005/05/16.

<sup>169</sup> Local officials are reported to pay Taiwan a visit not only for visiting potential Taiwanese investors but also for learning operations and effectiveness of Taiwan Science Parks. News Source: *er shi yi shi ji jing ji bao dao* (based in Guangdong), 2004/06/09; *yuan jian za zhi* (based in Taipei), 2005/December also interview code: KO-03; KO-02.

<sup>170</sup> Naming strategy in relation to ‘modeling after’ can be exemplified in the way high-tech cluster strategies are almost inevitably associated with “Silicon Valley”, resulting in notions of Silicon Glen in Scotland, “Silicon Isle” in Singapore, and “Silicon Plateau” in Bangalore (Lagendijk 2001)

<sup>171</sup> News: *er shi yi shi ji jing ji bao dao* (based in Guangdong) 2004/06/09; also interview code: KC-03.

## **7-5 The Effectiveness of Policy Innovation**

### ***From complementarity to competition: Kunshan vis-à-vis Shanghai***

The story of Kunshan and KETZ shows that the local capacity has been upgraded through a series of local innovation processes. Local upgrading of capacity refers to more powerful administrative competences over economic affairs as well as to manufacturing capacity for high-tech productions. To illustrate this, I discuss the relationship between Kunshan and Shanghai.

In the 1980s and the early 1990s, Kunshan used to take an advantage of its position as 'nearest county to Shanghai' as a selling point to attract not only domestic investors and technicians, but also FDI from Taiwan, Japan and other countries. Those investment capital and human resources which could not enter Shanghai would then like to choose Kunshan as the second best option. For example, it was reported that 90% of members in KATI went to Shanghai for a business feasibility study before they invested in Kunshan. But less expensive land prices, cheaper labour costs as well as geographic proximity to Shanghai were considerations leading these Taiwanese investors to finally decide to invest in Kunshan (Shen and Hu 2003). It means that there was more or less a hierarchical spatial relationship between Kunshan and Shanghai. Shanghai was superior to Kunshan, with the latter playing a complementary role to the former.

By the late 1990s, however, Kunshan was becoming a closer competitor to Shanghai. Thus, when Quanta International Limited, one of the biggest laptop manufacturers in the world, investigated its investment location in China in 2001, Kunshan competed

with Songjiang of Shanghai.<sup>172</sup> The idea of the EPZ and the improvement of customs service in Kunshan also shows that Kunshan tried to offer the similar business environment to Shanghai could do. In 2001 the General Custom selected only two pioneering EPZs to experiment more advanced custom supervision models. One was Kunshan EPZ and the other Shanghai Songjiang EPZ.<sup>173</sup> In 2003, Shanghai even formulated a policy to build up its manufacturing industry by establishing an industrial area in the outskirts of Shanghai. With the planed area as 173 km<sup>2</sup> in total, the project was called as '173 project'. By lowering the business cost and offering efficient administrative procedures, Shanghai tried to compete in attracting FDI with other neighbouring development zones, in which one was Kunshan. There was a slogan saying '173 in order to chase Kunshan (*yi qi san gan Kunshan*) (Yu 2004).<sup>174</sup> In other words, through a series of policy innovations for local economic development, Kunshan had successfully transformed its spatial relationship with Shanghai from that of a county-level complement to that of a global manufacturing competitor.

### ***Unbalanced development in Kunshan***

However, it does not mean such local policy innovation had no problems. As argued in Chapter Four, performance-based personnel management with a heavy focus on economic indicators along with limited check and balances or civil society involvement actually could produce much unsustainable development (Unger and Chan 1995). Despite great performance in the area of economic globalization, Kunshan did not develop equally in other respects (Wei 2002b; Po and Pun 2003). In terms of a comprehensive set of indicators for a 'moderately better-off society (*xiao kang she hui*)',

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<sup>172</sup> Interview code: YC-03.

<sup>173</sup> The new supervision models were related to the more complicated semi-products transfers between factories, for example, transfer from EPZ to bonded zone, to different EPZ or to other factories outside of any SEZ.

<sup>174</sup> News source: *nan fang zhou mo* (based in Guangdong), 2003/06/11; also interview code: KO-02; KO-04; KC-04.

Kunshan under-performed on certain items like disposable income of city and rural inhabitants, R&D as a proportion of GDP, and green coverage in city areas (Table 7-14).

Table 7-14: Comprehensive indicators for 'moderate better-off' society in 2000

Indicators	Unit	Standard	Kunshan	Qualified
<b>Economic Development Section</b>				
GDP per capita	RMB	> 24,000	70,184	○
II, and III sector of GDP	%	>>92	97.7	○
urbanization	%	>>55	63.2	○
Registered unemployment rate	%	<5	2.4	○
<b>Living Standard Section</b>				
Disposable income of city habitants	RMB	>>16,000	13,034	×
Income of rural habitants	RMB	>>8,000	6,819	×
Average of housing areas for city habitants	m <sup>2</sup>	>>30	29.7	○
Average of housing areas for rural habitants	m <sup>2</sup>	>>40	62	○
Roads to get to every rural villages	%	100	100	○
Road area per city habitants	m <sup>2</sup>	>>12	21	○
Telephone numbers per 100 household	Set	>>200	235	○
Computer numbers per 100 household	set	>>40	40	○
Entertaining cost as total consumption	%	>>18	18	○
Engel coefficient	%	<40	37	○
<b>Social Development Section</b>				
R&D of GDP	%	>1.5	0.72	×
Enrollment rate of high school students	%	>90	98.4	○
Health system coverage	%	>90	96.7	○
Insurance coverage for city habitants	%	>95	98.9	○
Insurance coverage for rural habitants	%	>90	99.1	○
Satisfaction for public security	%	>90	92	○
Local self autonomy in city areas	%	>90	100	○
Local self autonomy for rural areas	%	>95	100	○
<b>Environment Development Section</b>				
Green coverage in city areas	%	>40	36.8	×
Forest coverage	%	>20	10.8	×
Environment comprehensive indicators	%	>80	93.3	○

Source: Zhang (2004)

This clearly shows the weakness of a local innovation process focused exclusively on economic development and ignoring other important social and environmental issues. For example, the role of the planning department in the policy making process was relatively weak compared to the other departments focusing on economic development. Arable, residential or recreational lands could be easily changed to industrial purposes simply only at the request of investors. And in the 1980s and 1990s, peasants did not

get enough attention in the compensations programs and expropriation process compared to their industrial counterparts.<sup>175</sup> To sum up, the so-called Kunshan experience was to some extent too economically focused on GDP and FDI promotion rather than socially and environmentally balanced to sustainable local development,<sup>176</sup> in ways that reflect the character of the innovation process as well as the broader circumstances of transition.

### 7-6 Conclusion

With the case study of Kunshan and KETZ development, this chapter has focused on a detailed history and the operations of policy innovation for local economic development in an example of a 'locally initiated project'. Three diversified types of local-central interactions were found sequentially in the history of KETZ and Kunshan development. The category of 'state intention to connive' can be used to characterize the initial development of KETZ in the 1980s due to the secret status of KETZ at the beginning. Then, 'state *ex-post* endorsement' occurred when KETZ was finally granted recognition as a national zone in the early 1990s. Finally, the story of Kunshan's successful promotion of the concept of 'export processing zone' to the centre can be understood as the type of 'state *ex-ante* adoption'. These processes also show when both the centre and Kunshan had their own lists of priorities and concerns, the outcome in terms of policy innovation reflected a trade-off between both sides after a real process of interaction.

In addition, from the perspective of 'asymmetric decentralization', economic decentralization meant that Kunshan became able to officially or unofficially contact

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<sup>175</sup> Interview code: KO-10; KC-07; YP-04.

<sup>176</sup> News source: *zhong guo jing yin bao* (based in Beijing), 2004/12/18.



either Jiangsu provincial government or the centre directly. With continuing political centralization, there was a brilliant record of career paths of local leaders in relation to the successful economic performances. Moreover, territorial competition with other development zones in Yangtze Delta was also a key factor triggering Kunshan's efforts to keep upgrading its business environment. In the particular context that FDI in Kunshan were dominated by Taiwanese investment, a pro-growth coalition between Kunshan officials and Taiwanese investors played an important role in transferring policy innovations from outside to Kunshan. As to the effectiveness of policy innovation, Kunshan did manage to positively upgrade its local economic capacity. However, Kunshan dealt less well with the big challenge of balancing economic growth with the interests of local people and with environmental development.

## CHAPTER EIGHT

### Policy Innovations in the Local Implementation of Centrally Initiated Projects Case Study of China Singapore Suzhou Industrial Park

*'CSSIP is the priority among all priorities (zhong zhong zhi zhong)'*<sup>177</sup>

*'A body with two wings, district in the west and park in the east (yi ti liang yi, tong yuan xi qu)'*<sup>178</sup>

#### 8-1 Characteristics of China Singapore Suzhou Industrial Park

##### *Globalized performance as a role model of development zones*

China-Singapore Suzhou Industrial Park (CSSIP) was established under the 'Agreement on Joint Development of China Singapore Suzhou Industrial Park' (the 'CSSIP Agreement') between both the China and Singapore governments in 1994. Prior to that, the location of CSSIP was just an arable land. There was limited construction and marketing before the 'CSSIP Agreement', meaning that CSSIP was a case of 'local implementation of centrally initiated projects'.

From the perspective of economic globalization, CSSIP has developed dramatically over the past decade. Compare CSSIP and Kunshan Economic and Technological Development Zone (KETZ) for example. KETZ was established in 1984 secretly by the Kunshan county-level government and then granted status of a national zone in 1992, meaning that KETZ had a longer history of development than CSSIP did. However, the

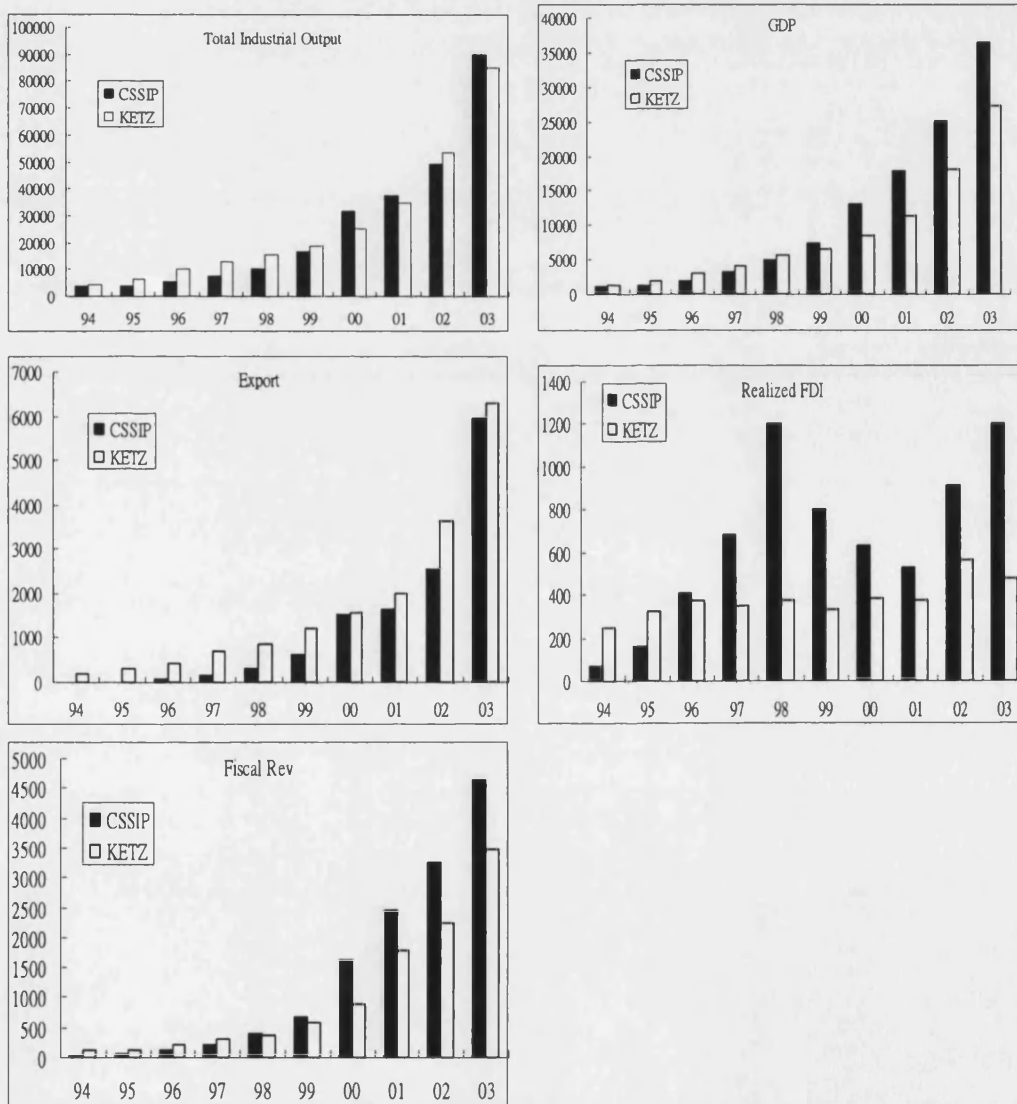
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<sup>177</sup> The comment was made by JIANG Zemin, the then President of China, in December 1997. CSSIP Investment Guide (1998), page2; also news source: Straits Times (based in Singapore), 1997/11/27.

<sup>178</sup> The comment was made as part of Suzhou Development Strategy in 9<sup>th</sup> Five-Year Plan (1996-2000). It means that 'a body', a metaphor for Suzhou, is able to fly successfully only with two equally strong wings- one Suzhou New District (SND) in the west and one China Singapore Suzhou Industrial Park (CSSIP) in the east (Wu 1997), also news Source: *gong shen shi bao* (based in Taipei), 1995/05/15. As discussed in Chapter Four, both SND and CSSIP were granted status as national development zones (Table 4-10).

economic performances of KETZ were soon surpassed by CSSIP (Figure 8-1). By 1996, just two years after the start, CSSIP had attracted more realized FDI than KETZ had. Two years after, by 1998, CSSIP generated more fiscal revenue than KETZ. After one more year, GDP in CSSIP overtook that in KETZ.

Figure 8-1: Comparative economic performance of KETZ and CSSIP



Note: Unit for total industrial output, GDP and fiscal revenue is million RMB; and unit for realized FDI and export is US\$ million

Source: Yearbook of Economic and Social Development for CSSIP (2002); and [www.sipac.gov.cn/yqjj/ijfz/ijzb](http://www.sipac.gov.cn/yqjj/ijfz/ijzb); Annual Report of Development on KETZ (2003), and Kunshan Statistics Yearbook (204)

The performance of CSSIP also can be seen in terms of its contribution to the transformation of the Suzhou city area. By 2003 CSSIP generated about 50% of the city's industrial output and 36% of its GDP, as well as 40% of realized FDI, 35% of exports and 27% of fiscal revenue (Table 8-1). Due to CSSIP's strong economic performances in many dimensions, the Chinese Association of Development Zone (CADZ) (*zhong guo kai fa qu xie hui*) twice organized conferences focusing on 'learning from development experiences in CSSIP': first 2001 and then in 2003.<sup>179</sup> It was the only one development zone show-cased by CADZ as a model for 'learning and adopting'. To sum up, CSSIP can be regarded as one of the most successful development zones in China during the post-Mao period.

#### *IT and electronic-focus, mainly Europe/America sources*

In terms of industrial sectors, CSSIP had a strong representation of electronic and information technology, and precision engineering industry from its start. By 1997, these two industries occupied for 60% of fixed asset investment, growing to 66% by 2004.<sup>180</sup> In terms of investment source, in contrast to KETZ where there was only limited investment from Europe (5.5%), North America (5.5%) and Singapore (1.7%), by 1996 FDI that CSSIP had attracted more companies from North America (39%), Singapore (12%) and Europe (9.6%) (Table 8-2). By 2004, European and American investors still accounted for the biggest share (42%), following by overseas Chinese from Hong Kong, Taiwan and Macau (22%), and Singapore (18%), and Japan and Korea (13%).<sup>181</sup>

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<sup>179</sup> Chronology of Chinese Development Zones, edited by Association of Development Zone of China Website: <http://www.cadz.org.cn/>.

<sup>180</sup> CSSIP Investment Guide (1997), page 20; (2005), page 50.

<sup>181</sup> CSSIP Investment Guide (2005), page 50.

Table 8-1: Economic performance of Suzhou City Area and CSSIP

Suzhou City Area	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Industrial Output	33,261	37,022	35,685	n.a.	45,477	63,531	71,855	103,962	126,404	191,472
GDP	13,230	14,841	17,027	n.a.	22,020	26,641	33,542	61,856	72,715	101,050
Realized FDI	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	1,185	2,072	2,944
Export	n.a.	n.a.	n.a.	n.a.	n.a.	2,773	4,672	6,191	8,834	17,177
Fiscal revenue	1,448	1,652	1,915	2,327	2,705	3,701	5,802	9,163	12,662	17,269

CSSIP	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Industrial Output	3,586	3,989	5,249	7,477	10,274	16,421	31,610	37,502	4,9025	89,797
GDP	1,132	1,357	1,962	3,274	5,029	7,440	13,048	18,015	25,170	36,510
Realized FDI	70	162	411	681	1,200	800	632	530	911	1,205
Export	0	6	72	165	295	634	1,510	1,652	2,552	5,960
Fiscal revenue	40	73	114	224	402	669	1,630	2,439	3,260	4,620

CSSIP % Suzhou City Area	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Industrial Output	10.78%	10.77%	14.71%	n.a.	22.59%	25.85%	43.99%	36.07%	38.78%	46.90%
GDP	8.56%	9.14%	11.52%	n.a.	22.84%	27.93%	38.90%	29.12%	34.61%	36.13%
Realized FDI	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	44.73%	43.97%	40.93%
Export	n.a.	n.a.	n.a.	n.a.	n.a.	22.86%	32.32%	26.68%	28.89%	34.70%
Fiscal revenue	2.72%	4.44%	5.96%	9.64%	14.87%	18.08%	28.09%	26.62%	25.75%	26.76%

Note: Unit for total industrial output, GDP and fiscal revenues are million RMB; and unit for realized FDI and export are US\$ million  
 Source Yearbook of Economic and Social Development for China-Singapore Suzhou Industrial Park (2002); and <http://www.sipac.gov.cn/yqjj/ijfz/ijzb> ; and Jiangsu Statistics Yearbook (2004), (2003), (2002), (2000), (1999), (1997), (1996), (1995)

Table 8-2: Investment source of CSSIP and KETZ by 1996

	CSSIP	KETZ
Europe	9.6%	5.5%
North America	39.0%	5.5%
Singapore	11.9%	1.7%

Note: data for CSSIP was fixed asset investment; data for KETZ was by realized FDI  
 Source: CSSIP Business brochure (1997); and Kunshan Statistics Yearbook (1997)

***'Foreign' Suzhou- Singapore characteristics of infrastructure***

Along with the brilliant economic performances in quantitative terms, there was a distinctive Singapore characteristic to CSSIP. Singapore highly exerted their influence on infrastructure construction and business marketing at the beginning. The infrastructure in CSSIP was built to the so-called 'Singapore/ international standard', which is one of the key reasons why there were a great amount of FDI from Europe and America to CSSIP (Pereira 2004a). In terms of hardware infrastructure, CSSIP offered 'ready-built factories (RBF)' for investors to reduce their start-up time and costs because they did not need to build their own factories. And the RBF were developed by Jurong Town Corporation, the key state-owned industrial land developer in Singapore, implying that the quality of RBF could be guaranteed. CSSIP also had its own power substations and water treatment plants. The scale and quality of the facilities were bigger and better than those in other zones. In 1997, CSSIP still generated less industrial output, GDP and export than KETZ did (Figure 8-1 above). But CSSIP itself had already built a water treatment plant with capacity of 15 ton per day and a sewage treatment plant with capacity of 10 ton per day. By contrast, by the end of 1997 in Kunshan, there were only a water treatment plant with capacity of 7 ton per day and a sewage treatment plant with capacity of 5 ton per day.<sup>182</sup> Moreover, these facility lines in CSSIP were built underground at the beginning of construction. Such engineering

<sup>182</sup> Suzhou Almanac (1998), page 51; Kunshan Almanac (1994-1997), page 131.

design and layout was not seen in other zones in China in the 1990s.<sup>183</sup> In addition, CSSIP was refilled 0.9 meter to protect against the 100-year worst flood record in Suzhou history. This prevented CSSIP from a damaging flood in 1997, where as other areas in Suzhou suffered quite seriously because these areas were constructed without any refills.<sup>184</sup>

Apart from hardware infrastructure, CSSIP also offered certain unique 'software' infrastructures. The famous one is the 'Provident Fund (PF) scheme', which was a comprehensive social security scheme different from that in the rest of China (Pan, Zhou et al. 2000). Started in 1955 in Singapore, the Central Provident Fund (CPF) was one of its most important social welfare programs. CPF can be characterized with three features: first, it was a comprehensive program covering housing, medical care and retirement pension and so on; second, both employers and employees had to contribute to CPF monthly; third, each contributing employees had his/her own individual CPF account. In 1997, a PF scheme was introduced by Singapore in the CSSIP, the first such pension program of its kind in China. Prior to that, China's pension system put most of the social security fund in a public account contributed by state-owned companies or public agencies (namely, *danwei*) and shared by everyone in the community. There were limited incentives for employees to work hard in the public pension pool. In the new PF scheme, in order to accumulate more in their individual deposits, employees were motivated to earn more income.<sup>185</sup> Therefore, the PF scheme became an important selling point for companies to attract employees who wanted to participate in

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<sup>183</sup> Suzhou Almanac (1995), page 45; also interview code: SO-02; YO-04.

