

Cities in China

Recipes for economic development
in the reform era

Edited by

Jae Ho Chung

Routledge Studies on China in Transition



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Cities in China

'well conceived, well structured...with a clearly delineated focus...the methodology is appropriate and ingenious...the articles are data-rich, absorbing, well-researched, and support the editor's conclusions.'

Dorie Solinger, *University of California, Irvine*

Until now, China's eye-catching economic performance over the last two decades has only been examined from macro-national and provincial perspectives. However, since post-Mao China's reform strategy has been predominantly regional in nature, further bringing down the level of analysis is a key to understanding China's remarkable success. This book, for the first time, focuses on sub-provincial cities as territorially based entrepreneurial agents. More importantly, *Cities in China* provides the widest coverage in the field of contemporary China studies, by comparing the developmental recipes of fourteen cities in eight provinces.

Developmental experiences of these cities are analysed using a frame work of three categories: the 'given' endowments of location and history; the administrative arrangements and target policies granted by central and provincial governments; local entrepreneurial leaders and locally generated strategies of reform and 'opening'. Case studies cover: six 'deputy provincial' cities in five provinces (Dalian, Qingdao, Hangzhou, Xiamen, Guangzhou, Chengdu); three 'prefecture' level cities (Wenzhou, Nantong, Fuzhou); three county level cities (Panyu, Nanhai, Zhangjiagang); and two provincial level cities (Tianjin, Chongqing).

This volume, written by contributors from a number of different disciplines, suggests that different combinations of factors have contributed to the relative successes and failures in these cities. Endowment factors, preferential policies, and history have all proved to be important. Most importantly, *Cities in China* suggests that locally generated strategies of development are crucial determinants. This ground-breaking volume reveals, through close detail and broad coverage, how exactly cities have been key agents as well as catalysts for China's economic development. It will provide much needed data for those working in the fields of comparative politics, development studies, Asian studies, and contemporary China studies.

Jae Ho Chung is Assistant Professor in the Department of International Relations at Seoul National University. He is the author of *Central Control and Local Discretion in China: Leadership and Implementation during Post-Mao Decollectivization* and co-editor of *Provincial Strategies of Economic Reform in Post-Mao China*.

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Series Editor's preface

It is twenty years since the Communist Party of China committed itself to 'openness and reform'—the central tenet of a transition that has been remarkable not least for its lack of blueprint. One of the changes signalled clearly at the beginning was the commitment to first double and then redouble the aggregate size of the economy of the People's Republic of China by the end of the millennium. Then, and into the early and mid-1980s, there were few academic observers of China who did not regard this as a desirable goal, but equally few who thought it was attainable. On the contrary, many economists in particular pointed out the difficulties in the project and the near-impossibility of its achievement. In the event the target was attained with almost five years to spare, some time in 1995.

The rapid growth of China's economy is a useful starting point for this series, intellectually as well as chronologically. It is not only that China has developed so spectacularly so quickly, nor that in the process its experience has proved some economists to be too cautious. Rather, its importance is to demonstrate the need for explanatory theories of social and economic change to themselves adapt and change as they encompass the processes under way in China, and not to assume that previous assumptions about either China or social change in general are immutable.

The series *China in Transition* aims to participate in these intellectual developments through its focus on social, political, economic, and culture change in the China of the 1990s and beyond. Its aim is to draw on new, often cross-disciplinary, research from scholars in East Asia, Australasia, North America and Europe, as well as that based in the more traditional disciplines. In the process the series will not only interpret the consequences of reform in China, but will also have some role to play in monitoring and reflecting the changes of the future.

China's spectacular growth rates of the last twenty years are often so lauded that their reception masks not only an equally significant qualitative transformation but also the spatial aspects of the reform process. It is the coastal provinces, first in the South of China and more recently in the East, which have been in the forefront of change, and within those provinces it is the cities which have changed the most. While rural, or at least sub-urban China, has in many ways been in the vanguard of transformation, the cities have been at the centre of reform as markets have developed and social change has accompanied the restructuring of the economy.

Cities in China is necessarily concerned with the role of cities in reformist China as the poles of economic and social transformation that they have almost self-evidently become. However, it also reaches far beyond that, in seeking to explain the variability of the roles played by cities in reform. Not all cities have responded or have been able to respond equally to the challenges of the reform era. Shanghai and Guangzhou, each in its own and different way, have responded extremely positively, but not every city in China can emulate either example. Size, location and political connections are obvious hallmarks of the success of those two cities that may not be universally available. *Cities in China* uses a methodologically astute technique whereby pairs of cities—with sometimes functional, sometimes geographical, and sometimes administrative commonalities—are examined in parallel to highlight the relationships between factor endowment, leadership and social change in explaining the development of China's cities.

David S.G. Goodman
Institute for International Studies, UTS
December 1998

Preface

As decentralization, along with marketization and privatization, has constituted a crucial cornerstone of post-Mao Chinese reform, 'unpacking the state' has almost become a norm in the study of contemporary China irrespective of the disciplines involved. In the 1990s in particular, several collaborative research endeavours were launched to produce valuable contributions to the understanding of provinces. I myself have been involved in some of these projects and, along the way, I came to realize that much of the important dynamics in China's transition to a developed economy has been taking place as much at the sub-provincial levels as at the provincial and national ones. This is how the 'cities project' was initiated back in 1995 and is now materialized in this volume.

The most difficult task of all in managing this project concerned the selection of contributors with the willingness to commit themselves to the project through-out as well as with sufficient prior experience and necessary connections with the provinces where their respective case cities were located. As scholarship inevitably flows with the trends of policy and market, maintaining a reasonable coastal-inland balance was not possible. Nevertheless, seven contributors managed to deliver interesting and useful findings about the fourteen case cities in terms of similarities and variations among their 'recipes of local economic development.' I owe sincere thanks to all of the seven contributors. It is hoped that the findings presented in this volume will be further discussed and investigated with more future research on different sets of cities. After all, it seems, that is the whole point of researching, debating, and cultivating scholarly communities in our research field.

Throughout the tenure of this project, spanning about four years, David S.G. Goodman, as a friend and colleague, has been unsparing in providing constructive support, advice and comments. My association with David over the years on the much larger 'China's Provinces in Reform' project was also essential to the development of various ideas presented in this volume. I would also like to thank Victoria Smith, Senior Editor for Routledge, for her meticulous support, with-out which this volume would not have become what it is now. Last, but not least, I am grateful to my wife, Hye Kyung, and my daughter, Jean, for their patience and perseverance during the four-year journey.

Jae Ho Chung
Seoul National University
March 1999

Recipes for development in post-Mao Chinese cities

Themes and variations

Jae Ho Chung

Precedents of industrialization suggest that different actors and institutions may get involved as key agents of development, which include factories, investment banks, entrepreneurial bourgeoisie, foreign capital, and the state. No monocausal explanation will suffice since, at different points in time and under different politico-economic circumstances, varying combinations of factors have led to high growth. When ‘telescoping’ the arduous process of development is a key imperative, however, the role of the state is deemed crucial in designing overall development strategies, governing the market by getting the prices wrong, and controlling the major sources for financing development. As a matter of fact, ‘taking the state seriously’ as the principal architect of development has already become a cliché.¹

It should be noted, however, that the state is a multi-layered structure of authority with its own complex intra-and inter-governmental dynamics. As the extensive literature on development in general, and on the East Asian Newly Industrializing Economies (NIEs) in particular, almost uniformly adopts the highly encompassing term of ‘state,’ it largely fails to differentiate the roles performed by the central and local governments in executing ‘developmental intervention.’² System reforms in many post-communist and reforming socialist countries, too, have involved a variety of measures of decentralization and marketization, the success of which has been highly contingent upon the responses of their local implementors. ‘Unpacking the state’ has indeed become a crucial approach to the study of development.³

The importance of regional and local governments in determining the path of development is nowhere more manifest than in continental states such as Russia and China.⁴ China’s path of development has quite closely resembled those of South Korea, Taiwan, and Singapore in that its accelerated growth was facilitated largely by the developmental state with sufficient autonomy from domestic social groups and coalitions as well as with a ‘strategic capacity’ to restructure the domestic market and manage external capital linkages.⁵ However, unlike these East Asian NIEs where the central government was *de facto* the only state with any substantial power of its own, China’s developmental reform was from the outset accompanied by the delegation of central authority and the promotion of local initiatives. One key consequence of such a difference is that, while the East Asian NIEs’ developmental trajectory was heavily geared toward sectoral target policies, China’s path to date has been predominantly regional in nature.⁶

Regional target policies refer to regionally discriminating measures of deregulation to promote the growth of some localities at the expense of others. The rationale behind this selective spatial deregulation is two-fold: (1) regional target policies were initially for experimental purposes to test whether a particular deregulation would work and possibly be worthy of replication in other areas; and (2) they were also for the purpose of saving scarce development capital, which could be utilized more effectively by being invested in select localities with better endowments. Such regional target policies, in combination with various measures of decentralization and marketization, have significantly contributed to the rise of local power in China. Furthermore, China's local governments are performing an increasingly vital role in designing and shaping the developmental process by substituting for the shortage of bourgeois entrepreneurs and private business groups.⁷ Conceiving of government (or state) as a public entrepreneur is not a new concept, but dissecting it into territorially based entrepreneurial agents certainly is. In fact, the lower we go down along the administrative hierarchy, we may find that incentives for local governments to perform entrepreneurial functions also become more clearly defined since the boundaries of property rights are better delineated, collecting bottom-heavy information becomes easier, and the transaction costs of monitoring firms and markets are reduced.⁸

Local agents of development in China: why sub-provincial cities?