<sup>184</sup> It is because the level of many lands in Suzhou areas, including the location of CSSIP, was lower than average. From the viewpoint of Singapore, the costly construction of refilling land became necessary. Suzhou Almanac (1995), page 48; also interview code: YO-04.

<sup>185</sup> The numbers of how much percentage from monthly gross salary and how much contributing to individual accounts varied, depending on the economic situation of CSSIP. Interview code: SO-07.

the PF pension scheme.<sup>186</sup> The success of the PF program was endorsed by increasing numbers of joining companies and employees. By 2004, the PF project covered over 3,000 companies and with around 162,000 employees (Table 8-3). Due to the Singapore-style characteristics, the CSSIP was nicknamed ‘foreign Suzhou (*yang suzhou*)’, compared to the ‘new Suzhou’ in the Suzhou New District and ‘old Suzhou’ in the downtown of Suzhou city Area.<sup>187</sup>

Table 8-3: Numbers of companies and employees joining central provident fund

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Company	--	69	173	228	291	400	658	1,012	3,867
Employee	--	4,283	8,712	15,120	22,901	28,140	39,980	69,544	162,747

Source: [http://www.sipac.gov.cn/yqjj/jjfz/jjzb/t20040223\\_4730.htm](http://www.sipac.gov.cn/yqjj/jjfz/jjzb/t20040223_4730.htm)

### *A twisting cooperation between China and Singapore*

CSSIP is the first and only large-scale international cooperation project between two governments in industrial estate and township development. At the beginning, Singapore dominated the infrastructure constructions and international marketing. Leaders from both countries endorsed CSSIP as an important international project. For example, in 1995 LEE Kuan Yew (Lee Sr.), then Senior Minister of Singapore, commented in public that Singapore would ensure the quality of CSSIP because Singapore’s reputation was at stake there. In the same year, ZHU Rongji, then PM of China said that what was learnt in CSSIP would make the five Special Economic Zones and Pudong New District better. In 1997, JIANG Zemin, then President of China promised that CSSIP was ranked as ‘the priorities among all priorities’ and must not be allowed to fail.<sup>188</sup> However, due to the scheduling and budgeting overrun of

<sup>186</sup> The PF scheme is exclusive in CSSIP. The other places in Suzhou implement more conventional social welfare system. Suzhou Statistics Yearbook (2003, page 410) clearly shows that the sum of social welfare insurance does not include CSSIP. Also news source: Far East Economic Review, 2001/12/06; and interview code: SO-01; SO-05; SC-07.

<sup>187</sup> News source: *ren min ri bao* (based in Beijing), 2001/06/07; also interview code: SO-02; SC-01.

<sup>188</sup> CSSIP Investment Guide (1997), page 23; also news source: Business Times (based in Singapore), 1995/10/05; Straits Times (based in Singapore), 1998/11/27.



China-Singapore Suzhou Industrial Park Development Co., Ltd. (CSSD), the development company of CSSIP (see details below), Singapore and China officially announced in 1999 that the control and management of CSSIP would be handed over back to China in two years time. Lee Sr. even described the performance of CSSIP before handover as a 'chastening experience' to Singapore (Lee 2000).

In 2001, the local government in Suzhou took over Singapore's role to take full responsibility for the development of the CSSIP. Under the Suzhou-led management, CSSIP has attracted renowned IC and semiconductor companies like Infineon, AMD, Hejian; and global leading TFU-LCD companies such as Samsung, AU, and Hitachi, and their suppliers, as well as famous electrical engineering companies like Emerson and Phillips.<sup>189</sup> Moreover, CSSD continuously made profits for four years after handover, and plans for initial public offerings in the Singapore stock market or elsewhere during 2006.<sup>190</sup> During the ten-year anniversary ceremony in 2004, both Singapore and China governments praised CSSIP as a successful project.<sup>191</sup> In other words, behind the dramatic development of CSSIP was a twisting story from an ambitious cooperation between Singapore and China, to a disappointed record in terms of development schedule and deficits, and then back to a prosperous development future.

### *Structure of the chapter*

As a case of 'local implementation of a centrally initiated projects', CSSIP involved three different parties: the central government in Beijing, the local government in

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<sup>189</sup> CSSIP Investment Guide (2005), page 51-53.

<sup>190</sup> News source: *er shi yi shi ji jing ji bao dao* (based in Guangdong), 2005/01/26; *lian he zao bao* (based in Singapore), 2005/03/21; Straits Times (based in Singapore), 2003/12/04; also interview code: SO-06

<sup>191</sup> News source: Straits Times (based in Singapore), 2004/06/10.

Suzhou and the Singapore government. Given that the arable land had been transformed into one of the most important high-tech manufacturing sites for IT and the electronic industry only over one decade, undoubtedly the Singapore-style CSSIP was relatively successful in terms of economic globalization.

The story of the development of CSSIP have already been written in terms of either a dimension of a rough description on the development (Cartier 2001a), of technology transfer (Walcott 2002), and of the importance of local politics (Yeung 2000; Thomas 2001; Pereira 2004a; 2004b). Here we particularly focus on it as a case of local implementation of centrally initiated projects (including an international partner) and examine the formation and transformation of CSSIP with the perspective of local policy innovation. The main questions include: through what institutional innovations were the so-called Singapore experiences able to transfer from Singapore to Suzhou? Why did the three main policy agents start up CSSIP? And how did they contribute to the policy innovation of CSSIP at different stages? Why did the Singapore experience become a crisis? And how did the three parties cope with the crisis? How many different types of local-central interactions can be identified during the process of CSSIP? And how did the mechanisms of 'economic decentralization to the local', 'political centralization under the party' as well as 'territorial competition with the other zones' operate in the policy process of CSSIP?

The structure of the rest of the chapter is organized in four parts. In the first, the discussion focuses on the international cooperation framework of CSSIP in order to understand how the so-called Singapore-style infrastructures could be established in Suzhou. Second, with the perspective of local-central dynamics, different types of local-central interactions during the implementation of CSSIP over a past decade are

identified. In this section, I discuss three categories of ‘local implementation of centrally initiated projects’, those identified in Chapter Five as ‘marginalizing the local’, ‘local obedience’ and ‘local flexibility’. In the third section, the progresses behind policy innovations in CSSIP are addressed, including the compromises between the concerns of different parties, the roles of economic decentralization and of the career paths of the Suzhou leaders. The effectiveness of policy innovations as a consequence of the CSSIP process is addressed in the fourth section.

## **8-2 Policy Innovations: Transferring Singapore Experiences to Suzhou**

### *Phenomenon of Singapore experiences in Suzhou*

The so-called Singapore experience was one of the most important characteristics in a package of policy innovations in CSSIP. Apart from the Singapore/international -style infrastructures mentioned, modern bureaucratic recruitment and training were introduced to Suzhou via Singapore. At the beginning, with the suggestions made by Singaporeans, the recruitment of Chinese officials to the administrative committee of SIP (SIPAC) was made open to a national-wide search. There were 2,500 applicants competing for 60 positions. The selection process was unique for the time, including a long series of examinations and psychological and physical tests, and oral interviews with Singaporean staff in CSSD.<sup>192</sup>

Moreover, Singapore systematically transferred the organizational software of economic development to China through the operations of the Singapore Software Office (SSO) on the Singapore side and Software Transfer Office (STO) as its Chinese counterpart. Through arrangements between SSO and STO, members of SIPAC staff

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<sup>192</sup> Suzhou Almanac (1995), page 47; also interview code: SO-01; SO-06.

were enabled to take a series of mutual visits and training courses, including economic and labour management, urban design and town planning, environment protection, traffic management, housing and real estate development, social security, and so on. By 1995, the training programs had covered 65% of SIPAC staff, while by 1996, 94% of SIPAC staff had entered the programs at least once or more.<sup>193</sup> The Suzhou staff training and learning programs continued after the handover. By 2004, there were 88 groups with a total membership 1,360 person involved in the training and learning programs.<sup>194</sup> This staff training played an important role in establishing the so-called quasi-market regulatory systems. In 1995, some staff had never heard of the term of ‘pro-business (*qin shang*)’, and mistakenly referred to ‘discrimination to business interests (*qing shang*)’.<sup>195</sup> Through training programs as one of the key media, the concept of a pro-business stance has since been effectively installed into the Chinese staff of CSSIP and CSSD.

Two regulations related to the Singapore/international- standard infrastructure were transferred to CSSIP in 1995: one was ‘Environment Protection and Management in Relation to Construction Projects in CSSIP’ and the other ‘Urban Planning and Construction Management in CSSIP’. These two regulations were quite different from the then common conventions in China and much closer to the Singapore system. The planning-decision making mechanism implemented in CSSIP involved organizing a professional committee coordinated by the planning department of SIPAC and related experts. In most places of China at that time, planning departments of local

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<sup>193</sup> Suzhou Almanac (1995), page 48; (1996), page79; (1997), page 39.

<sup>194</sup> The press note of the 7<sup>th</sup> meeting of Joint Steering Council between Singapore and China governments (JSC).

<sup>195</sup> The responses of making mistake *qin shang* to *qing shang* reflected to the stern legacy of communist ideology by then. Even in the early 1990s, the heated debate in Chinese politics is still related to pro-socialist (anti-capitalist) or pro-capitalist. Pro-business attitude was just too close to the concept of ‘pro-capitalist’. News source: *Suzhou ri bao* (based in Suzhou), 2005/05/17.

governments were relatively weak and had very limited coordinating powers with other departments such as FDI business promotion, economic affairs exerting the dominant roles. The planning mechanism giving strong coordination powers to CSSIP was transferred from Singapore (Pan and Zhou 1999).<sup>196</sup> In addition, a budget for master plans and action plans in CSSIP were built up by charging a fee of 0.15% of constructions costs whenever construction projects were permitted, since there were then no official budget lines in Chinese cities for making master plans and action plans. This policy was also adapted from the experience of Singapore (Pan and Zhou 1999). By 1999, there had been 37 regulations adapting Singapore experiences to the CSSIP situation.<sup>197</sup>

#### *New division of labour between CSSD and SIPAC*

One of the most important reasons why the Singapore experiences could be transferred to Suzhou was because of the new division of labour between the development company (CSSD) and the administrative committee (SIPAC) of CSSIP. In 1993, the basic principle of division of labour between China and Singapore was that administration involving issues of sovereignty was kept in the hands of SIPAC, whereas economic management was assigned to Singapore.<sup>198</sup> At that time, in national zones, such as the Tianjin and Shanghai Caohejing economic and technological development zones, development companies were wholly owned by the administrative committees. All development strategies and personnel managements of the former were thus controlled by the latter (Bao 2002). However, CSSD was a pure commercial corporation, under the control of the Singapore government for the first six years

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<sup>196</sup> In my field trips in CSSIP, an example that the current development land use in CSSIP is almost the same as the layout of the master plan 10 years ago was often cited not only by my interviewees in CSSIP but also those in other zones nearby who appreciated the strong planning coordination in CSSIP. Interview: SO-02; SO-06; YO-03; YO-04.

<sup>197</sup> The press note of the 4<sup>th</sup> JSC meeting. Also interview code: SO-07; SO-08.

<sup>198</sup> The statement by Li Peng, then PM of China. Suzhou Almanac (1995), page 34.

(1994-2000). It had absolute powers to make development decisions of CSSIP, from infrastructure construction to business promotion, even to staff training for SIPAC. SIPAC, on the other hand, was an official arm of the Suzhou local government in charge of the administrative and sovereign affairs, including displacement of peasants and farmers, official documentations for investment procedures, and the administrative services. For example, SIPAC requisitioned land and then sold the lease of land to CSSD at a price set by the central government in Beijing (Pereira 2004b). All staff in SIPAC were of Chinese nationality. ZHANG Xinsheng, then Suzhou mayor, was the first director of SIPAC, holding both positions until he left Suzhou in 1997.

In contrast to SIPAC, CSSD was a company started from August 1994 with a registered capital of US\$ 50 million, and a loan of US\$ 100 million from international banks and around US\$ 30 million from various other financial institutions in China for infrastructure development, operations and marketing costs (Fei 2000).<sup>199</sup> In terms of stake-holding structure, CSSD was designed as a joint venture, with a Chinese consortium taking 35% and a Singaporean consortium holding 65%. The Singapore consortium was the Singapore-Suzhou Township Development (SSTD) and its Chinese counterpart was the China Suzhou Industrial Park Investment Co, Ltd (CSIPC). Of the 11 members in the board of CSSD, 7 were from Singapore with 4 from China.

SSTD was composed of government-linked-company (GLC)-related companies and other Singapore and foreign companies, led by Keppel Corporation, a major GLC with shipyard background in Singapore.<sup>200</sup> Most of them had wide experiences in

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<sup>199</sup> Suzhou Almanac (1995), page 36-37.

<sup>200</sup> The members of SSTD involved: Centrepont Properties Ltd, City Development Ltd, DBS Land Ltd, EDB Investment Pte Ltd, GE Capital Services, JTC International Pte Ltd, Keppel Land Ltd, KMP China Investments Pte Ltd, Liang Court Suzhou Investment Pte Ltd, Lum Chang (Suzhou) Investments Pte Ltd, Mitsui&Co. Ltd and Mitsubishi Corporation joint-venture, NTUC Co-operative Suzhou Investments Pte

international commercial networks or 'know-how' relevant to development and marketing of CSSIP. For example, the Jurong Town Corporation was Singapore's leading industrial park developer, and the Economic Development Board was a chief ministry-level organization to promote Singapore's economic growth. It means that despite its commercial status, CSSD was actually directed by the Singapore government. It can be seen in the recruitment to senior positions in CSSD by senior members of the Singapore government or state bureaucrats.<sup>201</sup> Taken together, Singapore ambitiously demonstrated to potential investors that by making available its nation's efforts and resources, CSSIP was a 'national project' of Singapore in China.<sup>202</sup>

Such Singapore-led management brought certain achievements. By September 1994, only half a year after the project announced, 14 investment projects had been established and 80% of the initial area had been sold out. 6 of 14 were over US\$ 15 million per project.<sup>203</sup> The growth also can be shown in comparison between CSSIP and other national zones. CSSIP was set up in 1994, which was 10 years later than the first 14 national zones that were established in 1984. By November 1998, the accumulated amount of contractual FDI in CSSIP was US\$ 5,880 million with realized FDI as US\$ 2,546 million, which was dramatically ranked as the second and the third among all national zones (Xie 1999). SIPAC only required two-third fewer administrative staff compared to other zones. Zhu, the then PM, praised CSSIP in public as streamlined, co-ordinated, and highly efficient (Pereira 2004a). CSSIP also

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Ltd, Pidemco B.V. China, Samsung Corporation, Sembawang Corporation Investment (S) Pre. Ltd, Shing Kwan Investments (S) Pte Ltd, Singapore Land Ltd, SLF International Pte Ltd, STIC Investment Pte Ltd, Sum Cheong (China) Pre Ltd, Temasek Holdings (Pte) Ltd, and Wing Tai Holdings Ltd. CSSIP Investment Guide (1997), page 16.

<sup>201</sup> For example, LIM Chee Onn, the first chairperson of CSSD, was a member of parliament in Singapore; CHAN Soo Sen, the first chief of executive (CEO) of CSSD, was Singapore's parliamentary secretary. David Lim, the second CEO of CSSD, was a member of parliament in Singapore as well as the CEO of the Port Authority of Singapore (Pereira 2004).

<sup>202</sup> CSSIP Investment Guide (1997), page 23.

<sup>203</sup> Kunshan Almanac (1995), page 50.

attained successful achievements in countering corruption, which was one of the serious problems in China by then (Pan, Zhou et al. 2000).<sup>204</sup>

***Crisis: budgetary and schedule overrun***

However, the Singapore consortium countered difficulties, particularly in infrastructure finance. In terms of expenditure, the high-standard infrastructures were very costly. The accumulated cost to CSSIP involved 200 million RMB per km<sup>2</sup> by 1994; and a further 500 million per km<sup>2</sup> thereafter. This compares with KETZ expenditure of less than RMB 100 million per km<sup>2</sup> in the decade to 1998 (Table 8-4). Moreover, in terms of revenue, as an independent company, incomes for CSSD in the period up to 2000 mainly came from land sale without subsidy from the public fiscal coffers.<sup>205</sup> It was the reason why the price of industrial estate in CSSIP was at US\$ 7.2 to 6.5 dollar per m<sup>2</sup> from 1994 to 1999,<sup>206</sup> compared with US \$3.6 dollar per m<sup>2</sup> or even cheaper in neighbour development zones. In fact, the price in CSSIP was almost as high as in Shanghai (Thomas 2001).

Table 8-4: Accumulated infrastructure expenses in CSSIP and KETZ

Zone	Year	94	95	96	97	98	99	00	01	02
CSSIP	Area (km <sup>2</sup> ) (1)	2	3	5	6.8	7.5	8.2	9.4	13.5	16
	Cost (2) (million RMB)	400	1,666	3,986	4,232	6,096	7,001	7,827	8,943	11,490
	<b>Average (2)/(1)</b>	<b>200.0</b>	<b>555.3</b>	<b>797.2</b>	<b>622.4</b>	<b>812.8</b>	<b>853.8</b>	<b>832.7</b>	<b>662.4</b>	<b>718.1</b>
KETZ	Area (km <sup>2</sup> ) (1)	15	19	20	20	14	12	14	16	24
	Cost (2) (million RMB)	730	940	1,041	1,152	1,264	1,394	2,360	2,963	4,627
	<b>Average (2)/(1)</b>	<b>48.7</b>	<b>49.5</b>	<b>52.1</b>	<b>57.6</b>	<b>90.3</b>	<b>116.2</b>	<b>168.6</b>	<b>185.2</b>	<b>192.8</b>

Source: Jiangsu Statistics Yearbook for various years

<sup>204</sup> New source: Xinhua News Agency 1998/12; cited from Yeung (2000).

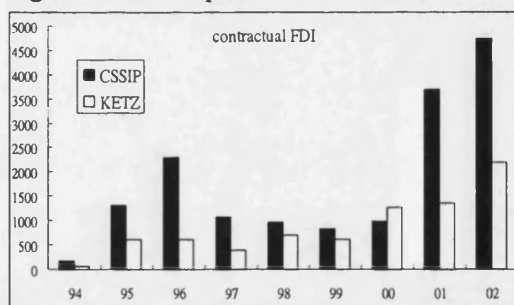
<sup>205</sup> Interview code: SO-03; SO-04; SO-05; SO-06.

<sup>206</sup> CSSIP Investment Guide (1995), appendix section.



Even on this basis, the infrastructure finances of CSSD were thrown out of balance by the Asian financial crisis that began as a currency crisis in Thailand in 1997 but soon turned into a crisis for the productive economy of Asia and beyond.<sup>207</sup> Internally, existing factories and companies in CSSIP stopped expanding their operations, while externally, the weak global and regional economies reduced the number of potential new tenants, slowing the sales of developed industrial estate in CSSIP (Pereira 2004b). CSSIP only gained contracts for half as much FDI in 1997 as to in the previous year, and this situation continued until 2001. In contrast to CSSIP, KETZ was less injured during Asia Financial Crisis during 1997 and recovered from 1998, whereas it was 2001 before CSSIP investment picked up significantly (Figure 8-2). The marketing record remained much better than all of the surrounding development zones, but with just US 7 billion reached by March 2000, it was far below the US\$ 20 billion target in the original business plan (Yeung 2000).