Studies of local government as entrepreneurial agents in China's reform have largely been confined to those of provinces, and even they are primarily at an early stage.⁹ Provinces are still undoubtedly the most important sub-national level of administration, which interact directly with the central government. Not surprisingly, provinces were the first to benefit from a variety of decentralization measures in the areas of fiscal arrangements, investment decisions, and foreign economic relations.¹⁰ Since the intensification of China's developmental reform of necessity presupposes the deepening of decentralization, marketization, and privatization, its resource and informational requirements will also become increasingly more bottom-heavy, further localizing the entire process of transitional management. Consequently, much developmental intervention may actually take place at the level of sub-provincial cities.¹¹

Some policy stipulations and statistics may further underscore the importance of sub-provincial cities in post-Mao Chinese reform. First, with the designation of fifteen 'key economic cities' (*jingji zhongxin chengshi*) in April 1981, the central government for the first time acknowledged the crucial role that sub-provincial cities could play in shaping the path of national economic development. Second, with the introduction of the 'city in charge of county' (*shi guan xian*) policy in 1983, more and more counties became subject to the direct supervision by prefecture-level municipal governments. As of 1991, for instance, one-quarter (696) of China's counties were directly administered by 170 prefecture-level cities.¹² In accordance with the rapidly rising level of urbanization, many rural counties also became county-level cities with an enhanced degree of autonomy in economic management. As of 1994, China had 413 county-level cities, of which 355 (86

percent) were county-turned-cities (*xianqiaoshi*).¹³ During the reform era, the number of sub-provincial cities rose dramatically from 191 in 1978 to 321 in 1985, and to 663 in 1996, a fact which may indicate their increasing importance in managing local economic development.¹⁴

Third, as of 1993, sub-provincial cities and urban districts accounted for three-quarters of China's gross value of industrial output (GVIO) and fixed assets, as well as 61 percent of all foreign investments actually committed to China, despite the fact that their land area constituted a mere 15 percent of China's total.¹⁵ Fourth, several measures of selective spatial deregulation—such as Beijing's designation of 'special economic zones' (*jingji tequ*), 'coastal open cities' (*yanhai kaifang chengshi*), and 'central economic cities' (*jihua danlie chengshi*)—allowed more than two dozen sub-provincial cities to implement highly preferential policies and grow strong enough to compete with the provinces, further complicating central-local as well as intra-provincial dynamics of development management.¹⁶ Fifth, an increased number of county-turned-cities have actively joined 'development communities,' particularly in the coastal region, to get their due share of markets, capital and information.¹⁷

The importance of sub-provincial cities has been further highlighted by the media and Chinese publications concerning their roles as 'windows' (*chuangkou*) that connect domestic and foreign business networks and as 'corridors' (*zoulang*) through which developmental ideologies and reform experiences as well as products, capital, technologies and information are diffused into the neighboring localities.¹⁸ Yet, our current understanding of sub-provincial cities and their roles in post-Mao economic reform is highly limited and significantly skewed.¹⁹ First, the predominant focus of the field has been placed on the 'special economic zones' (SEZs) and Shenzhen in particular, which are undoubtedly important yet perhaps too unique to produce useful generalizations about the role of sub-provincial cities in China's developmental reform as a whole.²⁰ Second, other than the SEZs, Wuhan is perhaps the only sub-provincial city that has received heavy scholarly attention in recent years.²¹ Third, while research on counties and county-level cities has recently been initiated, they are either single-case studies or static comparisons of output data devoid of procedural dynamics of development.²²

As a matter of fact, the most comprehensive comparative study of sub-provincial cities to date was conducted by a group of economic geographers who collectively sought to evaluate the developmental potentials of ten sub-provincial cities in the coastal region.²³ Yet, from a political-economy perspective, such questions as how economic development was actually pursued by sub-provincial cities—as opposed to what developmental potentials they might have possessed—and whether or not they have shared a common recipe of development, beg to be answered on a more systematic and comparative basis.

Recipes for development in sub-provincial cities: endowments, policies, and strategies

This book is based upon the assumption that sub-provincial cities are more than mere catalysts for development and that they are pivotal players of local economic development. Fundamentally, this volume is a collective research effort to identify what

can be termed as the ‘recipe(s)’ for economic growth in sub-provincial cities in post-Mao China. A preceding question, of course, would be whether there is a significant common recipe for local economic development. The literature on late industrialization and NIEs suggests that variations, rather than uniformity, more aptly characterize the developmental paths taken in East Asia and Latin America. Different resource endowments, varied politico-social structures, and differing leadership qualities all seem to have contributed to such variations.²⁴ This book also presupposes a strong presence of variation among the developmental paths taken by sub-provincial cities in China.²⁵ In order to identify and gauge the extent of variation, however, we need a common hypothetical recipe for development, against which each contributor can test the experiences of his or her case cities.²⁶

In this volume, the common recipe is assumed to consist of three categories of factors that may shape the path of development in sub-provincial cities. The first category of factors is of a ‘given’ nature in that sub-provincial cities themselves are not able to change their specific configurations. The factors of location and history belong to this category. The location factor concerns whether a city is coastal or inland, whether it is located on or near a major river, whether or not it controls an international harbor, whether or not it borders on a foreign country, whether or not transportation is difficult due to topological conditions, and so on. A hypothesis derived from these is that if a city is coastal, located on a river, controls a harbor, or borders on a foreign country, it may develop faster than otherwise.²⁷ On the other hand, history refers to ethnic, cultural, political, and economic legacies that a city has inherited from the past. More specifically, the ethnic and cultural legacies are believed to be closely related to the level of local integration and communal solidarity. The political heritage may condition the city’s ideological and policy orientations as well as its responsiveness to the administrative superiors. The economic legacy is associated with how its current development is aided or constrained by past decisions regarding investments and industrial policies.²⁸

The second category of factors is concerned primarily with administrative arrangements and target policies granted by the central and provincial governments, which are deemed crucial in molding the overall environment of development in sub-provincial cities.²⁹ These factors are much more malleable than location and history. That is, while sub-provincial cities themselves cannot unilaterally produce central or provincial policies, sub-provincial cities can at least try to persuade and influence Beijing or their provincial superiors to adopt policy positions more favorable to their interests. For instance, revenue-sharing arrangements have fundamental bearings upon the extent to which sub-provincial cities are permitted to utilize local revenues in pursuing their own developmental priorities. While such arrangements are usually formulated on the basis of the center’s (and the province’s) policy preferences, sub-provincial cities can and often do obtain favorable arrangements through intense negotiations and bargaining.

More specifically, these ‘semi-given’ factors are divided into two sub-categories. One refers to the provision of preferential policies that would allow sub-provincial cities to expand their bases of resources. Concrete measures include favorable revenue-sharing and taxation arrangements and the granting of special designations such as ‘special economic zones,’ ‘coastal open cities,’ ‘central economic cities,’ ‘economic and technological

development zones,' and 'bonded zones,' which have all been crucial to raising the ceilings for local foreign exchange retention, upgrading local authority in managing foreign investment and loans, and so on.³⁰ The other concerns the provision of special arrangements that would permit an expanded scope of local discretion in dealing with the central and provincial authorities, managing municipal affairs, and handling lower-level units. Concrete measures include: (1) personnel appointments—whether the center dispatches powerful central figures to rule a city or grants the city expanded discretion in local leadership selection; (2) administrative reorganization (e.g. incorporating nearby rural counties) by which sub-provincial cities become larger and more powerful, both physically and financially; and (3) local legislative power—whether these cities were empowered to enact their own laws or regulations with regard to economic policies and so on. The key hypothesis in this vein is that the more resources and administrative autonomy a sub-provincial city gets to enjoy, the more likely it is to develop faster than otherwise.