Figure 8-2: Comparison of contracted FDI in CSSIP and KETZ



Note: Unit for US\$ million  
Source: same as Table 8-1

The direct impact was a huge delay of development, which was evidenced by rescheduled targets set in the meetings of China- Singapore Joint Steering Council (JSC). As the highest political body co-chaired by vice PM of both China and Singapore governments, JSC met annually to review the progress of CSSIP. According

<sup>207</sup> Interview code: SO-01; SO-06.

to the press notes of JSC meeting, in 1995 (the 2<sup>nd</sup> meeting) and 1996 (the 3<sup>rd</sup> meeting), the targeted schedule for CSSIP was to develop 8 km<sup>2</sup> by the end of 1997, and further to complete the construction of 70 km<sup>2</sup> by the end of 2000. There was no regular JSC meeting until 1999 (the 4<sup>th</sup> meeting), when the target was reset by the governments to one of finishing the first 8 km<sup>2</sup> by end 2000.<sup>208</sup> A consequence of this schedule overrunning was a trouble in profit making. CSSIP built expensive infrastructure of the so-called Singapore/international standards and relied on selling land as its main revenue source. Delayed development inevitably meant the need for CSSD to carry its losses. By 1999, it was reported to have been experiencing yearly losses averaging US\$ 23-24 million since 1994. And accumulated losses were expected to be up to US\$ 90 million by the end of 2000 if nothing changed. It was further reported that the Singapore consortium of CSSD had defaulted on its payment on a capital loan established at around US\$ 10 million due for repayment in 1999.<sup>209</sup>

### ***Crisis management: turnover from Singapore to Suzhou***

Due to budgeting and scheduling overruns of CSSD, the Singapore and China governments signed a new 'memorandum of understanding' in July 1999 that they would exchange their shares of CSSD by the end of 2000. The Singapore consortium would decrease its share in CSSD to 35%, as the China consortium would increase its share to 65%. Two announcements were, however, made. First, Singapore would completely develop the 8 km<sup>2</sup> before handover. And second, these would be 'no change' in the inter-governmental cooperation framework; in the essence of the joint venture; in the goal of developing the park; or in the guarantees given to all

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<sup>208</sup> The press notes of each JSC meeting were downloaded from <http://www.sipac.gov.cn/yqjj/lsh-02.htm> to <http://www.sipac.gov.cn/yqjj/lsh-07.htm>; also news source: Far East Economic Review (based in Hong Kong), 1999/07/08.

<sup>209</sup> News source: South Morning China Post (based in Hong Kong), 1999/05/11; Straits Times (based in Singapore), 1999/09/15; 1999/05/10; and *zhong yang ri bao* (based in Taipei), 2001/06/17.

investors.<sup>210</sup> Both governments reassured investors that the new management would keep providing the same international level of services that investors had come to expect, through there were worries about the implication of losing the strongest selling point of CSSIP, the Singapore experience.<sup>211</sup> This seems to have been reflected in a falling level of realized and contracted FDI in three years 1999- 2001 (Figure 8-1 above).

On 1<sup>st</sup> January 2001, both sides ‘quietly’ exchanged their holdings of CSSD. The ceremony only involved some document signing without any fanfare or the presence of senior officials from either government. The implication of the shift of CSSIP to Chinese control after 2001 can be analysed in many dimensions. First, in personnel terms, whereas before handover, the chairperson and CEO of CSSD were Singaporeans, with 30-40 Singaporean staff, after handover, all Singaporean staff but three left.<sup>212</sup> The vice mayor of Suzhou now ‘tripled’ as the director of SIPAC and the CEO of CSSD, and the mayor/ party secretary of Suzhou doubled as chairperson of CSSD. Second, the Suzhou government started to involve itself strongly in the development of CSSIP. SIPAC participated in infrastructure construction for industrial lands. CSSD became one of the land development companies after handover. Nine Suzhou-based, even SIPAC-owned, companies were established or reorganized to produce infrastructure in CSSIP, comprising together the so-called ‘ten public-owned companies in CSSIP’ (*yuan qu shi da gong si*).<sup>213</sup>

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<sup>210</sup> Interview code: SO-05; SO-08.

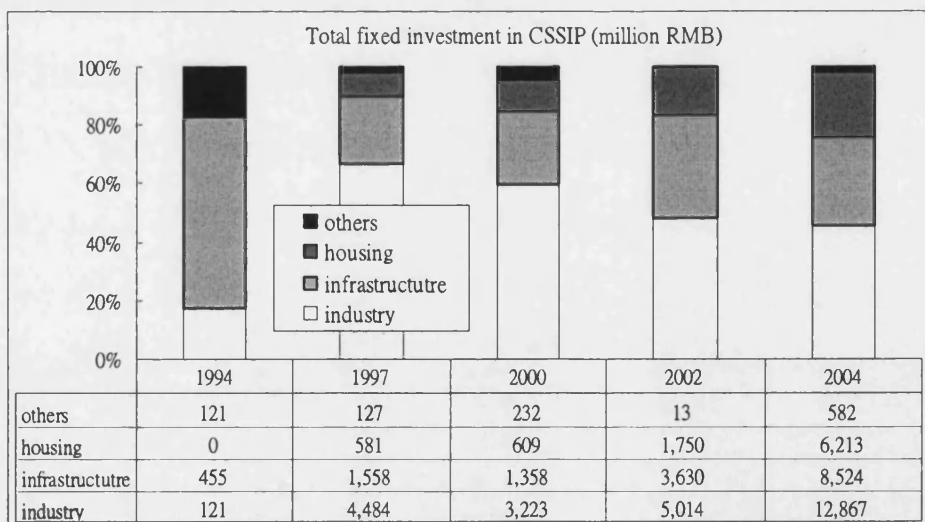
<sup>211</sup> For example, Turrentine, the head of Emerson’s operations making compressors and motors in 2001, admitted in an interview that ‘[in 1999] there was a bit of nervousness at headquarters [in Sweden] when the local partners took the majority in the park’. News source: Far East Economic Review (based in Hong Kong), 2001/12/06.

<sup>212</sup> News source: Far East Economic Review, 2001/12/06.

<sup>213</sup> These companies were not absolutely new. For example, in July 1996, five wholly-owned -by-SIPEDC companies were established with a variety of focuses: including industrial development, technological development, tourist development, housing development, and infrastructure development.

Third, with the involvement of these companies, residential projects were promoted for the first time, becoming a major source of profits for SIPAC.<sup>214</sup> Apart from infrastructure and industry, the share of housing in CSSIP investment rose from about 10% in 1997 up to more than 20% in 2004 (Figure 8-3). Fourth, and most importantly, in order to lower land prices, SIPAC started using the profits from the ten companies to cross-subsidize CSSD. Prices for industrial lands were lowered from US\$ 7.2-6.5 dollar to around US\$ 3.0 dollar per m<sup>2</sup> or even less after handover. However, for the account book of CSSD, the selling price was still reported as US\$ 7.0 to 6.5 per m<sup>2</sup>. The difference between the *de facto* price to the investors and the number reported in the account book was subsidized by the public budget of SIPAC. In CSSIP, this new strategy was called ‘developing industrial lands by subsidizing from the development of commercial lands’ (*yi shang bu gong*).<sup>215</sup>

Figure 8-3: Total fixed Investment in CSSIP



Source: author compiled from [www.sipac.gov.cn/yqjj/jjz/jjzb](http://www.sipac.gov.cn/yqjj/jjz/jjzb)

Interview code: SO-02; SO-03; SO-04.

<sup>214</sup> News source: Far East Economic Review, 2001/12/06; also interview code: SO-02; SO-03; SO-04.

<sup>215</sup> News source: *zhong yang ri bao* (based in Taipei) 2001/06/17; *cai jing shi bao* (based in Shanghai) 2001/03/26; Far East Economic Review, 2001/12/06; also interview code: SO-02; SO-03; SO-06.

Certain regulations and systems with Singapore characteristics were actually kept in place, and standards of infrastructure did not go down.<sup>216</sup> The PF scheme was even expanded to more companies and employers (Table 8-2 above). Moreover, statistically, CSSIP grew gradually after 2001 not only in terms of realized and contracted FDI (Figure 8-1 and 8-2 above), but also industrial outputs, fiscal revenue and GDP (Table 8-1 and Figure 8-1 above). Technologically, CSSIP is reported to have become one of the IC chip-making hubs in China. Apart from Samsung and Hitachi already operating there before handover, CSSIP now attracted Fairchild Semiconductor, Philips Semiconductors and United Microelectronics Corporation.<sup>217</sup> Financially, CSSIP also passed the most crucial challenge, namely, making CSSD profitable. By the end of 2001, CSSD for the first time made a net profit, of 7.6 million US dollars. By 2003, CSSD had profited continuously for three years, removing the accumulated loss completely and showing a gain of more than 12 million US dollars.<sup>218</sup> The initial public offering for CSSD was also under way.

### **8-3 Local-Central Interactions in Suzhou during the CSSIP process**

#### ***The process of ex-ante state adoption at the start: Lee and the two Dengs***

When theorizing the various types of local-central interactions in relation to policy innovation, one possibility to be identified was that local governments may initiate projects by persuading the centre to adopt their ideas. The beginning of CSSIP is a case in point.

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<sup>216</sup> News source: *lian he zao bao* (based in Singapore), 2004/06/09. The report is an interview transcript with Lee Sr. of Singapore; also interview code: SO-02; SC-02; SC-07; YO-04.

<sup>217</sup> Also thanks to the labour-intensive manufacturing development of neighbouring zones (of course, including KETZ and SND) in the 1990s, a pool of skilled labours and supply chains for such high tech industry have been established. News source: Business Times (based in Singapore), 2002/03/12; 2002/08/20; and Far East Economics Review (based in Hong Kong), 2001/12/06

<sup>218</sup> The press notes of the 6<sup>th</sup> meeting of JSC (28<sup>th</sup> May 2002); and the 7<sup>th</sup> meeting of JSC (17<sup>th</sup> May 2004).

In late 1992, Lee Sr. of Singapore visited Suzhou. Zhang, the then mayor of Suzhou, mentioned to Lee an idea of using one tenth of Singapore's foreign reserves to invest in Suzhou. Zhang promised that Suzhou could offer special treatment to the cooperation project. However, Lee Sr. gave a lukewarm response because he did not think local governments had the power to give Singapore a fresh site on which to build a miniature Singapore. Zhang did not give up the idea, however. Through his personal networks, he arranged for DENG Pufeng (Deng Jr.), a son of DENG Xiaoping (Deng Sr.), to pay Lee Sr. a visit in Singapore in late 1992. Deng Jr. mentioned the idea again. Back in Beijing, Deng Jr. also forwarded the idea to the office of Deng Sr. (Lee 2000). Then the central government in Beijing started to consider the project of Singapore investing in Suzhou. In April 1993, Goh, then PM of Singapore, paid a state visit to Beijing to discuss the proposals with JIANG Zeming and LI Peng. Jiang and Li were the then president and then PM of China. It was the first time that Singapore officially proposed the idea of cooperation.<sup>219</sup> In February 1994 the State Council decreed the 'State Council's Approval on the Related Issues of CSSIP Development' (CSSIP Approval),<sup>220</sup> and China and Singapore signed the 'CSSIP Agreement'.

In Chapter Five, I also argue that the ongoing process of a policy that was adopted by the central government after local governments' lobby and persuasion can be understood as one which dynamically evolved from the category of 'locally initiated projects' to 'local implementation of centrally initiated projects'. In fact after 1994, CSSIP experienced three types of local-central interactions in the category of 'local implementation of centrally initiated projects', namely, 'marginalizing the local', 'local flexibility' and 'local obedience'. Each type is discussed as follows.

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<sup>219</sup> Suzhou Almanac (1994), page 33.

<sup>220</sup> Suzhou Almanac (1995), page 30.

### *The process of marginalizing the local*

As mentioned, prior to 2001 the development of CSSIP was dominated by the Singapore-led CSSD. As a city state, Singapore enjoyed a one-scale structure without any experience of local-central interactions. However, China was a huge country with five scales: the centre, province, prefecture, county, and township and village (Ma 2005). This is what some Singaporean scholars and political have called a 'mismatch of scales' (Yeung 2000; Thomas 2001).<sup>221</sup> Therefore, it is understandable that Singaporeans were accustomed to contacting the central government in Beijing directly. Such type of 'marginalizing the local' could be traced back to the beginning stage prior to 1994. In 1992 Lee Sr. did not believe that any local government like Suzhou could carry through any promise. He only had second thoughts about the project after Deng Jr. from Beijing paid a visit to Singapore and promised his help in Beijing. Later, during the period when CSSD suffered budgetary deficits, Singaporeans directly flew off to visit central officials in Beijing, even to contact the then President of China, before communicating with local officials to sort out the problems. But from the viewpoint of Suzhou officials, these actions were very inappropriate because the courteous procedure to resolve problems was to talk to the people on the spot first instead of their supervisors. It means that the Singapore's approach of going directly to Beijing distressed the local governments and caused them to lose face<sup>222</sup>

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<sup>221</sup> Lee Hsien Loong (Lee Jr.), then vice PM of Singapore and a son of Lee Sr., mentioned that Singapore underestimated the length of the chain of command between the centre and the locals, and the extent to which the locals have latitude. News source: Far East Economic Review (based in Hong Kong), 1999/07/15. It is an interview transcript with Lee Jr.

<sup>222</sup> Wang Pian, deputy director of International Business Institute at National University of Singapore, also challenges that the so-called Singaporeans' understanding of mainland China's culture, mentality, and business practices was sometimes worse than Americans' and Europeans'. News source: South China Morning Post (based in Hong Kong), 1999/06/30.

The marginalization of Suzhou can also be shown in a more direct way. Unlike personnel arrangement in most of administrative committee of development zones that are decided directly by the government of their own jurisdiction, the officials and employees of SIPAC were appointed by the Jiangsu provincial government (Pereira 2004b). On top of that, the recruitment of SIPAC staff was pursued via a nation-wide selection. As a consequence, on the one hand, SIPAC officials were young and highly educated- 90% of staff had at least undergraduate degrees (Pan and Zhou 1999)- but, on the other hand, very few of them could speak or understand the local Suzhou dialect. It implied that staff in SIPAC were not really embedded in Suzhou. This is one of the reasons why some Suzhou officials called the staff in SIPAC outsiders (*wai di ren*) in relation to native Suzhou (Liao 2001).

The marginalization of the local also can be understood as a way of diluting Suzhou by more involvement from the centre, which can be evidenced by the changing structure of stake holders in the Chinese Suzhou Industrial Park Co., Ltd (CSIPC), the Chinese consortium of CSSD. CSIPC was initiated in 1994 by two Suzhou and Jiangsu sponsors- Suzhou Industrial Park Economic Development Co., Ltd (SIPEDC) and Jiangsu International Trust and Investment Corporation (JITIC). The former was organized by nine Suzhou-owned companies and the latter was a Jiangsu-owned company (Table 8-5). By then, CSIPC was a local-level middle-size company.<sup>223</sup>

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<sup>223</sup> Suzhou Almanac (1995), page36.



Table 8-5: Stake holders in the China consortium of CSSD

	Members of stake holders in CSIPAC	NOTE
1994-1996;  Two companies	<ul style="list-style-type: none"> <li>■ Organized by two companies: Suzhou Industrial Park Economic Development Co., Ltd (SIPEDC) and Jiangsu International Trust and Investment Corporation (JITIC).</li> <li>■ SIPEDC was a joint investment by 10 Suzhou-based companies: (1) Suzhou Security, (2) Suzhou Goods Agglomeration, (3) Suzhou Investment, (4) Suzhou Industrial United Investment, (5) Suzhou Housing, (6) Suzhou Trust of China Commercial Bank, (7) Suzhou Textile Import and Export, (8) Suzhou Trade, (9) Suzhou Economic Affairs General, (10) Suzhou Mechanics Import and Export</li> </ul>	<ul style="list-style-type: none"> <li>■ Local-based small joint company</li> </ul>
1996-2000  Twelve companies 12=2+9+1	<ul style="list-style-type: none"> <li>■ Apart from SIPEDC and JITIC, nine additional central-government-owned companies were invited to join the members. The new collective realized capital was US\$ 72 million.</li> <li>■ Nine additional companies are (1) Trust and Consultancy Company of Bank of China; (2) China National Cereals, Oils and Foodstuffs Import and Export; (3) China Great Wall Industrial Corporation; (4) China Ocean Shipping (Group) Company; (5) China Energy Conservation Investment Corporation; (6) China National Chemicals Import and Export Corporation; (7) China Central Television; (8) China Huaneng Group; (9) China National Technical Import and Export Corporation</li> <li>■ China Agricultural Bank Finance Co., Ltd joined in late 1998</li> </ul>	<ul style="list-style-type: none"> <li>■ Suzhou capital was diluted; and CSIPAC was a central- based bigger-scale joint company</li> </ul>
2001 onwards  Fourteen companies 14=12+2	<ul style="list-style-type: none"> <li>■ Apart from the existing twelve companies, there are two more Suzhou-based companies becoming members of the China consortium of CSSD</li> <li>■ Two more Suzhou-based companies are: (1) Suzhou Infrastructure Investment and Management Co. Ltd; (2) Suzhou New District Economic Development Group Head Co.</li> </ul>	<ul style="list-style-type: none"> <li>■ Suzhou increased its involvements in CSIPAC</li> </ul>

Source: author compiled from the Suzhou Almanac of various years

However, in 1996, nine state-owned companies were brought to join with SIPEDC and JITIC in order to reorganize CSIPC. These nine companies had strong links with the Ministry of Economics and Trade (MOET), which was under the leadership of Li, who signed the ‘CSSIP Agreement’ on behalf of China and doubled then as vice PM and Minister of MOET.<sup>224</sup> In other words, Suzhou interest was diluted by more capital coming from the central-linked companies. Moreover, the photograph of the ceremony signing the ‘CSSIP Agreement’ also offered the visual confirmation of marginalizing Suzhou (Thomas 2001). As Lee Sr. of Singapore and LI Lianqing of the then vice PM of China signed the ‘CSSIP Agreement’, the first two rows standing behind were the central and provincial officials of both governments. Suzhou officials were only in the third row (Figure 8-4).

<sup>224</sup> Suzhou Almanac (1997), page40; also interview code: SO-02; SO-06.

Figure 8-4: A photograph of the signature ceremony in 1994



Note: the representatives signing the 'CSSIP Agreement' were Lee Sr. of Singapore and Li, the then vice PM of China. The third and four left in the second row were the then PM of Singapore and China. The first right in the second row was CHEN, Huanyou, then Jiangsu governor. Zhang, the then mayor of Suzhou was only able to stand in the position of the first right of the last row.

Source: [http:// www.sipac.gov.cn](http://www.sipac.gov.cn)

Suzhou only regained its position after the handover. In 2001, two more local heavyweight companies were added in to CSIPC: Suzhou Infrastructure Investment and Management Co. Ltd (SIIM) and Suzhou New District Economic Development Group Head Co (Su Xin Group). The former is a wholly-owned company invested in solely by the Suzhou municipal. The latter is a wholly-owned company invested in solely by the Administrative Committee of Suzhou New District (SND), which is another national development zone in Suzhou city area.

### ***The process of local obedience***

When being marginalized by Singapore and diluted by the central government in Beijing, Suzhou behaved in the ways both of 'local obedience' and 'local flexibility'.

Two examples can be pointed out in the type of 'local obedience'.<sup>225</sup> First of all,

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<sup>225</sup> It must be noted that from the Singapore's perspective, the local government in Suzhou did not obey the central government's policy. They complained that the Suzhou government that promised wholehearted support to SIP beforehand actually failed to honour contractual undertaking to CSSIP to provide power substations, remove rubbish, dumps and relocate power pylons. The land tenure was also shorter than had been agreed to. The total amount in dispute was US\$ 44 million. The message was in a

Suzhou obeyed the concept of division of labour between CSSD and SIPAC. According to the 'CSSIP Agreement', Singapore rather than Suzhou shouldered the responsibility of international marketing. Therefore, organizationally, SIPAC was different from all other development zones that regarded business promotion as the top priority. Seven bureaus were set up in SIPAC by 1994, including Bureaus of Economic and Trade Development, of Planning and Construction (including specific committee on land development), of Social Affairs, of Taxation, of Organization and Personnel, of Local Development, and Office of Secretarial and Foreign Affairs. None of them was involved with business marketing.<sup>226</sup> By then, CSSIP was mainly promoted by the Singapore-led CSSD in cooperation with Singapore's Economic Development Board (EDB). One of reasons why Suzhou could be successfully promoted in the international markets was because of EDB's global branches.<sup>227</sup> Soon after the 'CSSIP Agreement' was signed, CSSD launched an international marketing by joining one of EDB's regular marketing tours to Europe.<sup>228</sup>

Second, in the early 1990s, Suzhou actually disagreed with the Singapore's concept to infill the lands but did not intervene (or was forced not to intervene) because Singapore firmly insisted on doing so. And the 1997 flood that generated large scale disasters in other Suzhou areas but not in CSSIP proved that the 'local obedience' resulted in a better outcome. In addition, also because of 'local obedience' to Singapore being in charge of construction, SIPAC and the Suzhou government did not (again, or might not

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letter submitted to Far East Economic Review by Davia Lim, then CEO of CSSD. News source: Far East Economic Review (based in Hong Kong), 1999/09/16.