The last category concerns locally-inspired conditions that have to be 'created' by sub-provincial cities themselves. In contrast with the first two, this category of factors refers to particular sets of strategies that sub-provincial cities would have to carve out on the basis of what they possess and perceive to be their potentials. These strategies may encompass the establishment of new development-oriented institutions (as well as the restructuring of the local economic bureaucracy), the formulation of locally-specific industrial policies, and the creation and promotion of international linkages and interregional networks to attract foreign and domestic investment and technologies.³¹ In most cases, the creation of viable strategies and their effective implementation are highly contingent upon a capable local leadership that can capitalize on favorable endowments or preferential policies by weaving together various factors conducive to growth.³² In order to minimize the constraints, both ideological and institutional, imposed on the exercise of agency, the local leadership should be sufficiently innovative and daring. What is termed a 'transforming leadership'—as opposed to a 'transactional' one—is needed in order to set new agendas, stimulate new preferences, and identify new missions. Of course, such a leadership comes with a premium and, therefore, is rather rare in systems where politics determines almost everything.³³

There is a formidable methodological challenge in this regard. That is, more often than not, it is very difficult to establish persuasive empirical linkages between particular sets of developmental strategies and the leadership variable, not only because strategies imply a 'purposiveness of state action that may not exist,' but also because it is practically very difficult to collect pertinent information on the mind-sets and decision structures of leadership.³⁴ Thus, while we do *retain* the leadership variable, we may also opt for some proxies when necessary. These proxies, assumed to be related to the relevant leadership group, include: (1) particular choices for sectoral and industrial policy; (2) methods of securing development capital; (3) the creation and restructuring of the economic bureaucracy; and (4) the cultivation of overseas and domestic networks.

Types of cities and the selection for this volume

Formally, China has three levels of cities: provincial-level cities (*zhixiashi*), prefecture-level cities (*dijishi*), and county-level cities (*xianjishi*). In terms of administrative ranks, however, there are currently four levels of cities.³⁵ The highest refers to four ‘centrally administered cities’ of Beijing, Shanghai, Tianjin, and Chongqing, with the bureaucratic rank of a province.³⁶ At the next level are ‘deputy-provincial’ cities (*fushengjishi*), of which there are currently fifteen.³⁷ At the third-level are prefecture-level cities whose authority is placed between the province and the county. Examples of these cities are Yantai in Shandong, Foshan in Guangdong, and Wuxi in Jiangsu. As of 1995, there were 210 prefecture-level cities in China. Finally, there are county-level cities of which there were 427 as of the end of 1995. Of these, ten were directly administered by their respective provincial governments, 157 by the prefecture (*diqu*) governments, and the remaining 260 by the prefecture-level cities. Examples include Laixi in Shandong, Panyu in Guangdong, and Zhangjiagang in Jiangsu.³⁸

Ideally, the selection of case cities should be guided by the principles of equal (regional) representation and randomness. Since real world research is inevitably constrained by many factors, it is neither feasible nor necessary to choose case cities in such a methodologically coherent manner. First, it seems, case studies of this sort may be based upon the theoretical significance of the cases chosen (i.e. purposive sampling).³⁹ Second, the limited availability of researchers focusing on sub-provincial cities and with sufficient prior familiarity with their case cities also constituted a serious problem for a balanced treatment of different regions in accordance with either the coastal-inland or east-middle-west categories. In order to minimize the selection bias, however, each contributor was asked to examine two cities from a comparative perspective with sufficient justification for their particular selection. Efforts were also made to cover all three types of sub-provincial cities in as many different provinces as possible.

As a result, this volume covers a total of fourteen cities: (1) six ‘deputy-provincial’ cities in five provinces—Dalian in Liaoning, Qingdao in Shandong, Hangzhou in Zhejiang, Xiamen in Fujian, Guangzhou in Guangdong, and Chengdu in Sichuan; (2) three prefecture-level cities—Wenzhou in Zhejiang, Nantong in Jiangsu, and Fuzhou in Fujian; (3) three county-level cities of Panyu and Nanhai in Guangdong, and Zhangjiagang in Jiangsu; and (4) as subjects of comparison, two provincial-level cities of Tianjin and Chongqing. The case-study structure of this volume is shown in [Table 1.1](#), and the cities are located on [Map 1.1](#).

Comparative studies of fourteen cities: a synopsis

This volume contains seven substantive chapters, each comparing the developmental characteristics of two cities. Among the fourteen case cities examined, four pairs are concerned with accounting for the contrast between more successful cases and less successful ones; and the remaining three pairs deal with similarly successful cases and try to identify common factors promoting growth as well as less obvious but meaningful variations among them. The former four refer to the pairs of Guangzhou-Tianjin, Xiamen-

Table 1.1 Seven case-city pairs adopted in the volume

<i>Deputy-provincial</i>	<i>Prefecture-level</i>	<i>County-level</i>	<i>Provincial</i>
Hangzhou ^a	Wenzhou ^b		
Qingdao ^{b,c} with Dalian ^{b,c}			
Xiamen ^{c,d}	Fuzhou ^{a,b}		
Chengdu ^a			Chongqing ^c
	Nantong ^b	Zhangjiagang Panyu with Nanhai	
Guangzhou ^{a,b}			Tianjin ^b

Notes

a Refers to provincial capitals.

b Refers to coastal open cities.

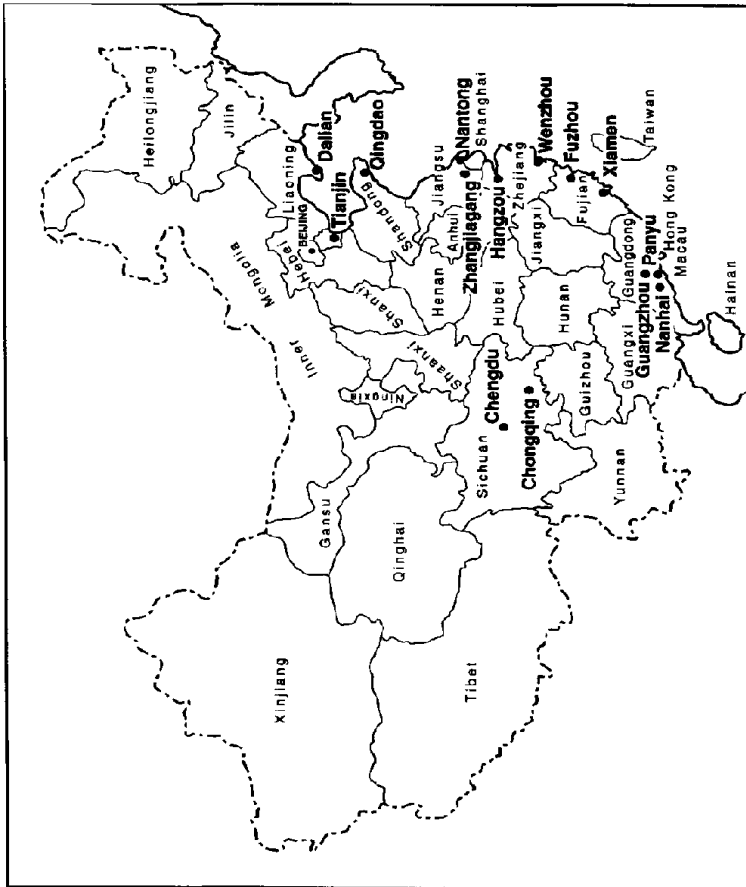
c Refers to central economic cities.

d Refers to special economic zones.

Fuzhou, Chengdu-Chongqing, and Zhangjiagang-Nantong, while the latter three are Hangzhou-Wenzhou, Qingdao-Dalian, and Nanhai-Panyu.

Peter Cheung tackles a very interesting puzzle as to why Tianjin as a provincial-level city was caught up by Guangzhou, a sub-provincial city, as early as 1988. Considering that both cities shared coastal locations, international ports, and similar sets of preferential policies, the contrast becomes more stark. Cheung provides three answers. First, Tianjin's geographical proximity to Beijing was a serious constraint as the latter wished to be an economic powerhouse itself, thus blocking the former's bids and requests. Beijing's concern for stability also inhibited the city from launching economic reform in the 1980s. Guangzhou, on the contrary, had undertaken market-oriented reform much earlier than Tianjin. Second, while Guangzhou constituted a developmental corridor for the entire Pearl River Delta and Southwest China, Tianjin lacked a comparable base for hinterland linkages. Furthermore, Guangzhou benefited substantially from its proximity to Hong Kong. Third, Guangzhou's leadership in the 1990s was able to formulate an effective response to the economic challenges facing the city whereas the significance of leadership factor is uncertain in Tianjin's economic performance.