<sup>226</sup> The Bureau of business promotion and marketing was established only after handover. Suzhou Almanac (1996), page 78; and Suzhou Investment Guide (2003), page 8.

<sup>227</sup> There was a list of all contact details of the 17 branches of EDB in the CSSIP Investment Guide (1994) and (1997). Those who are interested in CSSIP were encouraged to get in touch with any of the 17 worldwide offices for further information and discussion.

<sup>228</sup> ZHOU Xuan, the vice director of SIPAC by then, joined the international marketing tour and admitted that without Singapore's help, CSSIP and Suzhou would be very difficult to market themselves in front of many multinational companies. Suzhou Almanac (1995), page 49.

be able to) seek for other extrabudgetary (or extra extrabudgetary) revenues as innovative but legally-ambiguous infrastructure financing channels for CSSD in particular and CSSIP in general. There was a clear-cut business relationship between CSSD and Suzhou local government. CSSD not only bought the land lease but also paid the Suzhou government for almost all of the required electricity, water, and even public bus service (Pereira 2004b).

### *The process of local flexibility*

The process of local flexibility means that local governments operate with a certain degree of local discretion toward central policies. Along with the types of ‘marginalizing the local’ and ‘local obedience’, there is certain local flexibility in Suzhou to CSSIP due to local governments holding the implementation autonomy. The time lag of Provident Fund (PF) (proposing in 1994 but implementing it in 1997) is a case in point. PF was an innovation experimenting exclusively in CSSIP. The separation of pension scheme in CSSIP and other regions in Suzhou actually added the burden of Suzhou’s original social welfare program, since employers in CSSIP were younger, productive and able to contribute more to the traditional security funds. Therefore, it took CSSIP three years to persuade and negotiate Suzhou officials to legalize PF scheme, showing the dimension of ‘local flexibility’ to CSSIP in the 1990s (Liao 2001).

In addition, in the 1990s Suzhou did not exactly follow the policy of ‘CSSIP as the priority among all priorities’, but paid quite a lot of attention to Suzhou New District (SND), which it presented as one of the most economically globalized development zones (Table 6-9 above). In the late 1980s, the downtown of Suzhou was overdeveloped with many polluted industrial factories. With a strategy of ‘developing new district for

protecting old downtown (*bao hu gu cheng, kai fa xin qu*), SND was a locally initiated project established by Suzhou in 1990 and then granted national- status as a High and New Technological Industrial Zone in 1992, which means that CSSIP was endorsed as a national zone two years after SND. By 1993 there had been 51 factories already moving to SND from the downtown of Suzhou.

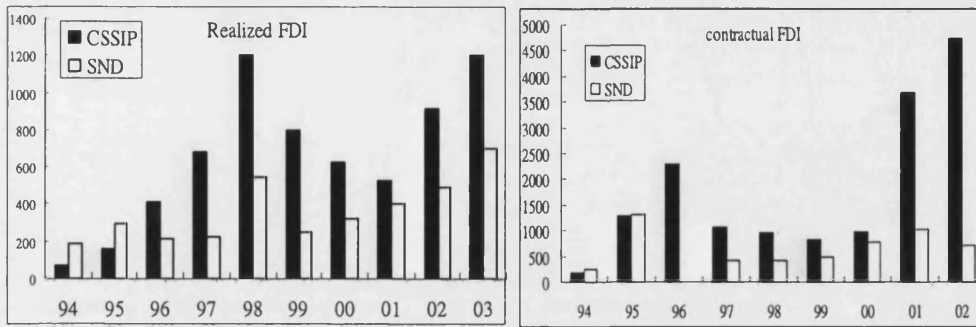
When Singapore conducted a feasible study in 1993, SND was one of the options offered by Suzhou. But Singapore did not take it.<sup>229</sup> By then, Singapore thought that SND was a less competitive industrial estate locating only ‘low end’, ‘labour intensive’, ‘small scale’ manufacturing firms by overseas Chinese from Hong Kong, Taiwan and Southeast Asia countries, while CSSIP could accommodate ‘high-end’, ‘technology-intensive’, and ‘big-scale’ enterprises from European and American investments (Pereira 2001; 2004b). Even through CSSIP was regarded as one of the most important government-to-government project, Suzhou still carried on with SND. For example, in the 9<sup>th</sup> Five-Year Plan, Suzhou proposed a development strategy with a metaphor of ‘a body with two wings- SND in the west and CSSIP in the east’ (Wu 1997).

In other words, Suzhou executed CSSIP and SND together simultaneously. Due to the national status of both zones, it is better to understand Suzhou as acting in a way of ‘local flexibility’. Compared to CSSIP, SND was actually poor at attracting realized FDI and contractual FDI (Figure 8-5), but relatively good at generating GDP and fiscal revenue prior to 2000 (Figure 8-6).

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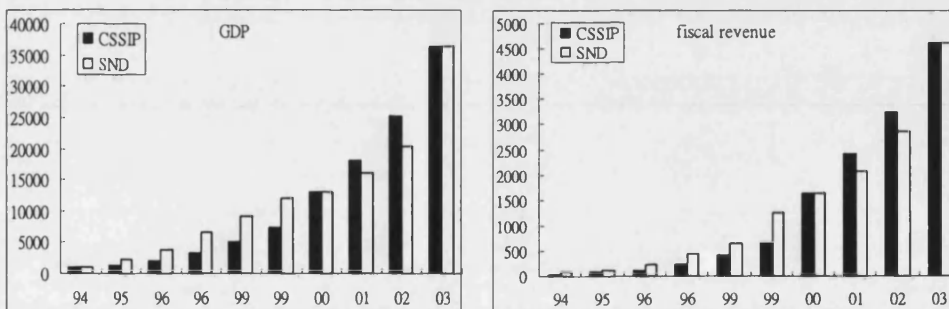
<sup>229</sup> By then, Kunshan and other zones in Shanghai were also on the list. But those two were not under Suzhou administration. News source: *lian he zao bao* (based in Singapore), 2004/06/09. It was an interview transcript with PAN Xuan Hao. Pan was a secretary for ONG Teng Cheong, then vice PM of Singapore. Pan also had been staying in the board of CSSD since 1994.

Figure 8-5: Realized FDI and contractual FDI between CSSIP and SND



Note: Unit for FDI is US\$ million; and contractual FDI for SND in 1996 is missing  
 Source: Yearbook of Economic and Social Development for CSSIP (2002); and [www.sipac.gov.cn/yqji/ijfz/ijzb](http://www.sipac.gov.cn/yqji/ijfz/ijzb); Suzhou Almanac of various years

Figure 8-6: GDP and fiscal revenue between CSSIP and SND



Note: Unit for GDP and fiscal revenue is million RMB;  
 Source: same as Figure 8-5

Suzhou implemented a different strategy of division of labour between the development company and the administrative committee in SND. In contrast to CSSIP where that there was a clear-cut relationship between CSSD and SIPAC, the SND administrative committee (SNDAC) established and wholly owned the Su Xin Group which was the key development company of SND. SND was started with RMB 20 million interest-free loan collateralised by the Suzhou city government as the only initial financial resource.<sup>230</sup> However, with assistances from Suzhou, several innovative solutions were found through the Su Xin Group for infrastructure finance in SND. This

<sup>230</sup> Interview code: YO-04.

is the reason why SND could be in operation straightaway, despite the fact that its fiscal revenue in total only surpassed annual infrastructure costs after 1996 (Table 8-6).

Table 8-6: Infrastructure cost and fiscal revenue in SND by year

	1991	1992	1993	1994	1995	1996	1997	1998
infrastructure cost	45	126	279	230	200	205	207	563
fiscal revenue	n.a.	n.a.	42	83	131	243	440	640

Unit: million RMB

Source: Suzhou New District Almanac (1999)

First of all, SNDAC was granted powers by Suzhou to provide a piece of land to Su Xin Group free of charge on condition that it had to take full responsibility for developing the land through to construction. With only limited company performance and property, Su Xin Group theoretically could not provide necessary security to borrow capital from banks. But local officials in Suzhou played an important role in persuading Suzhou banks to do so. Therefore, the Su Xin Group was able to easily borrow loans. Second, Suzhou High & New Company (Su Kao Xin), one of the holding enterprises of Su Xin Group, was funded in 1994 first and then listed in Shanghai Stock Exchange in 1996. Its initial public offering (IPO) collected 11.92 million RMB. In 1997, Su Kao Xin was ranked the top three among all listed companies in Shanghai. By 1998, Su Kao Xin issued shares and collected 180 million RMB.<sup>231</sup> Third, the Su Xin Group also issued domestic bonds and overseas bonds. Su Xin Group issued one hundred billion corporate bonds in the United States denominated in US dollars in 1997. Fortunately, due to then weakening US bond market plus successful management of buying back, three years later Su Xin Group earned US\$ 40 million. In other words, through successfully manipulating the Su Xin Group as a financial channel, SNDAC successfully collected sufficient capital for infrastructure construction.<sup>232</sup>

<sup>231</sup> Suzhou Almanac (1997), page 47.

<sup>232</sup> Su Kao Xin was even evaluated to be of Qualification Baa3 by Mudy Company in October of 1997,

### *Internal conflicts within Suzhou and Beijing*

To sum up, the process of CSSIP development displays an example for understanding formation and transformation of 'local implementation of centrally initiated projects'. During the Singapore-led era, the three mechanisms, that is, 'marginalizing the local', 'local obedience' and 'local flexibility', operated simultaneously in the case of CSSIP. But under the context of CSSIP and SND, there were important internal political conflicts within both the central government in Beijing and the Suzhou local government, which need to be considered.

In terms of internal politics within Suzhou, some local politicians heavily supported CSSIP but others did not, or we may say, they tried to pay equal attention to both CSSIP and SND. Since SND performed better than CSSIP in terms of GDP and fiscal revenue (Figure 8-6 above), it made little sense that SND had to cease. The situation was embedded in the post-Mao China's one-party political system where as well as the mayor being in charge of administration, the party secretary was another key local politician. The Suzhou Mayor, Zhang, who initiated the original idea of CSSIP to Lee Sr. of Singapore in 1992, later doubled as director of SIPAC and there was no doubt over his strong support of CSSIP. Indeed, it was reported that he seldom, if ever, visited Suzhou New District (SND), let alone promoting it (Lu 2001). However, the party secretary of Suzhou from 1994 to 1998, YANG Xiaotang, reportedly gave much less support to CSSIP than Zhang did.<sup>233</sup>

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and chosen by Asia Week as one of top one hundred listed companies in China in the end of 1998. Interview code: SO-03; YO-04; YO-05; YC-01.

<sup>233</sup> News source: *lian he zao bao* (based in Singapore), 2004/06/09. The report was an interview transcript with XU Wenyuan. Xu was then depute secretary of Ministry of Trade and Industry of Singapore in the late 1990s, and led a Singaporean group to negotiate handover issues with Suzhou counterparts.



Within Beijing, the fact that successive leaders in the centre restated the importance of CSSIP does not mean that all of the state apparatus would follow the decrees. A common phenomenon of different departments in the centre during the post-Mao period sometimes aborting and distorting reform policies in order to address their own interests has been portrayed as reflecting a 'fragmented authoritarian' regime (Lieberthal and Oksenberg 1988; Lieberthal 1992). This affected SND and CSSIP since they were given the status of national zones under the administration of different departments of the State Council: SND belonged to the Department of Science and Technology (DST) and CSSIP was affiliated to the Ministry of Foreign Economic Affairs (now the Ministry of Commerce). DST continuously supported SND. An example was the IPO process of Su Kao Xin when successful listing on the Shanghai Stock Market depended on DST's help- since before 1999 this was based less on corporate performance than on obtaining a listing permit from quotas assigned to different ministry and provincial governments (Cooper 2003).<sup>234</sup> Another example was in 1997 when SND was further assigned by the State Council as one of four APEC science parks in China, the only one in Yangtze Delta.<sup>235</sup>

The personnel movement of Yang and Zhang reflected the ambiguous attitude within Beijing toward CSSIP. After Zhang stepped down as Mayor in 1997, he was sent to Harvard University from 1998 until 2000, leaving Chinese politics completely for two years. Yang was then promoted as vice governor of Jiangsu, and then deputy president of the National Construction Bank. His upgrading in contrast to Zhang's move abroad hinted the centre's split attitudes towards the implementation of SND and CSSIP, with

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<sup>234</sup> Interview code: YO-04; YO-05.

<sup>235</sup> The other three were Hengfeng Economic Development Zone, X'ian Economic Development Zone, and Beijing Economic Development Zone. Suzhou Almanac (1998), page 54.

several ministries supporting SND, despite CSSIP being accorded 'the priority among all priorities' by President Jiang.

#### **8-4 Operations beyond Policy Innovations**

##### *Compromises between China and Singapore: same bed, different dreams*

CSSIP was an international cooperation between Singapore and China, but each side had their own priorities. For Singapore, to invest in Suzhou in particular, or in China in general, followed from its then development strategy of 'Regionalization 2000' (Perry and Yeoh 2000; Yeung 2000; Thomas 2001; Pereira 2004b). Singapore had developed rapidly by attracting FDI after its independence in the early 1960s. However, foreign investments moved toward other Southeast Asia countries in the 1980s. Hence, Singapore formulated the 'Regionalization' strategy in the early 1990s to encourage domestic and government-led enterprises to build up an external economy by participating in the growth of Asia.<sup>236</sup> GOH Chok Tong, then PM of Singapore, stated in 1993 that:

'...going regional [in Asia] is part of our long-term strategy to stay ahead. It is to make our national economy bigger, our companies stronger and some of them [become] multi-national...'<sup>237</sup>

In 1991-1992, some of the Singapore elite conducted several trips to India, China, Malaysia, Indonesia, Thailand and Vietnam for the 'Regionalization 2000' program. Apart from the belief that China was a huge manufacturing and consumer market, Singapore also realized that it could play an important 'bridge' role in helping western

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<sup>236</sup> For example, Lee Sr. of Singapore argued that 'the investment [CSSIP] should not be a foreign loan or charity but a profitable activity.' News source: Business Times (based in Singapore), 1995/08/30.

<sup>237</sup> CSSIP Investment Guide (1997), page 22.

investors to understand China and the culture of a 5,000 year old civilization, which is quite different from most western understandings. It is because Singapore regarded itself as a Chinese-based ethnic society which also had the legacy of British rule.<sup>238</sup> CSSIP in China was the most important and ambitious focus for this strategy, designed to accommodate a population of 600 thousands and a workforce of 360 thousands in the long term planned area of 70 km<sup>2</sup>. By 1998, the accumulated realized FDI in CSSIP reached US\$ 3.1 billion, which was more than 10 times bigger than the second zone in the ‘Regionalization 2000’ program (Table 8-7) (Perry and Yeoh 2000).

Table 8-7: Singapore overseas industrial Parks in 1998

	Batamindo Industrial Park	Bintan Industrial Estate	China-Singapore Suzhou Industrial Park	Wuxi-Singapore Industrial Park
Location	Indonesia	Indonesia	China	China
Scale of projects (km <sup>2</sup> )	5	40	70	10
Investment commitment	US\$ 344 million	US\$ 100 million	US\$ 3.1 billion	US\$ 600 million
No. of investors	84	24	105	50
Average investment value	US\$ 4.09 million	US\$ 3.2 million	US\$ 30.8 million	US\$ 12 million

Source: Compiled from Perry and Yeoh (2000)

In contrast to Singapore, there were two opposing opinions in China about the project. Those who were for it argued that Singapore investment could be a channel of infrastructure financing for local economic development. Others saw it as a good opportunity to learn the so-called Singapore experiences. By the early 1990s, fast development since the late 1970s had given a rise to lots of problems such as urban-rural migration, housing, environment, transportation, social welfare, etc. In order to cope with these difficulties, some China leaders were eager to learn from other countries. Singapore was regarded as a role model for China of economic development combined with strict social order (Naughton 1993; Lee 2000; Thomas 2001)<sup>239</sup>.

<sup>238</sup> For example, in CSSIP Investment Guide (1997, page 1) shows to the investors that ‘...[when] the huge Chinese market beckons but the unfamiliar environment is a concern, your most trusted business partner is ready to link you to this growth opportunity in an environment that you are familiar with: The Chinese Singapore Suzhou Industrial Park...’.

<sup>239</sup> Deng Sr. said “Singapore enjoys good social order and is well-managed. We should tap on their

However, those who were against it saw CSSIP as just another money-making idea to benefit speculative foreign land developers, who came from outside and negotiated to buy lands at low price and resell at high to make profits.<sup>240</sup> On top of that, some people even claimed that to give foreign governments permission to construct foreign-style towns in China was just like to allowing the foreigners to re-establish extraterritorial areas in China.<sup>241</sup>

As argued in the case of KETZ, a policy innovation can be understood as an outcome of compromises by different parties involved. The 'CSSIP Agreement' is a case in point. China agreed with Singapore to invest in CSSIP on condition that the profits of investment could not be monopolized by Singapore but had to be shared with China. Singapore took the majority of the land development company in charge of infrastructure and business promotion to produce the so-called 'international/Singapore standard'. The Singapore-led CSSD could not get land for free but had to pay certain prices. And it was also agreed that the Singapore experiences in public management and development could be systematically transferred and adapted to Suzhou.

### ***Economic decentralization***

Economic decentralization is one of the key factors driving local economic development during post-Mao period. In the case of Kunshan, I argued that this decentralization could be understood in two different formats: on the one hand, local governments were granted more powers over economic activities, and on the other hand, lower-level governments were allowed to contact the central or provincial governments

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experience, and learn how to manage better than them. CSSIP Investment Guide (1995), page 4.

<sup>240</sup> For example, the then vice PM ZHU Rongji was reported to stand on this point at the beginning (Lee 2000). Also news source: *lian he zao bao* (based in Singapore), 2004/06/09. The report was an interview transcript with XU Wenyuan.

<sup>241</sup> News source: *lian he zao bao* (based in Singapore), 2004/06/09. The report was an interview transcript with PAN Xuan Hao.

bypassing their direct upper-level governments. These two scenarios also can be found in CSSIP and Suzhou.

Regarding the former, SIPAC had been empowered to approve foreign investment projects without any upper limits as long as the projects complied with state industrial policy.<sup>242</sup> It was unique among all national-level development zones in China where a cap of US\$30 million on project approval for FDI had been applied to all other national zones without exception. Moreover, CSSIP was allowed in 1996 to manage certain foreign affairs, such as to issue visa to foreign applicants and to approve overseas duty trips by Chinese citizens. This power could offer convenient and fast channels to the foreign investors entering China and Chinese staffs departing abroad for training and marketing. CSSIP also started to set up its own independent custom immediately after 1994. Furthermore, CSSIP Customs operated in cooperation with Shanghai Customs. By contrast, KETZ only set an independent customs in 2001, nine years after it was granted status as a national zone.<sup>243</sup>

Concerning the latter, CSSIP was the only national zone in China to set up a management body directly involving by the centre. The China- Singapore Joint Steering Council (JSC) was co-chaired by vice PMs of both the China and Singapore governments with key related ministries represented, including: the Ministry of commerce, Ministry of Foreign Affairs, State Development and Reform Council, Ministry of Finance, the General Customs, Jiangsu Provincial Government, and Suzhou Municipal Government of China side, and representatives of Ministry of Foreign Affairs, Ministry of Trade and Industry, Ministry of National Development, Ministry of

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<sup>242</sup> Suzhou Almanac (1995), page 31-32.

<sup>243</sup> Suzhou Almanac (1995), page 48; Kunshan Almanac (2001), page 171-172.

Environment, and Economic Development Board of Singapore side. In addition, members of the JSC meeting also can be added in order to coordinate certain issues. For example, CSSIP had been a trial area for modern logistics and the pioneer in China in using electronic digital information for customs clearance in the bonded logistics Centre (Type B). In order to promote that, the General Customs was invited to be present at the JSC meeting.<sup>244</sup> However, it must be noted that the importance of this joint body varies between different periods. JSC played a small role when Singapore and China struggled over solutions to delay the threatened bankruptcy of CSSD during 1997-1998, with no meetings at all during the most controversial periods.

#### *Territorial competition and CSSIP development*

As argued, the operation of territorial competition is another dimension to understand local policy innovation in relation to improving the regulatory environments for growth, as well as infrastructure investment. Territorial competition not only took place in 'inter' subnational localities but also 'intra' subnational places (Schroeder 1992). Development zones clearly competed in order to attract more FDI. The three in the Suzhou area were no exceptions. According to the records in Suzhou Almanacs, as early as 1989, KETZ had offered infrastructure with a standard 'seven accesses with one levelling', including electricity, telecom communication, water, road, sewage, steam, gas, and land levelling and infilling. By 1994, SND also reached the standard of 'seven accesses with one levelling'.<sup>245</sup> Therefore, at the beginning by 1994, CSSIP was designed to provide only 'six accesses with one levelling' without steam.<sup>246</sup> But by 1996, CSSIP was further upgraded to present nine accesses with one levelling, including all seven accesses plus optical fibre and internet. By 1997, SIPAC had

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<sup>244</sup> Interview code: SC-02.

<sup>245</sup> Suzhou New District Almanac (1995), page 10.

<sup>246</sup> Suzhou Almanac (1995), page 48; (1997), page 39.

reduced a list of administrative fee items from 300 to 27. And administrative fees were not randomly levied. In the same year, KETZ also reduced its administrative items. One year later (1998), CSSIP was to further reduce the load again to just 11 items of administrative fees. The length of time to process applications was regulated to within 7 days.<sup>247</sup> As of January 2005, the average procedures of starting a business and dealing with licenses in China still needed 43 items in total, with 48 days starting a business and 235 days dealing with licenses (World Bank and the International Bank for Reconstruction and Development 2006). From this perspective, territorial competition among these three zones was actually able to keep improving themselves to become more friendly environments for doing business in China.

With the Singapore standards of infrastructure, CSSIP targeted different investors from the ones that KETZ and SND wanted to attract. By 1996 the main customers in CSSIP were from Europe and America and Singapore (Table 8-2 above), while those in KETZ were mainly from Taiwan (in Chapter Seven), and in SND, they were principally from Japan (35.6%), and overseas Chinese in Hong Kong and Taiwan (25.2%), with small numbers from Europe (18%), America (11.6%), and Singapore (6.7%).<sup>248</sup> After 1997 the competition for foreign investments between CSSIP and SND became a more serious issue. The well-cited case was the so-called 'Hamburg incident' in 1997. By then, WANG Jinghua, then vice-mayor of Suzhou as well as the director of SNDAC, told a group of German investors that CSSIP was nothing special and the investment coming to SND would get preferential treatment. Singapore complained that there was a tug-of-war for investment between CSSIP and SND.<sup>249</sup> And, when in summer 1997,

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<sup>247</sup> CSSIP Investment Guide (1997), appendix, and Suzhou Almanac (1999), page 71 and 77.

<sup>248</sup> Suzhou New District Almanac (1997), page 80-81.

<sup>249</sup> Lee Sr. of Singapore challenged that the energy of Suzhou local government is divided between two industrial estates; even he charged there was so municipal shenanigans done by Suzhou, for example, SND website address looks damagingly like CSSIP's. However, CHEN Demin, then Suzhou mayor and

a flood heavily hit SND, rather than offering sympathy, Singapore took it as an opportunity to promote CSSIP's superiority (Pereira 2001).

The CSSIP process also shows another interesting issue of Chinese territorial competition in terms of the potential for coordination between rival zones. Whereas in the late 1990s SND and CSSIP were key competitors, after the handover, the Su Xin Group arranged to join the China consortium of CSSD (Table 8-5 above), reducing the divide in economic interests between the two zones.<sup>250</sup> Moreover, partly because of the lack of local elections and partly because of one party control, the leaders of zones could be exchanged without any questions. Thus, after handover, the incumbent director of SIPAC was Wang, already director of SNDAC and thus responsible for the rival zone to CSSIP (i.e. SND) and instigator of the controversial 'Hamburg incident'. He now tripled as the vice Mayor of Suzhou, the director of CSSIP and the CEO of CSSD, playing a very important role in promoting CSSIP. Prior to CSSIP, Wang had established quite a sophisticated business networking, which he now brought to the benefit of CSSIP. He successfully persuaded Phillips to shift its new investment from SND to CSSIP.<sup>251</sup> CSSIP also opened up more business promotion to Taiwanese and Japanese partly because of Wang's networking.<sup>252</sup> Just as with the earlier internal conflict in Suzhou, without the political condition that SND and CSSIP were both under the one-party control system of Suzhou administration, these new arrangements for coordination between two competing zones could not have occurred in the same way.

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party secretary (1997 to 2002), replied in one interview by *lian he zao bao* that personally he thought the 'Hamburg incident' was a misunderstanding. He did not believe that Wang would say so, and the most important thing is to seek for solutions on the future of CSSIP rather than to investigate what exactly Wang said in 1997. News source: Straits Times (based in Singapore), 1997/12/14; 1998/01/15; the Economist (based in London), 1998/01/01; *lian he zao bao* (based in Singapore), 1998/10/03.

<sup>250</sup> News source: South China Morning Post (based in Hong Kong), 1999/07/03.

<sup>251</sup> Phillips, a Dutch commercial commodity manufacture, had invested six factories in SND during Wang's tenure. It was reported that its move to invest the 7<sup>th</sup> factory in CSSIP was persuaded by Wang.

<sup>252</sup> Suzhou Almanac (2002), page 65.



### *Career paths of Suzhou leaders*

In outlining the ‘asymmetric decentralization’ framework, I argued that local policy innovations resulted in better economic development, which was to the benefit of the political promotion of local leaders. So these leaders have an interest in making innovations to promote policies able to generate more foreseeable outcomes on these indicators. The competition between SND and CSSIP is a case in point. First, as aforementioned, CSSIP was *de facto* governed by the Singapore-led CSSD before handover. The positive performances of CSSIP, if any, were likely to be categorized as contributions by Singapore rather than Suzhou itself. On the other hand, the performance of SND was directly linked to the careers of Suzhou leaders. Therefore, there is no doubt that Suzhou officials had more incentives to promote SND. On top of that, although contractual and realized FDI were important economic indicators in this context, so were GDP and fiscal revenues. In terms of the latter two items, SND tended to perform better than CSSIP did (Figure 8-6 above), which was the one of the main reasons why Suzhou continued building up SND even when Singapore requested them to stop.

In addition, due to Suzhou’s brilliant development since the 1990s, the career paths of the leaders were pretty promising.<sup>253</sup> There have been five party secretaries in Suzhou since CSSIP initiated in 1994 (Table 8-8). Of them, YANG Xiaotang strove for the local interests by balancing both development of SND and CSSIP. He stepped down in 1998 and was promoted to be a vice governor of Jiangsu, while, as already discussed, his counterpart Zhang, the then mayor of Suzhou, was arranged to leave China for two

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<sup>253</sup> Of course, there were five counties and seven districts under the Suzhou administration. And the economically globalized performances in Suzhou were not only attributed by CSSIP but also by other national zones, like KETZ and SND (Table 6-8 and 6-9 above). Therefore, it has to be noted that the career paths of Suzhou leaders were not only associated with the performance of CSSIP.

years. For Singapore, Yang's leaving symbolized a turning point of CSSD.<sup>254</sup> He was replaced by LIANG Baohua, who served Suzhou from 1998 to 2000 and then was selected to be Jiangsu governor. Prior to office in Suzhou, Liang was the secretary of Jiangsu province who led a team to negotiate with Singapore since 1997, successfully reaching a compromise agreement to keep Singapore in the board of CSSD. And he also made brave and critical decisions to coordinate the territorial competition between SND and CSSIP. First, he moved Wang from SND to CSSIP; and second, he integrated the organizational interests between SND and CSSIP by arranging Su Xin Group to take stakes in the China consortium of CSSD.

Table 8-8: Party secretaries of Suzhou since 1994

Party secretary	tenure period in Suzhou	Main positions after office
YANG Xiaotang	1994/08-1998/06	vice governor of Jiangsu, vice director of National Development Bank
LIANG Baohua	1998/06-2000/12	vice governor and governor of Jiangsu,
CHEN DeMing	1997/06-2000/12* 2000/12-2002/05	vice governor and governor of Shannxi
WANG Min	2002/05-2004/10	vice governor and governor of Jilin
WANG Rong	2004/10- present	--

Note: \* refers the period that CHEN served as Suzhou mayor.

Source: author compiled

The successors of Liang were CHEN Deming (2000-2002) and then WANG Min from (2002-2004). Chen also helped Liang to negotiate with Singapore in the late 1990s, and was shifted to be vice governor of Shannxi first and then governor in 2004. Wang went rose even more quickly, leaving upgraded to become vice governor of Jilin in early 2004 and the governor half year after. Of more than 300 prefecture-level cities in China, Suzhou is the only one to produce three provincial governors, namely, Jiangsu's Liang, Shannxi's Chen and Jilin's Wang. This led to a catchphrase of 'Suzhou phenomenon' to

<sup>254</sup> News source: *lian he zao bao* (based in Singapore), 2004/06/09. The report was an interview transcript with XU Wenyuan.

describe the positive relationship between Suzhou's outstanding economic performances and the bright records of career paths of the leaders.<sup>255</sup>

## 8-5 The Effectiveness of Policy Innovation

### *Transferring process from one way to return-round*

As shown, the dramatic development of CSSIP has undoubtedly shown the local upgrading capacity of Suzhou over the past decade. Here the transfer of experience from Singapore to Suzhou in particular (and China in general) now is offered as the other more interesting and explicit evidence to understand its improvement of local capacity. In the 1990s, Suzhou officials were sent to Singapore to 'learn from Singapore'. The spatial relationship between Suzhou and Singapore was more or less like a relationship between 'pupil and tutor'. However, in May 2002, Suzhou municipal government and Singapore government signed a contract that Suzhou would help Singapore to establish a training program called 'Human Resource in Asia Business'. Singapore started to send Singaporean young elite to work in Suzhou as interns to know more about China business and economic environment.<sup>256</sup> It means that the spatial relationship between Suzhou and Singapore was much equal than before. The transfer program was changed from one-way (Singapore offering opportunities for Chinese to learn) to round-way (also China offering opportunity to Singaporeans).

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<sup>255</sup> News source: *nan fan zhou mo* (based in Guangzhos), 2004/11/18.

<sup>256</sup> Annual Report of Economic and Social Development in CSSIP (2002), page17; also interview code: SO-06; SO-07.

### *Unbalanced development in Suzhou*

Similar to KETZ, CSSIP also faced some unbalanced development. Although Suzhou is one of the most globalized economy in Yangtze Delta in terms of FDI and GDP performance (Table 6-3 above), the disposal income per capita in Suzhou was not as stellar as the performance of GDP per capita- with the number less than many cities and regions in Zhejiang provinces whose economies were dominated not by big scale FDI but by small and medium size domestic private enterprises. Similarly, the fixed investment in total was also relatively underdeveloped (Table 8-9). Moreover, JIANG Renjie, a former vice mayor of Suzhou, was forced to step down in January 2005 because he allegedly abused his powers by accepting bribes since 2001.<sup>257</sup> These evidences clearly show that there was some unbalanced development behind the policy innovations in promoting globalized economy in Suzhou in general.

Table 8-9: Selected indicators by regions in the Yangtze Delta in 2003

	GDP (billion RMB)	GDP per capita (RMB)	Fixed Investment (million RMB)	Disposable income* (RMB)
Yangtze Delta	1,912.5	25,262	642.0	10,361
Shanghai	540.8 (1)	40,646 (1)	218.7(1)	13,250 (1)
<b>Suzhou</b>	<b>208.1 (2)</b>	<b>35,733 (2)</b>	<b>43.8 (5)</b>	<b>10,671 (8)</b>
Nanjing	129.7	22,858	49.6 (4)	9,154
Zhenjiang	56.1	21,018	11.1	8,202
Wuxi	158.1	36,151	27.7	9,988
Changzhou	76.1	22,215	14.8	9,933
Nantong	88.7	11,356	15.1	8,640
Yangzhou	55.9	12,368	13.6	7,833
Taizhou	50.5	10,021	9.3	7,788
Hangzhou	178.2	28,150	76.9 (2)	11,778 (4)
Ningbo	150.0	27,541	60.1 (3)	12,970 (2)
Jiaxing	70.5	21,268	37.9	10,757 (7)
Huzhou	42.3	16,454	20.0	11,388 (5)
Shaoxing	92.8	21,414	36.8	12,133 (3)
Zhoushang	14.6	14,910	6.5	10,985 (6)

Note:\* data for 2002

Source: same as Table 6-3

<sup>257</sup> News source: China Daily (based in Beijing), 2005/01/11.

## 8-6 Conclusion

With CSSIP as an in-depth study for policy innovations in the category of 'local implementation of centrally initiated projects', the chapter has tried to answer how, and under what circumstances such that the Singapore-style development zone could be institutionalized and evolved in order to deal with global business operating under market transition conditions in Suzhou. There were three key policy agents at different scales: Singapore as a foreign government; the central government in Beijing and the local government in Suzhou. CSSIP can be regarded as a policy innovation by these three parties which deployed this strategy as their respective responses to economic restructuring in Asia in the 1990s: while Singapore formulated its Regionalization Strategy to expand their economic influences to East Asia, China in general and Suzhou in particular were keen to attract foreign investments by all means. With a series of compromises and negotiations, the development of CSSIP can be divided into two stages. Before 2001, the Singapore-led CSSD dominated infrastructure and marketing of CSSIP, attracting some FDI but unfortunately resulting in budgetary and scheduling overrun of CSSD. After 2001, CSSIP was returned to the hands of China/Suzhou, and became one of the most successful development zones on many dimensions, including its high-tech industry development as well as the turnaround of CSSD from running deficits to making large profits.

In terms of local-central strategic interactions for policy innovations, the processes of 'marginalizing the local', of 'local obedience', and of 'local flexibility' were operated in the development of CSSIP simultaneously. The local flexibility is specifically associated with the development of SND, the other national development zone in the

Suzhou city area. Related to that is competition between SND and CSSIP which is embedded in the post-Mao 'asymmetric decentralization'. Compared to SND, CSSIP was good in generating realized and contracted FDI but poor in producing fiscal revenues and GDP. Such 'inconsistent' economic performances constituted one important reason why there were diverse attention towards CSSIP between mayor and party secretary of Suzhou, and fragmented authoritarian operations within Beijing. Also because of one-party control, Suzhou could use its administrative powers to institutionally coordinate the interests and conflicts between SND and CSSIP after CSSIP was returned to China/Suzhou side since 2001.

The performance of CSSIP and Suzhou over the past ten years that successfully transformed Suzhou from a plot of arable lands to be a competitive high-tech industrial park clearly shows that CSSIP is a case of policy innovation, at least in terms of indicators of economic globalization. Because of its economically globalized performances, in Suzhou there was also a positive correlation between economic performance and leaders' career paths, showing that the local officials' careerism could function to promote innovation serving local economic development. However, certain evidences, such as less disposal income per capita, smaller amount of fixed investment, and corruption of one vice mayor, address that there are several unbalanced local development behind such brilliant performances, challenging the 'real' effectiveness of such globalized economy-oriented policy innovation process and calling for the need for more comprehensive assessments on such a policy innovation process.

## CHAPTER NINE

### Understanding Local Policy Innovations of post-Mao China

'brave to make innovations; audacious to take adventures; tolerance to understand failures;  
and an attempt to seek for successes'  
(*yong yu chuang xin, gan yu mao xian, kuan rong shi bai, zhui qiu cheng gong*)<sup>258</sup>

#### 9-1 Research Questions Reprised

##### *Review of research background*

This thesis has focused on policy innovation in relation to local economic development, one of the most important topics in the academic fields of urban and development studies. In recent times, the traditional 'dual state' division of labour which put central governments in charge of production functions while local authorities taking care of social and reproduction functions has been challenged, both in the western liberal democratic and market societies and in post-Mao China. The Chinese government's policy shifts to engage with globalization over the past two decades have led to rapid economic growth not only at national level but also more strikingly at local scale in particular city-regions. Many researches have shown that the successful economic transition of the post-Mao period has been in a large part promoted by active local governments. That is not to say that the centre in China did not play a role. But it is generally agreed that implementation of the new economic strategy depended on many local governments in the post-Mao periods innovatively introducing new projects, creatively negotiating with investors, flexibly shifting resource allocations, arbitrarily

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<sup>258</sup> It is the 'spiritual slogan' of Shenzhen High Technological Industrial Development Zone, which was established in 1996.

reinterpreting policies or documentations, and so on. Without such flexible and innovative behaviours by local officials, whether China's economic development could have become as dynamic so rapidly is very questionable.

In other words, under so-called decentralization, local governments made use of their additional powers to manage economic affairs, responding to crises from within (such as local fiscal deficits), from above (like weakening state capacities of central governments to cope with economic restructuring), from below (for example, unemployment in the local community), and from outside (such as coping with global mobile investors, the European Union or the WTO). I argue that most existing analyses, in both western researches and China studies, jump to the conclusions that local governments/ governances were naturally able to make such policy innovations in order to improve their regulatory environments for the purpose of better local economic development. These researches take the new phenomenon of local policy innovation for granted without further questioning: how, why and under what circumstances and by whom the process of innovations in local economic development policy actually evolved in different contexts in the period of globalization? This thesis is designed to fill that gap.

As mentioned in Chapter One, the concept of innovation refers to a process of introducing something new, generating good outcomes as a consequence, and coping with uncertainty during the process. From this perspective, the central questions I ask are particularly important to the post-Mao China context for two reasons. First, the post-Mao transition was a process from a communist centrally-planned structure to a market and quasi-capitalism framework. These two systems functioned on quite different ideological and operational bases, meaning that the transition toward



marketization and liberalization as well as globalization actually involved major uncertainty. Such risks can be vividly described by a Chinese saying ‘crossing the river by touching stones (*mo shi tou guo he*)’. Compared to many other transition economies where there were political collapses with economic breakdown during the transition, China’s transformation over past two decades can be understood as a relatively successful case of institutional innovations. In other words, despite facing certain unpredictable risks of transition, China did formulate new policies and generate relatively stable and prosperous development as a consequence.

Second, compared to the west, where local-central relations tended to be regulated in their constitutions (as in the United States, Germany, and Italy) or by strong traditional norms (like the United Kingdom), in China local-central relation were largely of political dynamics. The Constitution of the People’s Republic of China does declare that China is *de jure* a unitary state, but does not clearly regulate the central local interactions. Thus, at one time, the centre might decentralize powers, in order to motivate local enthusiasm, but later recentralize the powers to adjust local discretions as necessary. But, with ‘leeway’ left by the absence of constitutional regulation, local governments also could deploy varied strategies toward the centre and its policies, in order to strive for regional interests. As the Chinese saying goes: ‘policy from the top and coping strategy from below (*shang you zheng ce, xia you dui ce*)’. Local policy innovations operated in various ‘strategic’ ways, often at expense of interests of other regions or the centre. Taking these points together, it can be seen that successful cases of post-Mao local development not only involve a general trend of decentralization and globalization, but also undergo particular processes of marketization and liberalization, and strategic interactions between central and local governments. The complexity and risks of transitional environments with which local institutions had to cope in making

policy innovations for local economic development make the question of how they were able to achieve this particularly important to study.

### *The framework of research questions*

In this thesis, I argue that the phenomenon of local policy innovation in post-Mao China can be analyzed by a theoretical framework of investigations with three dimensions. First, policy innovations can be understood as local responses to challenges represented by global economic restructuring like the transition process of fordist/socialist to post fordist/socialist (Chapter Three). The questions I ask here are: what are the characteristics of transition process in terms of mode of regulations and regimes of accumulations? How do cities and regions innovatively respond to these global environments in change? At the micro level of local responses, who dominate local development decision making and why do they want to do so? At the macro level of local responses, what are the effects of territorial competition on local governments for better development?

Second, I pay attention to the issue of policy innovation in relation to the stimulus of changing governmental structure, responsibilities and competences between central and local governments in general, and its asymmetric form in post-Mao in particular (Chapter Four). The topics open to debate here are: what were the main mechanisms of this asymmetric decentralization? How and why and under what circumstances did the Chinese Communist Party's political centralization motivate local officials to implement policies of economic decentralization? And what were the regional and national consequences of development under the post-Mao China's 'asymmetric decentralization' context?

Thirdly, with focus on a unique phenomenon of *de facto* federalism operating within a *de jure* unitary state in post-Mao China, the dimension here is the relationship between policy innovation and local-central dynamic interactions (Chapter Five). Under the context that there is some interdependence between local and central governments, how did different policy agents strategically interact with each other, resulting in local policy innovations as a consequence? How many different types of local-central strategic interactions for local economic development are there? What are the operations and effectiveness of each type? And what are the significant commonalities and differences between these types?