Keith Forster contrasts Hangzhou with Wenzhou—two cities which have taken remarkably different paths of development. In many aspects, Hangzhou was endowed with much better conditions, including various preferential arrangements from Beijing and Zhejiang in particular, an easier geographical access, and cultural and economic affinity to the prosperous Sunan region. On the basis of that, Hangzhou was able to develop township- and village-run enterprises (TVEs), along with successful state-owned enterprises (SOEs). Wenzhou, on the other hand, had initially suffered enormously from



Map 1.1.1 Location of the fourteen case cities

the lack of attention and support from the central and provincial authorities. Yet, thanks to its traditional communal solidarity and entrepreneurial spirit, Wenzhou was able to turn neglect and isolation to its own advantage, scoring an astonishing success in the development of private and household-based specialized industrialization with privately-run nation-wide marketing networks.

Jae Ho Chung compares the two successful cases of Qingdao and Dalian, which shared coastal locations, colonial experiences, international ports, and, most importantly, almost identical sets of preferential policies from Beijing and their respective provincial authorities. The main question concerns why, given so many conditions commonly shared, Dalian was able to develop much faster than Qingdao during the 1980s, particularly in foreign economic relations. Chung suggests that three reasons were responsible for the difference. First, Beijing's provision of preferential policies was both earlier and more extensive for Dalian than Qingdao during the 1980s, which allowed the former a significant head start. Second, Dalian was much more cosmopolitan and entrepreneurial, and its leadership (under Wei Fuhai) was also much more open-minded and risk-taking in

the earlier years of reform than its Qingdao counterpart. Third, Dalian's reform began with close connections with Japan, while Qingdao was left out in the cold during much of the 1980s. Only in the 1990s, when a powerful central figure, Yu Zhengsheng, was put in charge and the diplomatic *rapprochement* opened a way for close cooperation with South Korea, was Qingdao able to catch up rapidly with Dalian.

Jude Howell takes up the question why Xiamen pushed ahead of Fuzhou despite the fact that both shared advantageous coastal locations, overseas links with Taiwan and overseas Chinese in Southeast Asia, and historical experience as treaty ports. Howell's answer points to the critical importance of the special economic zone and the central economic city designations by Beijing, which allowed Xiamen to pursue its developmental priorities with more autonomy and discretion than Fuzhou, as well as the entrepreneurial drive of local officials who sought to take full advantage of special policies. While Xiamen was able to focus primarily on expanding its foreign economic relations by taking advantage of its superior port facilities and preferential policies, Fuzhou had to take care of its ailing SOEs, which further reinforced its conservative and risk-averse approach to the reform as a whole.

Lijian Hong deals with Chongqing and Chengdu, the only inland pair covered in this volume. The principal question concerns why Chongqing, with more preferential policies and a better geographical location, lagged behind its arch-rival, Chengdu. Hong's findings reveal very interesting facets of central-local and intra-provincial dynamics as they were related to local economic development. First, Chongqing's growth was in tandem with Beijing's direct control of the city, whereas the periods associated with decentralization generally worked against it. That is, the post-Mao reform era characterized by extensive decentralization put Chongqing in a severely disadvantageous position, while Chengdu reaped a windfall from Sichuan's economic management. Second, despite Beijing's considerable investments in Chongqing, its heavy dependence on defense industries largely prevented them from producing a major positive impact on the city's economy as a whole. Third, despite the growing power of sub-provincial cities, Chongqing proved no match for Sichuan, which wanted to render more support for its capital Chengdu.

David Zweig compares the developmental experiences of Zhangjiagang and Nantong in Jiangsu. According to Zweig, Nantong's success was considerably delayed due mainly to its less accessible location, its leadership's conservatism (as manifested by the decision to locate its economic and technological development zone far away from the city center), and leadership conflicts. Further, Nantong's path dependence—its heavy reliance on SOEs—also made it difficult for the city to utilize incoming foreign capital to its maximum advantage, in particular, to channel that investment into rural industry. Zhangjiagang, on the other hand, possessed a harbor in a highly preferred location, for which both the center (Ministry of Transport) and Jiangsu were willing to provide special support including the provision of the most preferential 'bonded zone' designation. The success of Zhangjiagang is also attributed to its leadership's remarkable entrepreneurship and connections with the central leadership, most notably Jiang Zemin himself, as well as its industrial structure based on TVEs.

Tao-chiu Lam looks at the two highly successful county-level cities of Nanhai and Panyu in the inner Pearl River Delta. Lam is concerned with the anomaly that Panyu lagged far

behind Nanhai during the 1980s despite the fact that both cities shared almost the same policies, locations, cultural heritage and overseas linkages. Lam's answer is very interesting in that the only difference concerned the two cities' relations with their respective superiors. More specifically, in addition to the contributions made by its leader, Liang Guangda, Nanhai benefited considerably from Foshan's earlier desertion of ideology, its aggressive approach to economic reform, its benign neglect, and efforts for rural industrialization and privatization. In contrast, Guangzhou retained tight control over Panyu to secure its support in providing services, agricultural goods and revenues. Guangzhou's conservative approach to reform during the 1980s also worked against the growth of Panyu. Later, however, the policy of the Pearl River Delta Economic Open Region and the subsequent turn-around of Guangzhou's approach to economic reform, as well as Panyu's heavy investment in infrastructure, all contributed to the city's rapid growth in the 1990s.

Recipes for local economic development: similarities and variations

Comparative studies of two provincial-level cities, six 'deputy-provincial' cities, three prefecture-level cities and three county-level cities suggest that different combinations of factors have contributed to the relative successes and failures in local economic development. The endowment factors have proven to be important. The centrality of geographical location seems to have somewhat paled in most of the cases examined in this volume, not only because the book is not about explicitly comparing coastal and hinterland provinces, but also because five pairs deal with cities in the same provinces, while the remaining two—the Qingdao-Dalian and Guangzhou-Tianjin pairs—compare coastal open cities. Nevertheless, the cases of Xiamen, Fuzhou, Qingdao, Dalian, Guangzhou, and Tianjin confirm the crucial importance of coastal locations in obtaining more extensive preferential policies at earlier points in time. Even among the cities located in the same province, as the contrast between Zhangjiagang and Nantong suggests, a slight comparative locational advantage could make an enormous difference in attracting the policy attention of the central and provincial authorities. What is more interesting, however, is that relative locational disadvantages could be successfully overcome by certain policy mechanisms (as in the case of Chengdu) or by the power of grass-roots entrepreneurial spirit (as in the case of Wenzhou).

History, too, made a difference. Xiamen and Fuzhou's linkages with Taiwan, Dalian's Japan connections, and the overseas Cantonese networks of Panyu and Nanhai are most illustrative of the catalytic function of historical legacies. Interestingly, inter-city rivalries between Chengdu and Chongqing as well as between Qingdao and Dalian also played a certain role in promoting competition for growth. Most importantly, the institutional legacy of path dependence proved to be a crucial factor in aiding or constraining local economic development. More specifically, as the cases of Tianjin, Chongqing, Fuzhou, Nantong, and Panyu well illustrate, the heavy dependence on the state sector (SOEs, defense industries, and centrally-planned sectors) generally worked against fast growth.

Preferential policies and administrative arrangements have also proven to be very important determinants of local economic development. That is, *ceteris paribus*, obtaining as many preferential policies as possible was an absolute advantage in pursuing local priorities of development with more local initiatives and expanded bases of resources. The cases of Xiamen, Qingdao, Dalian, Hangzhou, Guangzhou, and Zhangjiagang well demonstrate this point. Three types of deviation exist, however. First, as the cases of Chongqing and Panyu suggest, intergovernmental arrangements that define sub-provincial cities' relationships with their administrative superiors could play a very important role in neutralizing the effects of preferential policies. Second, as the cases of Qingdao and Dalian show, the timing of policy provision also seems crucial since the earlier recipient would have more time to experiment and adapt itself to the new policy environments. Third, regional contexts of development policy also matter. In the case of Tianjin, the strong presence of Beijing in its backyard worked as a key constraint. And, during the 1980s, the developmental pace of Panyu and Nanhai closely paralleled that of their respective superiors, conservative Guangzhou and aggressive Foshan.

Finally, there are more variations found in locally-generated strategies of development. One most crucial variable here is the leadership factor. While an aggressive, risk-taking leadership is a preferred condition, it perhaps does not have to consist of powerful central figures. Although the cases of Qingdao (Yu Zhengsheng) and Dalian (Bo Xilai) underscore the political edge enjoyed by these prominent figures, the cases of Tianjin (Li Ruihuan) and Fuzhou (Xi Jinping) may constitute deviant cases. What seems more important is the strong leadership, willing to take risks and explore new possibilities—Nanhai's Liang Guangda and Dalian's Wei Fuhai for instance. The desertion of ideological rigidity is a prerequisite, however, as the cases of Qingdao, Dalian, Guangzhou, Nantong, Panyu, and Fuzhou illustrate. Locally-inspired development strategies are also crucial as they represent a local *modus operandi* in carrying out complex tasks of reform. Both sectoral and industrial decisions—i.e. how to improve or redress the path-dependence problems—are important and so are investments in infrastructure, as the cases of Qingdao, Zhangjiagang and Panyu demonstrate. Local paths of growth are inherently varied, shaped by a variety of factors and their combinations, as the stark contrast between Hangzhou and Wenzhou shows very effectively.