***Outline of research design: two national zones in Suzhou***

The general analytic framework established in the theoretical chapters was applied to examination of my two empirical cases which I studied in the field. In Chapter Six, I argue that the fieldwork was important to obtain richer information for understanding not only who/ what are the actors, networks, and mechanism that are discussed in the theoretical framework, but also how these actors/ networks/ mechanisms actually presented and interacted in the specific time and spaces. The evidences of real operations and effectiveness of the actors/ networks/ mechanisms observed in the empirical cases allow me to forward the existing theoretical framework a bit further, either confirming the conclusions of the existing debates, or modifying them to make more original theoretical contributions.

In this thesis, the policy of national development zones in post-Mao China is selected as the focus of the local case studies. At the beginning of the thesis (in Chapter Two), I clearly state that the so-called ‘opening-up program’, including liberalization of trade and FDI, is an example of the post-Mao regime’s more successful policies, as

evidenced by China's sharply increasing shares of international trade and FDI from zero in the end of 1970s to one of the top in the world now. The policy of national development zones, defined as geographically bounded areas offering preferential tax policies and convenient administrative procedures for foreign investors and trade activities, is one of the core elements of the 'opening-up program'. Despite many differences, a common theme among these national zones is their character in making local policy innovations in order to present better economically globalized performances. There are more than 150 national zones across China with different functionalities, from economic and technological development zone (ETDZ), high and new technological industrial development zone, bonded areas, and so on. The policy of ETDZ is represented in most zones and regarded as representing the overall task. Some ETDZ are located in the inner and laggard part of the country and some in the coastal and relatively developed regions. Compared to inner China, the coastal region contained the set of leading areas where a range of local policy innovations in relation to economic development were most likely to happen.

Two ETDZs located in Suzhou, one of the leading cities in the coastal Yangtze Delta, were selected as case studies: one was Kunshan Economic and Technological Development Zone (KETZ) (in Chapter Seven) and the other was China Singapore Suzhou Industrial Park (CSSIP) (in Chapter Eight). The choice of these cases reflected a 'maximum variance strategy' since these cases involved many policy actors across different spatial scales- central, local and foreign governments, and represented quite different types of local-central strategic interaction. KETZ/Kunshan represented a case of a 'locally initiated projects', while CSSIP/Suzhou was an example of 'local implementation of centrally initiated projects'. Varied types of local-central strategic interactions are also found in these two cases. The types in the case of KETZ/Kunshan

included 'state- intention to tolerate', '*ex-post* state endorsement', and '*ex-ante* state adoption'. And in the case of CSSIP/Suzhou, three other types can be identified: 'marginalizing the local'; 'local obedience'; and 'local flexibility'.

### ***Structure of the chapter***

The rest of the chapter is designed to draw conclusions from the research which link theoretical ideas developed from a review of published research largely based on experiences in the west and the findings from my empirical research in China. Since the west and post-Mao China have very different legacies from past development as well as differing current political and economic mechanisms, this is not simply a matter of adding one further case to the literature. Beyond simply summarising the operations and effectiveness of the post-Mao China's local policy innovations in relation to economic development, I need also more ambitiously to make some comparisons between processes found there and those discussed by western social scientists. For me, the point of China studies is not only to serve as an area study complementing so-called western theory, but to add a different theoretical dimension to understanding processes occurring in various political and economic contexts in the world.

Four parts organize the rest of this chapter. First, the perspective of structural changes in relation to local policy innovations is a focus. Three dimensions are discussed: China re-engaging globalization, changing local-central interactions, and serious territorial competition. Second, attention goes to the aspect of policy agents in actions to explain why there is the importance of local officials. In addition, various strategic behaviours of making policy innovations are deliberated. In the third section, the concept of 'asymmetric decentralization' is addressed in order to understand how the careerism takes effect as political incentives for local officials making policy innovations. I

summarily argue that the concept is a useful theoretical viewpoint to understand the particular phenomenon of post-Mao China's local economic growth, namely, local policy-making taking place within an unbalanced social and environment development. In the fourth section, certain theoretical and empirical implications are noted as expanding research agendas for further studies.

## **9-2 Structure in Change**

### ***China re-articulation with the world***

There are various kinds of definitions of globalization. In terms of interdependent development of foreign investments and international trades, China had also been involved in the world economy prior to 1949, but this was forcibly interrupted due to Mao's political ideology, with further isolation in the 1960s because of the broken relationship with Russia. China was thus disconnected from the world economy until the death of Mao in the middle of the 1970s. By then, domestically, there was a development disaster in the wake of Cultural Revolution. Internationally, there was very limited FDI attracted or trade generated. China engaged with globalization again after the 'opening-up' policy started from 1978. Over the past two decades, it is generally agreed that the economically globalized development in China has grown by an unprecedented level.

The ways that the west and China evolved in the globalization since the 1980s were quite different, and to some extent were in the 'complementary' directions. Labelled as a transition from Fordism to post-Fordism, most of the major capitalist economies in the west seem to move away from routinization of production (especially in manufacturing), turning themselves to the technological-based, flexible-oriented and a

small batch production of a variety of product types sold on the basis of distinctive quality. Domestically, firms in many sectors over there were forced to adopt more flexible technologies and organizational patterns with workfare scheme instead of welfare, meaning that fully employment became difficult to reach. Internationally, along with that were technology development for the flow of capital and the abandonment of the Bretton Woods agreement. Therefore, a more flexibility of global financial regulatory system in general and rapid transmissions of capital in particular were created, accentuating the growth of the economy at the same time also undermining the basis for stable development. Taken together, such transition made global and domestic environments less stable in the west than before.

By contrast, China re-engaged with globalization through industrialization to become a 'world factory' for labour-intensive and standardized products. Development zones were experimented with first in a few places and then promoted nation wide in order to attract investors focusing on routinization of production, whose technology and investment came from the west. Mass-production therefore started up in China, giving rise to a prevalence of cheap 'made-in-China' products in the world. Moreover, China stood firmly at a careful and conservative attitude for certain financial issues like exchange rate pegged to US dollar and controlling the flow of capital and banking and financial industry to foreign investors, making the opening-up environment relatively stable. Therefore, China and the west played different roles in such a new international spatial division of labour. The former focused on the standardized mass productions for semi-products or end products, which was the main cause for pressures of either reindustrialization or deindustrialization facing the latter.

There are two more noteworthy points. First, such industrialization through FDI and international trade in China highly involved global players, who directly invested with factories in China or placed orders to domestic and foreign assemblies located in China. Most of those international players were either from the overseas Chinese-background territories or the advanced capitalist economies (like Hong Kong, Taiwan, Japan, Europe and the United States and so on), where the business environments were different from the legacy of Mao's communist ideology. Therefore, in the post-Mao period in general, and at the beginning of opening-up policies in particular, China to some extent was 'strongly encouraged' to make policy innovations in order to meet the demands required by global players.

A package of preferential tax rebate to FDI in most of development zones was a case in point. Then, whether to introduce foreign investments for development or to independently develop by domestic capitals was one of the hottest political debates. The opposing camp criticized that the preferential policies offered to foreign investors were liked the discrimination to domestic investors. In addition, such development strategies in favour for foreigners would also damage China's independence. However, the supporters insisted that foreign investments were regarded as one of the most strategic development resources in the transition period. In order to achieve this goal, certain new conventions for international business environments (like tax rebate or land lease policy) were 'necessarily' introduced with the abandonment of old communist legacy. In other words, these policy innovations were just regarded as required local responses to chances of engaging with globalization. From this regard, it is understandable the process why and how Kunshan was (or was forced to be) 'willing' to propose to be the first county-level administration to experiment with then most



controversial land lease policies. The first foreign investor in Kunshan complained about this issue in the late 1980s when he considered whether or not to expand the investment. The investor, from Japan, felt too insecure to invest in the lands which belonged to the state without any right for lease, and strongly suggested Kunshan to adopt international conventions.

Second, the so-called global players were not only individual investors but also foreign politicians acting on behalf of interests of their countries. In many cases, the influences exerted to China might be in more gentle ways via their chambers of commerce, foreign aid, or even international organizations such as WTO and World Bank. But the case of CSSIP shows a different strategy by Singapore. Facing challenges of globalization with mobile capital flying out to other developing Asia countries, Singapore formulated 'Regionalization 2000' program in the early 1990s to collectively and straightforwardly guide domestic and government-led enterprises to participate in the growth of Asia. From Singapore's viewpoint, China was the most important target in 'Regionalization 2000' not only because of its potential to be a world factory and consumption markets but also because of Singapore's self-proclaimed belief that Singaporeans are overseas Chinese who at the same time understand the western culture due to the British legacy. Without such globalization pressures (foreign capital outflow) and opportunity (China's open-up) facing Singapore, the development of CSSIP that was dominated by Singapore from 1994 to 2000 might be most unlikely, if not impossible, to happen.

### ***Changing local-central relationship***

Apart from the (re)linkage between China and the world, the post-Mao transition involved a changing local-central relationship, including more 'opening-up' economic and political spaces for local governments. Under Mao's leadership, the centre tightly

controlled local governments. After an oscillation between decentralization and recentralization, local governments in general were actually allowed to get more economic powers in the 1970s as compared to their counterparts in the 1950s and 1960s. Then, such economic decentralization was politically ignited by the centre, which judged which development models were right and what to do and how to do. And local governments had only limited powers to make different experimentation without permissions, needless to say to challenge, or even to resist, the directions and instruments from the centre.

In contrast, the local-central relationship has loosened since the 1980s. Local governments at each level were allowed more competences on economic affairs in general and fiscal revenues in particular. It can be observed in many dimensions. First, the leaders in the centre who did not have a clear picture about the reform agendas either 'rationally' chose some provinces and local areas as trial bases for certain then controversial opening-up policies, or 'intentionally' turned their blind eye to see the outcomes of locally initiated projects that was not permitted by the centre. Second, the market-oriented reformers of the centre were forced to expand their alliances by 'playing to the local' when they politically struggled with the conservative-minded reformers in Beijing. Third, in order to sort out the fiscal crisis in the wake of the Cultural Revolution, local governments allowed to enjoy more fiscal revenues were also required to bear more responsibility for public expenditures formally belonging to the centre (or in the other way around, the centre was forced to transfer more expenditure duty to the local).

Fourthly, the fiscal arrangement in the 1980s on a basis of negotiation with the centre also encouraged local governments to bargain with Beijing in order to strive for their

regional interests. The local governments even successfully resisted together the recentralization policy proposed by the centre after the 1989 'Tiananmen Incident'. Fifthly, there were many cases of jumping scale of decentralization, meaning that county-level administrations were officially or unofficially allowed to contact provincial governments, even the centre, directly bypassing their direct prefectural or provincial level governments. Sixthly, although post-Mao China is under one party control rather a multiple-party democratic system, the centre was not a pure authoritarian regime but one of 'fragmented authoritarianism' (Lieberthal and Oksenberg 1988; Lieberthal 1992). It means that even in the central government, different departments might actually have diversified rather than unified development goals. Such disharmony within the centre also created certain political leeway for local discretion.

The operations in KETZ and CSSIP clearly show that the local-central interactions were changed from close and totalitarian relationships during Mao's time to more open-up in the post-Mao period. For example, in the case of KETZ, Kunshan established a development zone without any authorization of upper-level governments, which later offered a tacit agreement to Kunshan when KETZ was discovered. Instead of waiting for instruments from the centre, Kunshan even persuaded the central government to adopt its policy idea of 'export processing zone (EPZ)'. As shown in CSSIP, internal conflicts within central governments leaves a certain political space for local actors to strive for local institutional innovations. While many central politicians addressed in public the importance of CSSIP, Department of Science and Technology continued to support the development of high and new technological development zones, one of which was SND, the so-called 'rival' zone to CSSIP. Under such context of the organizational opportunity by the 'fragmented' centre, Suzhou could develop

both SND and CSSIP together, despite the strong objections of Singapore which dominated the construction of CSSIP at the beginning.

### *More competition among local governments*

Along with globalization and changing local-central relationships, another major structural change is the intensive competition among local governments during the post-Mao period. Territorial competition in the western context can be traced back to the Renaissance city-state Italy, America since its independence, and the process of European integration since the 1960s. In China's case, I argue that territorial competition emerged seriously after Mao's death, and then developed rapidly within a close link to the dynamism of the national and local economic development. However, it does not mean that there were no territorial competitions prior to 1978. In Mao's time, subnational authorities competed with each other in order to achieve unrealistic targets set up by the upper governments. In the 1960 and 1970s, the centre sanctioned a self-reliant policy with a hostile attitude towards foreign investments. The state capital, which focused on military priorities, were dictated from the centre without much space left for local authorities in pursuit of competitively-oriented policies.

By contrast, post-Mao China's territorial competition was more serious. Implicitly, territorial competition in China can be demonstrated by the appendix attached to the most of yearbooks that contended comparative tables of economic performance indicators standing relative to other neighbouring jurisdictions. Explicitly, instead of specializing in their comparative advantages, localities in China competed with each other by importing state-of-the-art production lines or infrastructures that could easily expand the economy. For example, the phenomenon of nationwide 5,000 zones in total developed by sub-provincial officials without any permission from any upper-level

governments was a case in point. In addition, there was duplicate investment in infrastructure construction, such as five international airports in Pearl Delta, including Hang Kong, Macao, Shenzhen, Guangdong and Zhuhai. While Nantong of Jiangsu planned to build a bridge across the Yangtze River, Shanghai considered to build another one 40 km downstream. Meanwhile, Shanghai was building a US\$ 16 billion deepwater port on Yangshan Island, which is just 80 km from another deepwater port in Ningbo City in Zhejiang province.<sup>259</sup> Similarly, in Jiangsu, twelve national-status zones had been established since the 1980s, and five of which, including KETZ and CSSIP, were located in the administration of Suzhou, causing serious competition among each other in bidding for FDI.

Policy innovation by local institutions was one consequence of territorial competition. One of the basic requirements to win in the territorial competition in bidding for mobile investment is to offer appropriate infrastructure. With limited budgetary revenue in general and scarcity in the item of revenue for construction in particular, huge amounts of extra-budgetary and extra extrabudgetary revenues were legally- ambiguous, then-controversially, or even illegally, created by local governments. For example, in the case of KETZ, the land lease policy, which was very controversial in the late 1980s, successfully helped Kunshan cope with the difficulty in collecting infrastructure finance. In the case of SND, a national zone supported under the context of 'local flexibility to CSSIP', several innovative financial channels, such as initial public offering in Shanghai stock market, US corporate bonds and so on, were also utilized for constructing SND.

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<sup>259</sup> News source: *zhong guo shi bao* (based in Taipei), 2003/02/22; South China Morning Post (based in Guangdong), 2004/04/13.

The policy innovations in these two cases also can be found in the improvement of regulatory environments. On the one hand, there was the continuous improvement of regulatory environments in these two cases. For example, infrastructure standards are upgraded in both zones from five accesses (roads, electricity, telecom communication, water, and sewage) with one levelling (land filling), to seven accesses (adding gas and steams) with one levelling, and then nine accesses (in additional optical fibre and internet) with one levelling. The list of administrative fees, presumably regarded as one of key sources for extra and extra-extra budgetary revenues, was also continuously reduced in both zones. Similarly, procedures and lengths of waiting for business registrations and conflict resolutions in these zones in the Yangtze Delta were also improved as compared to the national average of China. On the other hand, of course, these zones also competed in land pricing. In order to compete with other neighbouring zones, CSSIP lowered its land price immediately after CSSD turned over from the Singapore side to the China side. Similar situations of lowering prices for industrial lands also happened to Kunshan after 2000.

### **9-3 Agents in Actions**

#### ***The importance of local officials and cadres***

However, actions of policy innovation for local economic development do not simply or necessarily occur just because of structural functions in change. In many cases, these actions are actually ignited by agents cross scales whose self-interests are highly involved in local economic development. In general, key members, of course, differently depending on case by case, include local and central officials, foreign and domestic businesspersons, politicians or staff from international organizations, civil society and so on. However, there are at least two differences between China and the

west. At the beginning, in the west cases, local businesspersons, particularly estate and land developers, and active local non governmental organizations and civil societies played an important role in the politics of development coalitions. That is based on two institutional frameworks: on the one hand this facilitated by the existence of private property and land ownership, and on the other hand the involvement of civil society participating in the context of a pluralist market democracy. In China, however, due to the communist legacy, land was either owned by the governments (in the urban areas) or collectively owned by the committees (in the rural areas). Also because of asymmetric power relations between state and society, the development and participation of civil society was regulated under state-led development goals. Therefore, the decision making for development was mainly dominated by the local officials rather than shared with local businesspersons or civil society.

Apart from state-society relations, the second difference between the west and China is party-government relationship within the state. In the west, multiple-party competition is a key principle of the liberal democratic system. Despite the various systems between local mayors, city councils, city managers or so on, a general principle is that those who win elections will have powers to make local development policies and to mobilize resources. However, in China, with limited political development over the past two decades, Chinese Communist Party still tightly monopolized the political operations at each level of governments from the central down to the county-level. Because of one-party control, mayors or chiefs of administrative organizations, which are supposedly able to be representatives of localities in the western context, do not really have a final-say over the local economic decisions. There are powerful party secretaries who double as the speakers of corresponding local people's congresses in many cases. Both party secretaries and mayors in theory have to cooperate together for local

development, but in reality sometimes they compete or even struggle against each other. Also because of such a unified party-state system, regulatory frameworks in China consisted of not only law but also many other types of rules made by party documentations and regulations. These documentations played an important role in building consensus, formalizing personal preferences, and gaining ideological legitimacy.

The cases shown in the thesis support the arguments above. First, despite the importance of economic and technological development zones (ETDZs) contributing to economic growth, the only legal documentation issued by the centre was ‘the minutes of meeting with some coastal cities (*yan hai bu fen cheng shi zuo tan hui chi yao*)’ by 1984. With an absence of centralized regulations, there is no doubt that ETDZs in various localities operated differently and innovatively, from frameworks of organizational structures to solutions for infrastructure finance. Second, Taiwanese (foreign) investors and Singaporean (foreign) politicians to some extent were highly involved in local economic development in Kunshan and Suzhou. Compared to that, there was very limited local civil society and domestic businesspersons actively in relation to public policy.<sup>260</sup> However, local officials still retained important powers in their hands. Thus, Suzhou officials refused to comply with Singapore’s request to shut down SND when CSSIP faced budgetary and schedule overrun in the late 1990s. Third, there was an internal conflict within Suzhou in terms of CSSIP development. Then mayor Zhang, who initiated the proposal of CSSIP and served as a contact window in Suzhou for Singapore, fully assisted Singapore’s participation; while the other key

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<sup>260</sup> It is important to distinguish between participation by domestic private enterprises and domination of development decision-making by private sectors. It also may be because of selections of the cases that are based on its economically globalized nature, domestic manufactures and business became relatively insignificant in terms of participation. For example, in Zhejiang, private sectors played a more important role than FDI did (Unger and Chan 1999).



figure party secretary Yang supported SND and CSSIP more equally. This is the reason why Singapore's proposal to shut down SND was refused by Suzhou. Yang, even he was the then mayor of Suzhou, was not the person who could make a final decision.

### ***Strategic behaviours of making policy innovations***

Generally speaking, policy actors who make innovations in formulating or implementing policies can be seen to face certain risks. Particularly in a transition process like that in China, policy agents, although theoretically 'required' by structural forces to make such innovation, in reality encountered major difficulty in knowing when and how to change (or even abandon) which part of the communist systems, and then how to selectively adopt new programmes of market operations. Four dimensions for understanding local strategies for 'crossing the river by touching stones' are observed in post-Mao China. The first, applying across China as a whole, is a gradualist attitude. One famous example distinguishing China's transition from most other post-socialist economies is the so-called 'dual track' reform, a process of promoting part of products to adopt market track sectorally or geographically at the same time as maintaining other products on the planned track, but with the market track increasing in importance over time. Scholars still do not agree whether the gradualist approach was the choices of central reformers or just a compromise between market- and conservative- oriented reformers in the centre and localities. However, there is no denying that such approach seemed to reduce the uncertainty of transition, as compared to other transition economies where shock therapy resulted in immediate prices increases, and unemployment and other social-economic problems.