This book is only a preliminary effort to identify similarities and variations among the patterns of economic development in sub-provincial cities during the reform era. The volume actually poses more questions than it answers, however. One crucial but unanswered question concerns whether there is a possibility of convergence of sub-provincial strategies and patterns of development. The answer to this question would have enormous implications for the implementation of reform in the inland regions. There is certainly a need for more collective research effort along these lines in the future, preferably with the inclusion of more inland cities.

Notes

- 1 The *locus classicus* on this theme is Alexander Gerschenkron, *Economic Backwardness in Historical Perspective*, Cambridge MA, Harvard University Press, 1962, pp. 12–20. Also see Tony Smith, ‘The Underdevelopment of Development Literature: The Case of Dependency Theory,’ *World Politics*, 1979, vol. 31, no. 2, pp. 251–9. For empirical studies that underscore the role of the state, see Alice H. Amsden, *Asia’s Next Giant: South Korea and Late Industrialization*, New York, Oxford University Press, 1989; Stephen Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*, Ithaca, Cornell University Press, 1990; Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*, Princeton, Princeton University Press, 1990; and Jung-en Woo, *Race to the Shift: State and Finance in Korean Industrialization*, New York, Columbia University Press, 1991.
- 2 See, for instance, Ronan Paddison, *The Fragmented State: The Political Geography of Power*, Oxford, Basil Blackwell, 1983.
- 3 See Joel S. Migdal, *Strong Societies and Weak States: State-Society Relations and State Capabilities in the Third World*, Princeton, Princeton University Press, 1988, ch. 7. For the local dimension of transitional reforms, see János Kornai, *The Socialist System*, Princeton, Princeton University Press, 1992, pp. 387–92; *idem*, *Highway and Byways: Studies on Reform and Postcommunist Transition*, Cambridge MA, MIT Press, 1995, p. 99.
- 4 For Russia, see Gail W. Lapidus and Edward W. Walker, ‘Nationalism, Regionalism, and Federalism: Center-Periphery Relations in Post-Communist Russia,’ in Gail W. Lapidus (ed.) *The New Russia: Troubled Transformation*, Boulder CO, Westview, 1995, pp. 79–113. For the stark differences between these two countries in this regard, see Steven L. Solnick, ‘The Breakdown of Hierarchies in the Soviet Union and China: A Neoinstitutional Perspective,’ *World Politics*, 1996, vol. 48, no. 2, pp. 209–38.
- 5 See Frederic C. Deyo, ‘Coalitions, Institutions, and Linkage Sequencing—Toward a Strategic Capacity Model of East Asian Development,’ in Frederic C. Deyo (ed.) *The Political Economy of the New Asian Industrialism*, Ithaca, Cornell University Press, 1987, pp. 227–47; T. J. Pempel, ‘Of Dragons and Development,’ *Journal of Public Policy*, 1992, vol. 12, no. 1, pp. 79–95; and Anis Chowdhury and Iyanatul Islam, *The Newly Industrialising Economies of East Asia*, London, Routledge, 1993, chs 3, 5–8.
- 6 For industry-specific target policies, see World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, Oxford, Oxford University Press, 1993, pp. 354–5. For an overview of regional policy in post-Mao China, see Terry Cannon, ‘Regions: Spatial Inequality and Regional Policy,’ in Terry Cannon and Alan Jenkins (eds) *The Geography of Contemporary China: The Impact of Deng Xiaoping’s Decade*, London, Routledge, 1990; and Dali L. Yang, *Beyond Beijing: Liberalization and the Regions in China*, London, Routledge, 1997.
- 7 For China’s business elites as a growing social group but still subject to the party-state, see David S. G. Goodman, ‘The People’s Republic of China: The Party-State, Capitalist Revolution and New Entrepreneurs,’ in Richard Robison and David S. G. Goodman (eds) *The New Rich in Asia: Mobile Phones, McDonald’s and Middle-Class Revolution*, London, Routledge, 1996, pp. 225–42. For a more positive assessment of China’s business elites with a considerable degree of structural autonomy from government, see Margaret M. Pearson, *China’s New Business Elite: The Political Consequences of Economic Reform*, Berkeley and Los Angeles, University of California Press, 1997.

- 8 See Mark Schneider and Paul Teske, *Public Entrepreneurs: Agents for Change in American Government*, Princeton, Princeton University Press, 1995; and Andrew G. Walder, 'Local Governments as Industrial Firms: An Organizational Analysis of China's Transitional Economy,' *American Journal of Sociology*, 1995, vol. 101, no. 2, pp. 263–301.
- 9 For an overall assessment of recent studies of provincial-level development, see Jae Ho Chung, 'The Expanding Space of Provincial Politics and Development: Thematic Suggestions for the Future Research Agenda,' *Provincial China*, 1997, no. 4, pp. 5–7.
- 10 For studies dealing with development at the provincial level of analysis, see David S. G. Goodman and Gerald Segal (eds) *China Deconstructs: Politics, Trade and Regionalism*, London, Routledge, 1994; David S.G. Goodman (ed.) *China's Provinces in Reform: Class, Community and Political Culture*, London, Routledge, 1997; and Peter Cheung, Jae Ho Chung, and Zhimin Lin (eds) *Provincial Strategies of Economic Reform in Post-Mao China: Leadership, Politics, and Implementation*, Armonk NY, M.E. Sharpe, 1998.
- 11 See Jae Ho Chung, 'Studies of Central-Provincial Relations in the People's Republic of China: A Mid-Term Appraisal,' *The China Quarterly*, 1995, no. 142, pp. 506–8. For a Chinese view on this, see Xiao Linsen, *Tizhi zhuanquiqi chengshi gaige zhanlue ji caozuo* (The Strategy and Operation of Urban Reform in the Period of System Transition), Beijing, Jingji kexue chubanshe, 1992, pp. 20–37.
- 12 Prefecture-level cities (*dijishi*) were formed in three ways: (1) through the merger of a province-administered prefecture-level city (*shengxia dijishi*) with the prefectural administration (*diqu xingzheng gongshu*); (2) through the upgrading of a county-level city (*xianjishi*); and (3) through the upgrading of a county-turned-city (*xiangaishi*). The significance of this policy resides in the fact that the rise of prefecture-level cities empowered to rule counties officially heralded the formation of a new layer of authority between provinces and counties, by replacing prefectures (*diqu*) which, as 'field offices' (*paichu jigou*) of the provinces, had an ambiguous administrative status. See Diao Tianding, *Zhongguo difang jigou gaiyao* (Overview of Local Government Organizations in China), Beijing, Falu chubanshe, 1989, pp. 169, 204–8; and Liu Junde, *Zhongguo xingzheng quhua de lilun yu shijian* (Theory and Practice of Administrative Zoning in China), Shanghai, East China Normal University Press, 1996, pp. 160–9. For the 1991 picture, see Wu Peilun, *Dangdai zhongguo zhengfu gailun* (Overview of Contemporary China's Government), Beijing, Gaige chubanshe, 1993, p. 183.
- 13 See Diao, *Zhongguo difang jigou gaiyao*, pp. 215–18; and Liu, *Zhongguo xingzheng quhua de lilun yu shijian*, p. 176. For the 'standards used for city designation' (*sheshi biaozun*), see Liu Yichang, Xu Wenhui, and Xu Liming, *Zhongguo xingzhengkexue fazhan* (The Development of Administrative Sciences in China), Beijing, Zhongguo renshi chubanshe, 1996, pp. 215–19.
- 14 See State Statistical Bureau, *Zhongguo chengshi sishinian* (China's Cities in the Last Forty Years), Beijing, Zhongguo tongji xinxi zixun fuwu zhongxin, 1990, p. 1; and *Zhongguo tongji nianjian 1997* (Statistical Yearbook of China 1997), Beijing, Zhongguo tongji chubanshe, 1997, p. 3.
- 15 *Zhongguo chengshi tongji nianjian 1993–1994* (Statistical Yearbook of Urban China 1993–1994), Beijing, Zhongguo tongji chubanshe, 1995, pp. 26–7.
- 16 See, for instance, Zhou Xuewen and Fang Xin, 'Jihua danlieshi yu zhongyang he sheng shiqian huafen wenti' (On the Question of Delineating the Authority Boundary for the Center, Province and Central Economic Cities), in Ministry of Personnel (ed.) *Difang jigou gaige yanjiu* (Study of Local Organizational Reform), Beijing, Zhonggong zhongyang dangxiao chubanshe, 1992, pp. 281–7.

- 17 See David Zweig, 'Internationalizing China's Countryside: The Political Economy of Exports from Rural Industry,' *The China Quarterly*, 1992, no. 128, pp. 716–41; and *idem.* "Developmental Communities" on China's Coast: The Impact of Trade, Investment, and Transnational Alliances,' *Comparative Politics*, 1995, vol. 27, no. 3, pp. 253–74.
- 18 *South China Morning Post* (Hong Kong) has carried a monthly special on several dozens of sub-provincial cities since 28 June 1992. Both *Renmin ribao* (People's Daily) and *China Daily*, too, have carried irregular specials on sub-provincial cities. For the 'window' analogy, see Yuan Baohua and Gui Shiyong (eds) *Tequ: kaifangqu de jingji fazhan* (Special Zones: Economic Development in the Open Regions), Nanjing, Jiangsu renmin chubanshe, 1993, pp. 39–41. For the adoption of the 'corridor' concept, see Yue-man Yeung and David K.Y.Chu, *Development Corridor in Fujian: Fuzhou to Zhangzhou*, Hong Kong Institute of Asia-Pacific Studies, Occasional Paper no. 42, March 1995.
- 19 For an overview, see Barry Naughton, 'Cities in the Chinese Economic System: Changing Roles and Conditions for Autonomy,' in Deborah S.Davis, Richard Kraus, Barry Naughton, and Elizabeth J.Perry (eds) *Urban Spaces in Contemporary China: The Potential for Autonomy and Community in Post-Mao China*, New York, Cambridge University Press, 1995, pp. 61–89.
- 20 See Joseph Fewsmith, 'Special Economic Zones in the PRC,' *Problems of Communism*, 1986, vol. 35, no. 6, pp. 78–85; George T.Crane, *The Political Economy of China's Special Economic Zones*, Armonk NY, M.E.Sharpe, 1990; Jude Howell, *China Opens Its Doors: The Politics of Economic Transition*, Boulder CO, Lynne Rienner, 1993, ch. 4; and Jung-Dong Park, *The Special Economic Zones of China and their Impact on its Economic Development*, Westport, Praeger, 1997.
- 21 Paul E.Schroeder, 'Territorial Actors as Competitors for Power: The Case of Hubei and Wuhan,' in Kenneth G.Lieberthal and David M.Lampton (eds) *Bureaucracy, Politics and Decision Making in Post-Mao China*, Berkeley, University of California Press, 1992, pp. 283–307; Dorothy J.Solinger, 'City, Province and Region: The Case of Wuhan,' in Bruce L.Reynolds (ed.) *Chinese Economic Policy*, New York, Paragon, 1988, pp. 233–84; *idem.* 'China's New Economic Policies and the Local Industrial Political Process: The Case of Wuhan,' *Comparative Politics*, 1986, vol. 18, no. 4, pp. 379–99; and *idem.* 'Despite Decentralization: Wuhan's Disadvantages and Dependence, and Ongoing Central Power in the Inland,' *The China Quarterly*, 1996, no. 145, pp. 1–34.
- 22 Major single-case studies include Marc Blecher and Vivienne Shue, *Tethered Deer: Government and Economy in a Chinese County*, Stanford CA, Stanford University Press, 1996 and Andrew G.Walder (ed.) *Zouping in Transition: The Process of Reform in Rural North China*, Cambridge MA, Harvard University Press, 1998. Comparative studies include George C.S.Lin and Laurence J.C.Ma, 'The Role of Towns in Chinese Regional Development: The Case of Guangdong Province,' in *International Regional Science Review*, 1994, vol. 17, no. 1, pp. 75–97; and John Fitzgerald, 'Autonomy and Growth in China: County Experience in Guangdong Province,' *Journal of Contemporary China*, 1996, vol. 5, pp. 7–22.
- 23 Yue-man Yeung and Xu-wei Hu (eds) *China's Coastal Cities: Catalysts for Modernization*, Honolulu, University of Hawaii Press, 1992, covers Dalian, Yantai, Qingdao, Lianyungang, Ningbo, Wenzhou, Fuzhou, Xiamen, Guangzhou, and Shenzhen.
- 24 See, for instance, Haggard, *Pathways from the Periphery*, pp. 23–48.
- 25 Variations have characterized the development strategies adopted by the provincial-level units of which there are currently thirty-two, including the Hong Kong Special Administrative Region. Naturally, we would expect a wider variation among sub-provincial cities whose number far exceeds that of the provinces. For the variations among the

- provinces, see Cheung, Chung, and Lin (eds) *Provincial Strategies of Economic Reform in Post-Mao China*.
- 26 For the variations noted for sub-provincial cities, see Zhou Erjin and Zhang Yulin (eds) *Chengxiang xietiao fazhan yanjiu* (Study of Urban-Rural Coordinated Development), Nanjing, Jiangsu renmin chubanshe, 1991, pp. 35–146; and Yeung and Chu, *Development Corridor in Fujian*, pp. 14–28 which discusses five models in coastal Fujian.
 - 27 The importance of locational factors needs no further elaboration. For studies on this issue, see Woo Tun-oy, 'Regional Economic Development and Disparities,' *The China Review* 1996, Hong Kong, Chinese University Press, 1996, pp. 281–313; and 'Cujin diqu jingji xietiao fazhan yanjiu' (Study on the Promotion of Regionally Coordinated Development), *Jingji yanjiu cankao* (Reference Materials for Economic Research), 1996, no. 914/915.
 - 28 For cultural arguments in the case of East Asian NIEs, see Haggard, *Pathways from the Periphery*, pp. 238–40 and Jon Woronoff, *Asia's 'Miracle' Economies*, Armonk NY, M.E.Sharpe, 1992, 2nd edn., pp. 128, 279, 295–6, 312. For the impact of political heritage, see two chapters on Hainan and Shandong by David S.G.Goodman and Chongyi Feng, and Jae Ho Chung in Cheung, Chung, and Lin (eds) *Provincial Strategies of Economic Reform*. For the economic legacy of path-dependence, see David Stark, 'Path Dependence and Privatization Strategies in East Central Europe,' *East European Politics and Society*, 1991, vol. 6, no. 1, pp. 17–54; and Margot Schueller, 'Liaoning: Struggling with the Burdens of the Past,' in Goodman (ed.) *China's Provinces in Reform*, pp. 93–121.
 - 29 The importance of central policy in restructuring local environments in the case of Wuhan is discussed in Solinger, 'Despite Decentralization.' For the role of Beijing and the provincial government in conditioning investment environments in sub-provincial cities, see Jae Ho Chung, 'The Political Economy of Development and Inequality in Shandong,' in Goodman (ed.) *China's Provinces in Reform*, pp. 127–57.
 - 30 For an excellent Chinese account of this policy factor, see Sang Baichuan, *Quyū kaifang zhanlue lun: Qingxie zhengce yu quanfangwei kaifang* (On the Strategy of Regional Opening—Discriminating Policies and Omni-Directional Opening), Beijing, Zhongguo qingnian chubanshe, 1996.
 - 31 For the importance of economic bureaucracy, see Wade, *Governing the Market*, ch. 7. For international linkages, see Chowdhury and Islam, *The Newly Industrialising Economies of East Asia*, ch. 7; and four chapters on Shandong, Fujian, Hainan and Sichuan in Cheung, Chung, and Lin (eds) *Provincial Strategies of Economic Reform*. For domestic networks, see Gernot Grabher and David Stark (eds) *Restructuring Networks in Post-Socialism: Legacies, Linkages, and Localities*, Oxford, Oxford University Press, 1997.
 - 32 See Wade, *Governing the Market*, chapter 10; and Christopher Ellison and Gary Gereffi, 'Explaining Strategies and Patterns of Industrial Development,' in Gary Gereffi and Donald L.Wyman (eds) *Manufacturing Miracles: Paths of Industrialization in Latin America and East Asia*, Princeton, Princeton University Press, 1990, pp. 391–4.
 - 33 For the concepts of 'transforming' and 'transactional' leadership, see Erwin C.Hargrove, 'Two Conceptions of Institutional Leadership,' in Bryan D.Jones (ed.) *Leadership and Politics: New Perspectives in Political Science*, Lawrence, The University of Kansas Press, 1989, pp. 57–83.
 - 34 The quoted phrase is from Haggard, *Pathways from the Periphery*, p. 24.
 - 35 A city's administrative status is determined by what bureaucratic rank its leading official (*diji bashou*) holds.
 - 36 In March 1997, Chongqing was approved by the National People's Congress to become the fourth centrally-administered municipality. See *South China Morning Post International Weekly*,