Second, as both my cases show, realisation of local policy innovations reflects compromises between key policy agents at different spatial scales with different

priorities. In the case of KETZ applying for state recognition, I explain that one of the reasons why ultimately KETZ gained a distinctive national-status was because of negotiation between Kunshan and the centre. Most national zones at the time were entitled both to implement preferential policies for FDI and to enjoy a fiscal subsidy from the centre. However, KETZ was allowed to apply for the former without the latter. Kunshan faced particular difficulty in attracting FDI due to its county-level administrative standing and secret development status, making preferential FDI policy the greater priority. And the centre, suffering from fiscal crisis, was more willing to give locally initiated projects 'preferential policy to investors than a fiscal subsidy'. After negotiation, two parties compromised to agree on the form of the application of national recognition. In the case of CSSIP, in order to compromise with detractors who argue that investment by foreign governments represent a new kind of 'extraterritorial area', an agreement was also reached with Singapore that CSSIP operate under effective control of Singapore via joint-venture form involving one China consortium (with 35% of shareholding) and one Singapore consortium (with 65%).

Third, to imitate and learn from successful development cases is a common strategy of making local policy innovations. Generally speaking, human beings as well as organizations tend to model themselves after the counterparts in their field that they perceived to be more legitimate or successful. And from the perspective of decision making, policy transfer is also recognized as one of the key solutions for social learning and policy innovations. The concept of development zone in China was basically modelled on successful experiences in many developing countries that facilitated geographical bounded areas to promote export-oriented FDI. During the early 1990s, China, facing several development problems generated by the 1980s' speedy growth, launched a political campaign of 'learning from Singapore'. For many leaders in China,

Singapore was regarded as a model country, experiencing high speed of development without social disorders. This was the basic context for the CSSIP initiated in Suzhou. In the case of KETZ, in the mid 1980s Kunshan officials also started up industrialization via the so-called 'Kunshan little industrial zone' by mimicking the experience of Sheko, the origin of Shenzhen Special Economic Zone. Also, in the late 1990s the idea of an EPZ after Kunshan modelled the experiences of Taiwan, which had the first export processing zone in the world. In general, visiting-cum-learning and face-to-face discussions were popular approaches to the mimetic process. In the case of promoting the idea of EPZ, Kunshan officials visited Taiwan six times to conduct interviews with relevant officials and to collect information on the latest development in establishing globally competitive Customs environments for high-tech manufacturing. In the case of CSSIP, Chinese staff of SIPAC were regularly and systematically sent to Singapore for visiting-cum-training and face-to-face conversations to understand the so-called Singapore standards of operations.

Fourthly, utilizing localities' political stocks (which are based on personal relationship of local leaders) also played an important role in attracting investment in order to successfully facilitate local policy innovations. In the case of CSSIP, at the beginning the then Senior Mentor Lee Sr. did not believe that Zhang, the Suzhou mayor, could offer credible promises as a basis for development. He changed his mind and had second thoughts only because he saw Deng Jr., a son of Deng Sr.. Deng Jr.'s visit was arranged by Zhang, without whose networking, CSSIP might well not have happened. Moreover, in the case of KETZ, successful promotions to attract domestic and foreign investors were also based on the personal networks of either former Kunshan leaders, Kunshanese who worked in the central governments or outside Kunshan, or the pioneering foreign investors from Japan and Taiwan.

To sum up, these empirical findings basically support the argument that local policy innovations can be understood under the context of strategic interactions between policy agents across spatial scales involving local economic development. These four strategic behaviours also address the important role of local entrepreneurial agents in the process of policy innovations. It can explain why local policy innovations happen in few but not all regions. Theoretically, all of the local authorities could utilize their own interdependent resources to strategically interact with other central and foreign agents and governments. In reality, however, the localities where local policy innovations take place more easily are actually governed by entrepreneurial leaders who are not only capable of these strategic behaviours for promotion of local development, but also willing to take responsibility of risks and not afraid of mistakes.

#### **9-4 Summary: Asymmetric Decentralization in post-Mao China**

##### ***Decentralization as an intermediate dimension***

The central concern of the thesis is with the concept of local policy innovations: how and why and under what circumstances local institutions were encouraged to make innovations in policy formulating and implementing for better off economic development. In general, I argue that local policy innovations were able to be institutionalized when localities encountered structural changes, through a combination of agents pursuing their own self-interests by strategically interacting with other agents at different spatial scales in the context of dynamic inter-regional competition. In other words, both pressures/opportunities presented by global and domestic economic restructuring and actions operated by agents' strategic interactions across different spatial scales both are partly adequate explanations of the cases where innovation was achieved in the west and in China.

In the comparative terms, there are of course certain commonalities as well as differences between China and the west. The challenges of globalization, transitions in terms of modes of regulations and regimes of accumulations, competition among sub-national territories, and mimetic learning as a way of innovation are general both in the west and China. However, as demonstrated, there are major differences between China and the west on two dimensions of political operation: on the one hand China is still under one-party control; while on the other hand the local-central relationship in China is one of more political dynamics rather than of constitutional rigidity. Therefore, although the tendency that local governments are gaining more economic powers to deal with local development issues can be seen both in China and the west, the mechanisms and effectiveness for local policy innovations are distinctive in China as compared to those in western liberal democratic market systems. From this view, in order to specifically understand the mechanism of post-Mao local policy innovations, I further argue in this thesis that the effect of decentralization on political and economic perspectives, and the related political and materials incentives for local officials, reflects an important intermediate dimension between structures in change and agents in action.

In the western cases, economic decentralization generally takes place in the context of a liberal competitive democracy, with local leaders elected by the people (like the mayor of London and Paris, all governors of lander in Germany and of states in the USA). There, local politicians are motivated to utilize local resources and make policy innovations in promoting economic development in order to win the elections. However, without local election systems, the question why post-Mao local officials still had incentives to act in a similar way becomes crucial. Before readdressing the concept of

asymmetric decentralization that I proposed in Chapter Four, I need to discuss two competing arguments about the role of incentives for post-Mao local officials to promote policy innovations: the first is a perspective of ‘ambiguous property right’; and the second is an aspect of ‘federalism, Chinese style’. These two are illustrated as follows.

*Ambiguous property right vis-à-vis ‘federalism, Chinese style’*

The perspective of ‘ambiguous property right’ is developed under the contexts of two types of economic decentralization: a fiscal one and a public ownership one. Concerning the former, local governments were granted more economic powers. Regarding the latter, many state-owned enterprises belonging to the centre were also transferred to the local governments. Therefore, township and village governments in particular and sub-national governments in general were *de facto* owners of public enterprises. Local leaders could either directly become managers and bosses of these decentralized public-owned companies; or they had the absolute right to appoint and dismiss managers of these companies, to make important investment decisions, to dispose of assets and even to claim part of the net profits. Under what has been called ‘local state corporatism’ (Oi 1995; 1998), local ‘cadre/entrepreneurs’, including party secretaries and government officials at local levels whose economic interests directly tied to the ambiguous public/private property right, were simultaneously operating as shareholder and tax authority. Because personal income, bonuses and fringe benefits including luxury cars, travel and large expense accounts were pegged to local public revenue in relation to the performance of these public-owned companies, local officials therefore were expected to act innovatively like business-persons.

This approach offers a dimension to understand the sources of economic incentives for local officials. Such a process, which was understood as one of key mechanisms for rural industrialization, was central to the situations of many township and village enterprises (TVEs) and its contributions to local development. However, the weakness of the approach is that it does not apply to many economically globalized situations where local development was highly triggered neither by TVEs nor public-owned companies but by FDI. Moreover, the approach is only useful to describe those local officials who directly operated business to raise fiscal revenue and to create employment. The approach fails to explain why other local officials promoted local development, by creating an environment conducive to growth rather than engaging themselves into business directly.

The second approach is to assert the operation of '*de facto* federalism' as a perspective on local-central dynamics. In the west, federalism means that local governments have quite powerful economic competences under regulations of their constitutions with only limited powers conceded to the centre (principally national defence and foreign policy). The general political and social contexts also involve systems for protecting individual rights, including democratization of governor elections and political freedoms. From this perspective, post-Mao China could fit the economic conditions but not the political and social ones. On the one hand, there was indeed a limitation of control by the central government in Beijing over the local economic development issues along with a situation of serious competition among decentralized territories. But, on the other hand, neither local (except village levels) elections nor liberal democracy have been established. Leaders are still assigned by upper-level governments.

Qian and Xu argue that this scenario can be regarded as a particular type of organizational operations: the 'multidivisional-form (m-form)', involving as an organization comprised of self-contained units where complementary tasks are grouped together,<sup>261</sup> and units are designed to compete with each other. The leaders of units who have major powers to mobilize the resources and decide personnel management within the units are selected by the headquarters of the corporation (Qian and Xu 1993a; 1993b). From this view, China's political operations can be understood in terms of three principles. First of all, there is a hierarchical structure with personnel control centralized in the hands of upper governments; government officials move up in an internal political labour market; and officials at a given level compete for promotional opportunities. Second, top provincial officials, like division managers in a multidivisional corporation, have the ultimate authority in allocating economic resources as well as personnel arrangement in their provinces. Third, provincial top leaders have to be in charge of economic performance; and the economic performances under their jurisdictions are positively related to their career mobility. To some extent, such relationship between central and provincial governments also can be applied to the relationship between provincial and prefecture or even prefecture to county governments.

The main difference between the approach of 'ambiguous property right' and 'm-form organization' is that the former pays attention purely to economic incentives while the latter introduces the innovative mechanism of political incentives, particularly in the form of careerism among local officials. The perspective of 'm-form organization' actually offers a better understanding to comprehend local leaders' incentives for policy

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<sup>261</sup> In contrast, a U-form (unitary form) organization is decomposed into specialized units where similar tasks are grouped together. These units are not self-contained in terms of final output (Qian and Xu 1993a; 1993b).



innovations. Under single party control, post-Mao local officials were assigned by the upper-level governments rather than elected by the people. And consideration for personnel promotion or demotion is mainly based on the performance-oriented management for economic development. Therefore, self-interested local actors in post-Mao situations who made policy innovation could be motivated by careerism as political incentives.

Various statistical studies relating upward mobility of subnational leaders and economic performance of their jurisdictions have shown that the greater economic development growth, the better the chances there for leaders to be promoted by upper-level governments. In this thesis, study of two cases provides more qualitative support for this argument. Naturally, politicians would tend to give as the ostensible reasons for making policy innovations public objectives like priority of the wealth of the people and development of their localities, rather than any of their individual self-interests, even if the later are crucial dimensions of their behaviours. For this reason, I focus on the *ex-post* career paths of local leaders to show the positive linkages between local economic performances and career advancement for local officials, which I argue them to be aware of and influenced by. Undoubtedly, KETZ/ Kunshan and CSSIP/Suzhou are now listed as top economically globalized zones in China. From Kunshan, two ex-leaders are now serving as vice governors of Jiangsu province. The other two ex-leaders were promoted with an abnormal two echelons. From Suzhou, three of the ex-leaders have now become provincial leaders. Such exceptional promotions of Kunshan and Suzhou leaders- or the so-called 'Kunshan phenomenon' and 'Suzhou phenomenon' - clearly endorse existing researches showing that leaders advancing economic development are better able to get promoted.

### *Advantages and limitations of asymmetric decentralization*

To sum up, the mechanism of political incentives in ‘federalism, Chinese style’ is political dimension of ‘asymmetric decentralization’, a term that I adopt in this thesis to describe the situation of ‘economic decentralization to local governments’ alongside ‘political centralization under the party’. The former is popular in many countries across the world, while the latter is quite unique to China. I argue that the concept of this ‘asymmetric decentralization’ is key to understanding how post-Mao local governments were ‘politically’ encouraged to make innovation. With central- local dynamics as the political leeway, local officials like to do their best to utilize their decentralized economic powers and resources for more development opportunities, in return for greater ‘political capital’ in relation to upper-level governments. Through this route, the personal prospects of local leaders come to depend on their ability to make policy innovation to boost economic performance of their jurisdictions during their tenures in office.

This perspective explains a more complicated example from my case studies, involving the competition between SND and CSSIP in Suzhou. As stated, the proposal ‘strongly’ suggested by Singapore in the late 1990s to shut down SND was strongly rejected by Suzhou, for reasons which involved both the ways career advancement is related to economic performances and internal political conflict within Suzhou associated with dual local power bases. During 1994-2000 period of Singapore- domination, Suzhou was very marginalized and hardly had any incentives to promote CSSIP. In addition, SND was able to contribute more to economic performances (like GDP and fiscal revenue) to Suzhou leaders than CSSIP did. Therefore, it is understandable why Yang, who took actions to support both SND and CSSIP when he was party secretary of Suzhou, was promoted to be vice governor of Jiangsu after he left Suzhou. In contrast,

Zhang, who supported CSSIP on his capacity as Suzhou mayor, was removed from Suzhou/Jiangsu and stayed in Harvard for two years. According to the idea of careerism, it is understandable that Zhang's studying abroad in Harvard was not a promotion, if not to actually a demotion, particularly compared to Yang's posts.

I also show that asymmetric decentralization is a Janus-faced phenomenon generating both positive and negative effects at regional/local level and also at national level. At the national scale, two significant consequences are: relatively national stability (compared with other developing and transition economies where there was also higher economic decentralization) but in combination with inter-regional uneven development within the country. At a regional scale, policy innovations were enabled through the system of careerism among local officials who wanted to present better performance in order to get more attention from the upper-level government, but this has been at the cost of some unsustainable developments due to the system paying too much attention to narrow economic indicators for performance management. In both of my cases, the relatively low growth of income per capita as well as certain unsustainable social and environment development demonstrated that heavy emphasis on economic indicators, such as GDP, FDI and so on, as key criteria for performance management can also produce certain negative externalities.

These negative externalities remind us to reconsider more comprehensive judgments on the mechanism of asymmetric decentralization in relation to local economic development? Three particular theoretical and empirical implications can be made. First, economic performance management behind the career incentives are actually assigned by upper-level governments, challenging the concept of what is degree of local autonomy in post-Mao China's context of economic decentralization. By re/setting the

performance indicators, central or upper authorities still play a very important role in intervening and directing local development. Generally speaking, local officials who were interested in environment protection, cultural diversity and R&D and innovation in the 1980s and 1990s indeed faced difficulty in practicing their ideas because these issues were not on policy agenda of the centre. Local behaviours were changed following indicator items were reset. For example, Zhangjiang High-Tech Zone in Pudong of Shanghai changed their development focus from attracting FDI to settling down R&D institutions. It happened after their performances criteria were rearranged by the upper authority not purely on the growth of GDP but on the numbers of how many Zhangjiang or Shanghai branches of prestigious universities or engineering colleges could be relocated.<sup>262</sup> Similarly, Zhouzhuang, a canal-village near Shanghai, also started to significantly preserve traditional waterways and landscapes, after performance indicators of Zhouzhuang were changed with more focus on ecological preservation and promotion of tourist industry.<sup>263</sup>

In other words, under the context of asymmetric decentralization where those indicators are basically designed by the centre, local and regional officials are to some extent forced to passively respond to the centre's requirement. Localities have limited autonomy to initiate their real own development strategies, particularly those which are different from what upper-level governments want. On the bright side, of course, localities' behaviours can be more easily influenced by the centre who is willing to promote certain important policies. But it must be noted that whether the system can be functional or not depends on one important precondition: that the central leaders selected need to really recognize what are the important policy agenda for China as a

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<sup>262</sup> Interview code: YO-16.

<sup>263</sup> News source: *xin hua wang* (based in Beijing), 2005/08/08.

whole, or for particular localities, in order to reset those performance indicators in the 'right' time at the 'right' place.

Second, however, it does not mean that indicator performance/control is an effective (enough) governing mechanism. Political centralization under the party involves two kinds of political exercises: not only are local leaders assigned by upper governments, but there is also one party control over administration, legislation and the juridical system, with very limited and slow-growing political space for civil society and media. Without good institutions and governance requirements (like transparency, power check and balance, freedom of speech, environment for active NGO) at the local level, the operational system for local economic development can be based on the centre's monitoring capacity or can rely on local leadership, or possibly both. However, while there are always some leaders that are entrepreneurial, honest and active, others will be passive, conservative, or even worse, predatory and corrupt. And there is some asymmetric information between the local and the centre with the former easily hiding some information from the latter. A common scenario is one of 'cooking' data leading to unreliability of statistics.

As such, in the best scenario, local policy innovation can take place resulting in better economic development as a consequence when there is a good leadership. But, in the worst scenario, when bad leadership is in office where good governance is lacking at the local level, local people and civil society have limited institutional channels to pursue reform or change, while the centre also needs plenty of time to find out these predatory or corrupt leaders, locking localities in a negative cycle of under-development. This is a possible reason, for example, why anti-corruption campaigns at the local level are so difficult in China at the moment. Therefore, if China still

maintains its scepticism toward the so-called western democracy model, from my view, combining the first point, how do upper level governments design a set of good indicators as career incentives in order to encourage local leaders to promote good governance is to become a necessary policy option.

Third, on the main topic of innovation, asymmetric decentralization in China offers limited institutional incentives to build tolerance of failure and rewards for long-term success, which are the key requirements for overcoming the uncertainty associated with all real innovations (Manso 2006). In contrast to an election system where tenure is strongly fixed at three to five years, post-Mao's asymmetric decentralization gives local leaders no idea how long their tenure in office may be. In order not to promote localism, the average tenure of local leaders in the reform period was about two years, which was shorter than that prior to 1980 (Huang 1996b).

However, such the shorter tenure tended to discourage innovation for two reasons. First, to be tolerant of failure and be patient to wait for long term achievement are not encouraged. In order to prove as soon as possible (in one or two years) that they are capable of generating development and not making huge mistakes, leaders who bear their political career in mind naturally promote short-term construction and investments or simply copycat other regions without considering their own real niches, with a risk of damaging the chances of long-term local sustainable development. On top of that, innovations are better produced by sharing of tacit knowledge and trust between agents, which takes time to develop and accumulate. The frequent turnovers of local official leaders, who are the key agent in local policy decision, unintentionally weaken the possibility of establishing long-term face-to-face communication and interactions. For example, recently several Kunshan businesspersons complained about the frequent

movements of local leaders in relation to slow improvement of local business environment.<sup>264</sup> A crucial new task facing China is to balance longer term tenure, appropriate local policy innovation, and protection from localism.

### **9-5 Coda: Expanding Research Agenda**

Moving on from the local/individual and national/aggregate levels on which I have concentrated in looking at the consequences of asymmetric decentralization for policy innovation, one useful direction for an expanding research agenda would be to focus on 'inter-regional' development dynamics associated with local policy innovations. There are two topics that can be identified: one positive and one negative. The former is the diffusion of policy innovation capacity between regions, and the latter consists of copy-cat acts between regions resulting in isomorphism. I elaborate each as follows.

#### ***Diffusion of local experiences and geography of personnel management***

Performance-based promotions can be important not only in providing political motivations for local leaders to make policy innovation, but also as a new solution of diffusing those innovations. This is illustrated by cases of Kunshan and Suzhou. For example, experienced county-level leaders were promoted to other prefectures within provinces. WU Kechun was the first economic architect to upgrade Kunshan for dramatic industrialization in the 1980s. Because of his ability in attracting FDI for better local economic development, Wu was also the first vice director of Administrative Committee of CSSIP in charge of communication and negotiation with Singaporeans. JI Jianye, who served in Kunshan from 1997 to 2002, was promoted to Yangzhou where it was in the least-developed prefecture in the central Jiangsu with

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<sup>264</sup> Interview code: KC-04.

limited FDI.<sup>265</sup> Ji's abnormal two-echelon promotion was said to have been decided by then President Jiang because he wanted Yangzhou, his hometown, to quickly adopt the Kunshan experiences through Ji's promotion. According to the survey done by Taiwan Electrical and Electronic Manufacturers' Association, in terms of the so-called 'recommended city' for further investment, Yangzhou was ranked 36<sup>th</sup> out of China as a whole in 2001 to top 2<sup>nd</sup> in 2004.<sup>266</sup> Moreover, those skilled prefecture leaders were upgraded to be provincial heads in China as a whole. In the case of Suzhou, LIANG Baohua (1998-2000), CHEN Demin (1997-2002), and WANG Min (2002-2004) were shifted to be provincial leaders of Jiangsu, Shanxi and Jilin provinces after leaving Suzhou. It is reported that Chen could bring some fresh ideas from Suzhou to Shanxi for the 'Great West Development (*kai fa da xi bu*)' and Wang could do so to Jilin for a project of 'advancement for Northern East' (*zhen xin dong bei*).<sup>267</sup>

Such promotion of course happened not only in Suzhou and Kunshan but also in other places in China.<sup>268</sup> These empirical cases actually imply that the movement of

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<sup>265</sup> In 2001, Yangzhou, as prefecture-level city, had 451 million populations with US\$ 10 billion of realized FDI. In Kunshan, there was one of ninth of population of Yangzhou with seven times of realized FDI.

<sup>266</sup> Significant more Taiwanese investments came to Yangzhou after Ji was in the post. For example, one chemical production company from Taiwan decided to invest in Yangzhou because of Ji's connection and reputation in the Taiwanese circle. News source: *zhong guo shi bao* (based in Taipei), 2002/04/22.

<sup>267</sup> Due to the networking with Singapore during their tenure in Suzhou and CSSIP, more Singaporeans investors were invited to organize to pay a visit to Shanxi and Jilin after Chen and Wang moved there. For example, LI Yixian, a former vice CEO of CSSD and now director of Bureau of International Entrepreneur Development, was invited as a senior economic consultant to Shanxi province by CHEN Demin in 2005. News source: *nan fan zhou mo* (based in Guangzhou), 2004/11/18; *lian he cao bao* (based in Singapore), 2005/05/25.

<sup>268</sup> Zhangjiagang, and Kunshan and CSSIP were regarded as three role models of development in Suzhou. Therefore, JIANG Hongkuan, then party secretary, was promoted to be mayor of Nanjing, the provincial capital of Jiangsu. YU Youjun, the then mayor of Shenzhen (prior to 2003), was promoted to the vice governor and party secretary of Hunan first (2003-2005) and now transferred to be acting governor of Shanxi province (after 2005). Shenzhen was one of most active and powerful city in Guangdong with the establishment of the first special economic zone since the late 1970s. And Hunan and Shanxi were currently two of poorest provinces in China. Moreover, JIANG Jufeng, the then mayor of Wenzhou of Zhejiang (prior to 2002), was also directly seated to be vice governor of Sichuan province (after 2002). QIAN Yuanlu, the then mayor of Wuhan of Hubei (prior to 1998), was also moved to be the leaders of impoverished Guizhou province (1998-2005) and then changed to Helongjiang (after 2005). Wenzhou and Wuhan are two of major developed cities during the reform periods. In addition, the incumbent party secretary of Jiangxi (after 2001), MENG Jiangzhu, was vice mayor of Shanghai (prior to 2001).



experienced staff is used to serve as an additional function of diffusion of innovative policy capacity from developed regions to underdeveloped areas. Through the personnel movements of these experienced leaders, successful and innovative governing capacities in improving regulatory environments for better local economic development, which are attached with local leaders, were also shifted from certain developed places to puzzled or even underdeveloped areas.

More systematic survey on provincial leaders also supports the argument that experienced leaders could be transferred-cum-promoted from developed regions to underdeveloped areas. I use the dataset of bibliography of party secretary and governors of 31 provincial-level administrations (as of March 2006) to examine the careers paths of these local leaders tracing back to 2000.<sup>269</sup> Three types of personnel movement can be identified: from the centre (namely, they served in ministry-level in Beijing before working as provincial leaders); from the neighbour (namely, they were moved from other provinces to the current post); and being veterans (namely, they stayed in the current provinces prior to 2000). Of 66 records on career paths of local leaders,<sup>270</sup> 21 were type of from the neighbours along with 14 of from the centre and neighbour, and

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<sup>269</sup> The reasons why I just select party secretary and governor rather than to other vice posts is because in China every province has about ten or more vice party secretaries and vice governors together. Some of them are in charge of discipline committee or party management, which are not much directed to local economic development. Taking all of them into account would make the dataset just a little bit comprehensive but very difficult to examine. Therefore in here, I just focus on posts of party secretary and governor. The data is based on *xin hua wang* (based in Beijing), [http://news.xinhuanet.com/ziliao/2002-02/20/content\\_476046.htm](http://news.xinhuanet.com/ziliao/2002-02/20/content_476046.htm).

<sup>270</sup> Every province produces two records: one of party secretary and one of governor. But four leaders changed their post twice. BAI Keming, incumbent party secretary of Hebei since 2002, changed positions twice since 2000. His career path involve: Director of *ren ming ri bao* (based in Beijing) until 2001 -> party secretary of Hainan during 2001-2002 -> party secretary of Hebei. So he contributed two types of changes: from the centre and from the neighbour. Similarly, WANG Qisan, current mayor of Beijing, also changed the posts twice in past five years: director of Office for Institutional Innovation at the State Council until 2002, party secretary of Hainan during 2002-2003, and then Beijing mayor after 2003. YU Yujun, current party secretary of Shanxi, was then mayor of Shenzhen (until 2003), and vice mayor of Hunan (2003 to 2005). And SU Rong now works as party secretary of Gansu. Prior to that, he was vice party secretary of Jilin (until 2001) and party secretary of Qinghai (2001-2003). Therefore there are 66 records (31\*2 +1+1+1+1).

31 of being veterans. Among the 21 accounts of working experiences moving from provinces to provinces, I divide into two categories: move from high GDP per capita province to low GDP per capita (from rich to poor) or vice versa (from poor to rich). And the former fits into the idea of diffusion of experienced administrations from advanced regions to underdeveloped areas. The result is astonishing: 14 of from rich to poor with only 7 from poor to rich (Table 9-1).

Table 9-1: Geography of personnel movement of China's local leaders

Name*	Post changed since 2000		Type of movement	
	From**	To**	A***	B***
JI Yunshi	Jiangsu (prior to 02)	Hebei (after 02)	*	
CHEN Deming	Jiangsu (prior to 04)	Shannxi(after 04)	*	
WANG Min	Jiangsu (prior to 04)	Jinlin (after 02)	*	
ZHANG Dejiang	Zhejiang (prior to 02)	Guangdong (after 02)	*	
Wang Jingsan	Zhejiang (prior 02)	Anhui (after 02)	*	
ZHANG Guoli	Guangdong (prior to 00)	Shandong (after 00)	*	
YU Youjun	Guangdong (prior to 03)	Hunan (03-05)	*	
	Hunan (03-05)	Shanxi (after 05)	*	
MENG Jianzhu	Shanghai (prior 01)	Jiangxi (after 01)	*	
SU Rong	Jilin (prior 01)	Qinhai (01-03)	*	
	Qinhai (01-03)	Gansu (after 03)	*	
BAI Sipei	Qinhai (prior to 01)	Yunan (after 01)	*	
CHEN Chengkuo	Shandong (prior 02)	Ningxia (after 02)	*	
KUO Jinglung	Tibet (prior 04)	Anhui (after 04)	*	
BAI Keming	Hainan (01-02)	Hebei (after 02)		*
WANG Chisan	Hainan (02-03)	Beijing (after 03)		*
LI Keqian	Henan (prior to 04)	Liaoning (after 04)		*
CHU Bo	Hunan (prior to 01)	Inner Mongolia (after 01)		*
ZHANG Wenye	Xinjing ( prior to 01)	Liaoning (after 01)		*
XI Jingpeng	Fujing (prior 02)	Zhejiang (after 02)		*
QIAN Yunlu	Quizhou (prior 02)	Helungjiang (after 02)		*

Note\*: data is party secretary and governors as of March 2005 who had experienced personal movement from one province to another province once or more.

Note\*\*: the posts in the 'from' column are either vice governors, vice party secretaries, governors or party secretaries, and the posts in the 'to' column custom are party secretaries or governors

Note\*\*\*: movement from rich province (higher GDP per capita) to poor one (lower GDP per capita) refers to A; vice versa refers to B

Source: author compiled

Of course, it must be noted that personnel management and movement of leaders involve many other considerations, such as education background, age, place of birth, political factions (or collective networking), individual personal relationship, stability

of provincial leaderships, training programs of national leaders and so on (Li 2005; Li 2006a; Li 2006b). More researches on different cases to show whether or not situations of provinces before and after experienced leaders entering offices really get better are needed to either confirm or modify the 'hypothesis' of geographic diffusions in policy innovation capacities. To sum up, geography of personnel movements of these leaders in relation to diffusion in capacities of local policy innovations certainly is one of the important and promising topics in further researches.

#### *Local isomorphism as a common observation in China and the west*

Another phenomenon behind local policy innovation is that different localities which try to make policy innovations actually formulate similar, if not to say exactly the same, development strategies (like duplicate infrastructure construction and race to bottom of tax rebate programs). In theory, given that every locality has particular niches (or they are supposedly to have to find out or create their own competitive advantage), local policy innovations would lead to policy divergence, rather than merely development policy convergence or similarities. However, in reality, it is undeniable that several localities actually make policy innovation in the way of intentionally or unintentionally formulating similar or exactly same strategies as others do in different places. I call the phenomenon 'isomorphism of local development policy'. For example, in terms of FDI policy, cities and regions often used to offer all manner of incentives to major corporations with similar concessions, such as tax abatements and the provision of physical infrastructure. In order to present imagination of globalization, many cities used to build up so-called iconic architectures, which are defined as builds and spaces that famous professional architects have special symbolic and aesthetic significances attached to them (Sklair 2005). To sum up, the phenomenon of local policy isomorphism is commonly observed not only in the west but also in China, but

regrettably it was rarely documented and analyzed in the existing social science in general and urban and regional studies in particular. It means that there is a theoretical gap between policy innovation and policy isomorphism.

Inspired from organizational theory, isomorphism is defined as aggregations of organizations that are involved in similar activities due to inter-organizational interaction impacts upon organizational strategies and institutional change. In DiMaggio's and Powell's view (1991), many organizational fields show a tendency to institutional isomorphism, meaning that despite the emphasis on variety and innovation at the level of individual actors and organizations, in reality many organization fields present a strong tendency to increased homogeneity. Three typologies of isomorphic forces are identified: 'under coercive pressure'; 'for mimetic learning'; and 'by normative involvement' (DiMaggio and Powell 1991). First, coercive isomorphism results from formal and/or informal pressures (like legalized mandates, social expectations, and ritual of conformity) exerted on organizations. Second, mimetic learning refers to forces for isomorphic changes among organizations that derive from a sense of uncertainty. Particularly when goals are ambiguous and/or when environments created unpredicted risks, the safest ways to get rid of risk for organizations is to model themselves after other modelled organizations that are perceived as successful cases by borrowing organizations. A third source of isomorphic change is normative involvement stemming primarily from a so-called professionalism.<sup>271</sup> Organizational convergence, therefore, take place via using similar professionalization sources for change when these professional members interact, reinforce and spread norms of behaviours with each other.

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<sup>271</sup> Professionalism is regarded as an occupation that is able to define the conditions and method of their work and to establish a cognitive base and legitimation for their occupational autonomy (DiMaggio's and Powell 1991).

On the basis of the three types of isomorphic forces (for organization in general), five main decision making mechanism in relation to local isomorphic policy development are theoretically identified as follows (Table 9-2). First, localities formulate similar policy due to top-down policies from any upper governments. In the national scale, central governments can define specific functions and nullify the policies and decisions of the local governments. In the global scale, local governments are also able to be coerced to make some policy changes because they have to comply with conditionality of foreign aids or international treaties (Bennett 1991).

Table 9-2: Analytic framework on local policy isomorphism

<i>Typology of process</i>	<i>regional policy isomorphism mechanism</i>	<i>empirical examples</i>
Coercive pressure typology	<ul style="list-style-type: none"> <li>■ <b>(CP1) Compulsory Regulation</b> Regions would be forced to develop in the way of isomorphism in some respects because they are under certain similar formal regulations or informal rituals.</li> <li>■ <b>(CP2) (Im)mobile Resource competition</b> Regions would formulate the similar policies because they seek for the immobile funding from the same authority</li> </ul>	<ul style="list-style-type: none"> <li>■ European cities are forced to make the same policy changes under EU context; or Japan that was forced to implement parliamentary democracy system after World War II.</li> <li>■ Several local regeneration projects in UK adopt the new public-private-participation model in order to get the 'Challenge Fund'; or Regions competing FDI by offering similar race to the bottom policies</li> </ul>
Mimetic learning typology	<ul style="list-style-type: none"> <li>■ <b>(ML1) Mimetic Learning</b> Regions would intimate other so-called successful regions when they face some uncertainty or ambiguous goals</li> </ul>	<ul style="list-style-type: none"> <li>■ Some cities facing traffic jam problems mimic London's successful 'congestion charge' policy.</li> </ul>
Normative involvement typology	<ul style="list-style-type: none"> <li>■ <b>(NI1) Consultancy Involvement</b> Regions would formulate similar development strategies when involved by professional consultancy companies or associations</li> <li>■ <b>(NI2) Personnel recruitment</b> Regions would make similar decision making when leaders of regions can be 'headhunted' in the pool of the experienced mayors, chiefs or managers</li> </ul>	<ul style="list-style-type: none"> <li>■ Lord Richard Rogers promote sustainable development to most global cities; or the National Governors Association seeks to identify and share best policy and innovation. Media also can play an important role in benchmarking.</li> <li>■ It is unlikely to happen in the liberal democracy system because most of the local leaders are elected directly. But China is practicing this.</li> </ul>

Source: author compiled

Second, regions are 'strongly' encouraged to formulate resembling development strategies when they seek for similar subsidy, compete for same grants, or/and bidding for mobile investments. Territorial competition for foreign investment is a case in point (Cheshire and Gordon 1995). In addition, Britain's Challenged Fund was to strongly encourage local governments to formulate similar 'public-private partnership' policy for urban regeneration (Davies 2002). These first two scenarios are under coercive pressures. Third, regions imitate other so-called successful regions when they face some uncertainty or ambiguous development goals. It is because local policymakers facing complex problems are likely to seek decision-making shortcuts by learning alternatives which have been pursued and proved effective or promising in other state (Berry and Berry 1999). And this mechanism follows the mimetic-learning isomorphic force.

The normative involvement force shed light on the fourth and fifth types of local policy isomorphism. In the fourth scenario, regions would formulate similar development strategies when they invite professional consultancy companies involved or their decision makers. International consultancy, such as global law firms, medias, banks, and professional architects and planners are able to play an integral role in the transnational creation of global flows of expertise, ideas, images, technology, capital, human and development models (Rimmer 1991; Molotch 1993; Olds 2001; McCann 2004). Another examples are the National Governors Association and the Centre for Best Practices at National Conference of State Legislature (Bennett 1991; Berry and Berry 1999). Fifthly and finally, regions formulate similar policies because leaders of regions are selected in the pool of the experienced mayors, chiefs or managers, rather than elected through the democratic process. It means that certain knowledge of local

economic development can be transferred with the politicians or government officials shifted from 'experienced regions' to other 'learning regions'.

To sum up, I argue that the phenomenon of local development policy isomorphism can be divided into five different but not mutually exclusive mechanisms, that is, (CP1) compulsory directions from top; (CP2), competition for subsidy and/or investments; (ML1), mimetic learning; (NI1), professional networking; and (NI2), personnel movement. However, it must be noted that these mechanisms are theoretically distinctive but empirically intertwined. Therefore, decision making for local economic development is better understood as a mixture of several mechanisms.

Back to post-Mao China's context, I do not aim to downplay the importance of mechanism of mimetic learning (ML1) when individuals making decision, of mobile capital (CP2) under the general context of globalization, and of personnel movement of experienced leaders (NI2). As discussed, these three undoubtedly played an important role in the China's particular background of 'asymmetric decentralization'. However, I wish to bring other constituent mechanisms for trying to sophisticatedly understanding policy isomorphism into the whole pictures. For example, the policy of development zone to expand to 14 cities and regions in the mid 1980s could be understood as the mechanism of compulsory direction (CP1). It is because then leaders of some areas (like Nantong of Jiangsu) were quite conservative-minded and cast their doubt on opening-up programs. They were forced to carry out such central directions (Zweig 1999). Regarding consultancy involvement (NI1) cross spatial scales, Olds (1997) noted elite non-Chinese professional consultants in planning and urban design played a role of knowledge transfer from outside to Shanghai. In addition, Chinese Association of Development Zone also helps formation and transformation of development zones,

for example, by organizing ‘learning and adopting CSSIP’ conferences to promote CSSIP experience across China. To conclude, the notion of five mechanisms has just been proposed as the first step towards conceptualising the complexity of policy isomorphism embedded policy innovation. Based on that, further researches would be more easily conducted in order to theoretically and empirically advance our understanding the complicated situations of policy isomorphism and policy innovations.



## **Appendix: Information about the Interviewees**

### ***In KETZ and Kunshan***

- KO-01, a high-level official of KETZ administrative committee (KETZAC), 2002/01
- KO-02, an assistant to vice director of KETZAC, 2003/01
- KO-03, vice director of Kunshan EPZ administrative committee, 2003/09
- KO-04, an official in business promotion in KETZAC, 2003/09
- KO-05, an official in labour resource in KETZAC, 2003/09
- KO-06, a veteran official of KETZAC, 2003/09
- KO-07, another veteran official in Kunshan, 2003/10
- KO-08, an official in human resources in Kunshan City Government (KCG), 2003/10
- KO-09, an official in finance in KCG, 2003/10
- KO-10, an official in planning in KCG, 2003/10

- KC-01, a manager of a glove-making company in KETZ, 2003/09
- KC-02, a manager of a laptop-assembling company in Kunshan EPZ, 2003/09
- KC-03, a manager of a DVD Rom company in Kunshan EPZ, 2003/09
- KC-04, vice director of Kunshan Association of Taiwanese Investors, 2003/09
- KC-05, a manager of an IT component company in Kunshan, 2003/09
- KC-06, a manager of a Kunshan office of Taiwanese Bank, 2003/10
- KC-07, a manager of an IT component company in KETZ, 2005/07
- KC-08, a manager of an IT component company in KETZ, 2005/07

### ***In CSSIP***

- SO-01, an official in finance and taxation of CSSIP Administrative Committee (SIPAC), 2003/01
- SO-02, an official in marketing of SIPAC, 2003/09
- SO-03, an official in joint venture of SIPAC 2003/09
- SO-04, vice director in charge of finance and taxation of SIPAC, 2003/10
- SO-05, a high-level official of SIPAC (China side), 2003/09
- SO-06, a high-level official of SIPAC (Singapore side), 2003/10
- SO-07, an official in business marketing of SIPAC (based in Singapore), 2004/12
- SO-08, an official in business promotion of SIPAC, 2005/07

SC-01, a manager in an electronic industry company in CSSIP, 2001/06  
SC-02, a manager in an IT supporting company in CSSIP, 2001/06  
SC-03, a manager in an IT monitor company in CSSIP, 2001/06  
SC-04, a manager in an IT component company in CSSIP, 2001/06  
SC-05, a manager in an IT supporting company in CSSIP, 2002/06  
SC-06, a manager in a telecom materials company in CSSIP, 2003/01

SP-01, a scholar in development study (based in Singapore), 2004/12

***Suzhou and Other regions in Yangtze Delta***

YO-01, an official in investment promotion of SND Administrative Committee (SNDAC), 2002/06  
YO-02, another official in investment promotion of SNDAC, 2002/12  
YO-03, an official in planning of SNDAC, 2003/01  
YO-04, an official in finance of SNDAC, 2003/01  
YO-05, an official in SNDAC-owned company, 2003/01  
YO-06, an official in economic development of SNDAC, 2003/10  
YO-07, an official in human resource of SNDAC, 2003/10  
YO-08, vice director of Xiangcheng (a district-level) development zone of Suzhou, 2003/01  
YO-09, an official in economic coordination of Suzhou City Government (SCG), 2003/10  
YO-10, an official in finance of SCG, 2003/10  
YO-11, an official in planning of SCG, 2003/10  
YO-12, an official in land development of Wujian (a county-level) development zone Administrative Committee of Suzhou (WUAC), 2003/09  
YO-13, an official in labour resources of WUAC, 2003/09  
YO-14, an official in party and government office of WUAC, 2003/09  
YO-15, an official in economic development of WUAC, 2003/09  
YO-16, an official in Shanghai Zhangjiang High-Tech Zone, 2003/09

YC-01, a manager of an IT company in SND, 2001/06  
YC-02, a manager of an IT company in Suzhou, 2003/01  
YC-03, a high-level manager of a laptop company in Shanghai, 2003/09  
YC-04, a high-level manager of an IC foundry in Shanghai, 2003/09  
YC-05, a manager of an IT component in Shanghai, 2003/09

YC-06, a manager of a mobile set company in Shanghai 2003/09

YC-07, a manager of an IT company in Wujian (county-level) of Suzhou, 2003/09

YC-08, a manager of an IT company in Wujian, 2003/09

YP-01, a researcher in Shanghai library, 2002/12

YP-02, an architect in Shanghai, 2003/01

YP-03, a project manager in architecture in Shanghai, 2003/10

YP-04, a manager of a planning consultant, 2003/10

YP-05, a scholar in Shanghai Academic of Social Science, 2003/10

YP-06, another scholar in Shanghai Academic of Social Science, 2003/10

YP-07, an official in Shanghai City Development Research Centre, 2003/10

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