- 29 November 1997 and Qiu Honghui, 'Dui zhonggong sheli Chongqing zhixiashi zhi yanxi' (An Analysis of Communist China's Establishment of Chongqing as a Centrally-Administered City) in *Zhonggong yanjiu* (Studies of Communist China), 1997, vol. 31, no. 8, pp. 80–104.
- 37 All of these 'deputy-provincial' cities, where their party secretaries and mayors carry the bureaucratic rank equivalent to a 'deputy governor,' are the creation of the reform era. Between 1983 and 1989, fourteen prefecture-level cities were designated as 'central economic cities,' empowered to have provincial-level authority in economic management. In 1993 when eight provincial capitals (*shenghui*) were deprived of this privileged status, they were nevertheless allowed to keep their bureaucratic rank. In 1994, Hangzhou and Jinan joined the list to make the total number sixteen. With the upgrading of Chongqing in 1997, currently fifteen remain. See Jae Ho Chung, 'Central-Provincial Relations,' in Lo Chi Kin, Suzanne Pepper, and Tsui Kai-Yuen (eds) *China Review 1995*, Hong Kong, Chinese University Press, 1995, pp. 3.22–4.
- 38 The numbers for prefecture- and county-level cities are from Zheng Dingquan, 'Yijiujiuwunian woguo difang xingzheng quhua gaikuang' (An Overview of China's Local Administrative Structure in 1995) in *Jingji yanjiu cankao*, 1996, no. 994, p. 38.
- 39 Guangzhou, Panyu and Nanhai were selected as they represented centerpieces of the 'Pearl-River model' (*zhujiang moshi*). See Peter T.Y. Cheung, 'Pearl River Delta Development,' in Joseph Cheng and Maurice Brosseau (eds) *China Review 1993*, Hong Kong, Chinese University Press, 1993, pp. 18.2–29. Tianjin's selection is based upon its disappointing economic performance in the reform era despite its privileged provincial and 'coastal open city' status. See Luo Qi and Robert F. Ash, 'Economic Development,' in Brian Hook (ed.) *Beijing and Tianjin: Towards a Millennial Megalopolis*, Hong Kong, Oxford University Press, 1998, pp. 147–53. Qingdao and Dalian's selection is due mainly to their eye-catching performance. See 'Heady Times for Qingdao,' *China Business Review Special* in *South China Morning Post*, 30 May 1993; Dexter Roberts, 'From Mao Central to Capitalist Hotbed,' *Business Week*, 9 October 1995, pp. 60–1; 'City Focus: Dalian,' *South China Morning Post*, 25 October 1992; and another special edition in *South China Morning Post*, 10 August 1995. Xiamen commands a unique position as one of the four SEZ cities. See *South China Morning Post* special, 27 December 1992; *South China Morning Post International Weekly*, 21 September 1996; and William Van Kemenade, *China, Hong Kong, Taiwan, Inc.: The Dynamics of a New Empire*, New York, Vintage, 1998, pp. 193–205. Chongqing's unique position was discussed earlier (refer to note 36). Wenzhou's experiences have attracted scholarly attention in recent years. See, for instance, Li Haoran, *Wenzhou xinyueqian* (Wenzhou's New Leap), Shanghai, Shanghai Academy of Social Sciences Press, 1996; and Yia-Ling Liu, 'Reform from Below: The Private Economy and Local Politics in the Rural Industrialization of Wenzhou,' *The China Quarterly*, 1992, no. 130, pp. 292–316. Zhangjiagang is probably the only county-level city that has received enormous attention from the government, academia and media alike. See *Renmin ribao*, 19 December 1995; *South China Morning Post*, 27 December 1995; *China Daily*, 15 January 1997; and Cheng Li, *Rediscovering China: Dynamics and Dilemmas of Reform*, Lanham, Rowman and Littlefield, 1997, pp. 149–64.

2

Guangzhou and Tianjin

The struggle for development in two Chinese cities

Peter T. Y. Cheung

Introduction

China's economic reform since 1978 has engendered the emergence of a dozen growth poles—cities and special economic zones (hereafter SEZs)—along its 'gold coast.'¹ Since the early 1980s, Shenzhen and other SEZs have established themselves as pioneers in market reform, foreign trade, and acquisition of foreign capital. Guangzhou, the capital of Guangdong province, has undertaken a major effort to reform its economy and open up to the world. Other nearby cities in the Pearl River Delta like Foshan, Nanhai and Zhongshan have also emerged as new engines of economic growth.² Since 1990, backed by strong support from the central government and facilitated by its strategic location in the booming Yangtze Delta, Shanghai, and especially its Pudong district, has forged ahead to become China's premiere commercial and financial center.³ Taking advantage of its status as the national capital and a cultural center, Beijing has not only recast its infrastructure and communication facilities, but also consolidated its position as a major commercial, industrial, and transportation hub. Similarly, Qingdao and Dailan have both risen as new focal points of manufacturing and trade in northern China. What, however, distinguished Tianjin from these flourishing cities was its conspicuous lack of a distinctive model of economic development and special achievements.

The variations in development paths of Guangzhou and Tianjin can be generally attributed to three key factors. First, the geographical context and historical legacies of these two cities have defined the broad parameters for their subsequent development. In fact, these 'givens' were important considerations for the central government to grant them preferential policies in the reform era. Such conditions, however, do not adequately explain their specific developmental experiences. On the contrary, their variations can be attributed to preferential policies and development strategies adopted by their leaders. If it were not for central preferential policies, these two cities would not have been able to embark upon a path of rapid growth in the 1990s. Nonetheless, if these two cases are examined in greater detail, the more entrepreneurial strategies formulated by Guangzhou's leaders were important in explaining why the city was able to speed up economic growth in the late 1980s and surpass Tianjin in the 1990s. Tianjin's recent municipal leaders were apparently not as innovative or effective as their counterparts in Guangzhou. Nevertheless, the city was still capable of attracting considerable foreign

Statistical profiles of Guangzhou and Tianjin, 1996

<i>Indicator</i>	<i>Guangzhou</i>	<i>Tianjin</i>
Total population (1,000)	6,560	8,985
GDP (RMB million)	144,450	110,240
GDP as percentage of provincial GDP	22.2	1.6 (% of China)
Gross value of industrial output (RMB million)	206,858	252,242
Gross output value of agriculture (RMB million)	14,291	14,229
Total foreign trade (US\$ million)	6,514	4,049
Total foreign trade as percentage of provincial total	11.0	2.7 (% of China)
Realized foreign capital (US\$ million)	2,600	2,984
Realized FDI (US\$ million)	2,332	2,006
Realized FDI as percentage of provincial total	20.0	4.8 (% of China)

investment in the mid-1990s because of its relatively low cost of operation and generally favorable location.

This chapter aims to analyze the economic development strategies of Tianjin and Guangzhou in the reform era, with an emphasis on the 1990s. It is organized into three parts. The first provides a justification of the two cases. The second offers an overview of the socio-economic conditions of these two cities. The third part focuses on three major factors that shape their developmental paths: the geographical context, central-local relations and central preferential policies, as well as the strategies of development pursued by their municipal leadership in the 1990s. The conclusion will briefly examine the prospects of their future development.

Why Guangzhou and Tianjin?

Tianjin is one of the four centrally administered cities and Guangzhou a deputy provincial level city and provincial capital. What, then, are the justifications for comparing Tianjin and Guangzhou? The foremost reason is that in a study of development trajectories of China's cities, Tianjin and Guangzhou offer two contrasting examples in search of an explanation. Tianjin is a bigger and more populous city with a better educated workforce and a stronger technical and industrial base than Guangzhou on the eve of reform.⁴ In 1978, it was ranked third according to major economic statistics among the four centrally administered cities (see [Table 2.1](#)). Guangzhou was in many ways behind Tianjin and far behind Shanghai. While the economic structures of Tianjin and Guangzhou were similar in the late 1970s, as reflected in a heavy concentration of state-owned enterprises (SOEs) in the industrial sector, their fates in the reform era were radically different. While Tianjin under the leadership of Li Ruihuan (1982–9) had made considerable achievements in urban construction and economic revival in the aftermath of the Tangshan earthquake in 1976, its economy had become stagnant and many structural problems had begun to constrain its economic growth since the late 1980s. On the other hand, after initial success in commercial and price reform in the early 1980s, Guangzhou, too, had entered into a period of slower growth and intense competition with nearby cities in the second half of

Table 2.1 Major economic indicators of Beijing, Shanghai, Tianjin and Guangzhou, 1978

	<i>Beijing</i>	<i>Shanghai</i>	<i>Tianjin</i>	<i>Guangzhou</i>
Population (10,000s)	849.7	1,098.3	724.0	482.9
GDP	10.8	27.2	8.3	4.3
GOVI	19.6	54.5	16.6	7.5
Total retail sales	4.4	6.1	2.8	1.7
Export	285.2	2,892.6	864.7	134.0
Local revenue	5.0	16.9	3.9	1.4
Local expenditure	2.0	2.6	1.5	0.38

Source: Guojia Tongjiju, *Quanguo gesheng, zhiziqu, zhixishi, lishi tongji zhiliao huibian* (A Compendium of Historical Statistical Data of the Nation's Provinces, Autonomous Regions, and Municipalities), Beijing, Zhongguo tongji chubanshe, 1991, passim; Guangzhou tongjiqu, *Guangzhou tongji nianjian 1996* (Statistical Yearbook of Guangzhou 1996), Beijing, Zhongguo tongji chubanshe, 1996, passim.

Notes

All figures are rounded up. GDP, GOVI, total retail sales, local revenue and local expenditure are in RMB billion. Export is in US\$ million. GOVI is in 1970s prices.

the 1980s. It was only after the arduous efforts made by a new leadership in the 1990s that Guangzhou was able to embark upon rapid growth continuously for six years from 1991 to 1996 (Table 2.2). Since the late 1980s Guangzhou was able to catch up with Tianjin, and since 1990 achieved spectacular progress. In 1978, the per capita gross domestic product (hereafter GDP) of Shanghai, Beijing, Tianjin, and Guangzhou were respectively, RMB2,498, RMB1,290, RMB1,160, and RMB892. By 1996, Tianjin's per capita GDP (RMB12,270) was not only significantly lower than that of either Beijing (RMB15,044) or Shanghai (RMB22,275), but also far behind that of Guangzhou (RMB22,183).⁵ In 1988, Guangzhou overtook Tianjin as the third largest urban economy in China after Shanghai and Beijing. By the early 1990s Beijing has flourished as the national capital and a thriving business center, Shanghai has emerged as the 'dragon head' of the Yangtze Delta, while Guangzhou has regained a commanding position in the booming Pearl River Delta. Tianjin, however, is still in the process of defining its own development strategy.

Second, Tianjin and Guangzhou both shared a history as a former treaty port and key commercial and trading center in the history of modern China. First established in 1861, Tianjin's port, which is only 137 kilometers away from Beijing, has served as the main sea outlet not only for the national capital, but also for the whole of north China after 1949. Further, Tianjin and Guangzhou are both located along important transport links. Such coastal locations and the transport network enabled both cities to benefit from transport and trade as well as to maintain ties with their hinterland and overseas markets. Since Tianjin and Guangzhou have served as the transportation hubs respectively for northern and southern China, their rise and fall will shed light on the changing political economy of regional economic development in China.

Third, Tianjin and Guangzhou should be compared despite their different administrative status because they shared more or less the same power in economic policy in the reform era. Both cities have a history of ups and downs in administrative status.

Table 2.2 Major economic indicators of Beijing, Shanghai, Tianjin and Guangzhou, 1996

	<i>Beijing</i>	<i>Shanghai</i>	<i>Tianjin</i>	<i>Guangzhou</i>
Population (10,000s)	1,078.0	1,304.0	898.0	656.0
GDP	161.6	290.2	110.2	144.4
GOVI	185.3	506.7	238.6	206.8
Total retail sales	92.4	116.1	47.0	68.6
Export	2.3	13.2	4.0	6.5
Local revenue	15.1	28.0	7.9	8.5
Local expenditure	18.7	33.3	11.3	12.1
Foreign investment	1.7	4.8	2.2	2.6

Source: Tianjian tongjiju, *Tianjin tongji nianjian* 1997 (Statistical Yearbook of Tianjian 1997), Beijing, Zhongguo tongji chubanshe, 1997, pp. 77–80.

Notes

Figures are rounded up. Units for gross domestic product (GDP), gross output value of industry (GOVI), total retail sales of consumer goods, and urban and rural household savings (savings) are in RMB billion; units for export and foreign investment (actually utilized) are in US\$ billion.

Guangzhou was actually a centrally administered city from 1949 to 1954, but it became Guangdong's provincial capital since then. On the other hand, Tianjin's status as a centrally administered city was lost when it was made a city of Hebei province from 1958 to 1966, and it regained provincial status again only after January 1967. In the reform era, both were made coastal open cities in 1984. Guangzhou was later allowed to become a centrally planned city (*jihua danlieshi*) from 1985 to 1993, which granted it provincial level economic power and direct access to the central government over economic planning. As coastal open cities, both received special treatment in foreign economic policy and both established an economic and technological development zone (hereafter ETDZ) in December 1984. These preferential policies included, among others, a preferential tax rate of 15 percent for technology-intensive and infrastructural projects, tax exemption for exports and tariff exemption for overseas businesses as well as the decentralization of tax authority to the municipal governments. In short, a comparison between the two cities will be empirically and analytically interesting and worthwhile.

Guangzhou and Tianjin: an overview

Tianjin is the smallest among China's centrally administered cities in terms of population.⁶ Of the 8.9 million people, rural population accounted for 43 percent and non-rural population 56.6 percent. The urban districts claimed a population of 5.9 million. It has thirteen urban districts and five counties under its jurisdiction. The entire city has a total size of 11,920 square kilometers, smaller than Beijing but bigger than Shanghai and Guangzhou.⁷ Its urban area occupies 374 square kilometers, which is smaller than that of Beijing and Shanghai but bigger than that of Guangzhou. Tianjin's modern history is a dramatic story reminiscent of the fate of China's coastal cities. Its economic boom in the early decades of this century could be explained with reference to its external

economic links.⁸ Between 1868 and 1937, Tianjin's foreign trade accounted for over 10 percent of China's total. In 1936, Tianjin also boasted the largest concentration of foreign banks in China after Shanghai. On the eve of the Communist victory in 1949, Tianjin was not simply the economic center in north China, but also China's leading trade and financial center after Shanghai. With the establishment of the centrally planned economic system, Tianjin's economic role in China began to dwindle. Despite its role as an industrial and commercial hub in pre-1949 China, the city did not receive much central support after 1949. While its GDP growth was almost 13 percent per annum during the First Five-Year Plan period (1953–7), it began to slow down as a result of Maoist radicalism and the downgrading of its administrative status from a centrally administered city to a provincial level city of Hebei province since 1958.⁹ During the 1958–66 period, Tianjin registered a GDP growth rate of only 7 percent per annum. After three decades of socialism, Tianjin's commercial and trading function withered, but it had built up a heavy industrial sector, especially in machine building, chemicals, and metallurgy, under state ownership alongside its light industry. Just before the death of Chairman Mao Zedong, nearby Tangshan was hit by a devastating earthquake in 1976. Tianjin suffered tremendously from this disaster, with a death toll of 24,296 and serious injuries to 21,568 people. Its urban infrastructure and housing also suffered a terrible blow.¹⁰ Hence most of the city's efforts in the 1980s were concentrated on recovering from this catastrophe. Under the populist leadership of Li Ruihuan, Tianjin gradually got back on track and achieved a respectable 9.3 percent annual growth rate in GDP and 10 percent growth rate in industrial output in the first half of the 1980s.

However, Tianjin's economy began to slow down from the mid-1980s. Its GDP growth fell from an average of 9 percent in 1981–5 to 5 percent in 1986–90 (see [Table 2.3](#)). Such a decline was caused by a host of structural problems in this socialist industrial economy, such as the lack of adequate investment in technical capacity, the inefficiency of the state sector, the heavy extraction of revenue by the central government, the stagnation of domestic and external trade as well as the slow growth of the tertiary sector in general. This slowdown compelled the city to explore a new development strategy.

Tianjin's economic growth rate began to pick up again in the 1991–5 period, especially after Deng Xiaoping's southern tour in 1992. During the 1991–5 period, not only did Tianjin achieve a growth rate of 12 percent in GDP and 21 percent in gross industrial output (hereafter GOVI), but it had also succeeded in promoting export and attracting foreign investment, which grew respectively at 23 and 44 percent. The income of the people had also increased considerably as the average real wage of staff and workers rose at 5.3 percent per annum and the per capita net income of farmers had risen about 19 percent per annum. However, the relative and absolute gap between Tianjin and the other leading cities in China had become wider. In 1978, Tianjin's GDP was about twice that of Guangzhou, but by 1996, it had fallen to become only two-thirds of that of Guangzhou. While Tianjin's GDP gap with Shanghai and Beijing had become somewhat narrower, its other economic indicators had fallen considerably behind. Most importantly, many structural problems of Tianjin's economy have not been completely resolved. Like Shanghai, the share of the state sector in employment in Tianjin was

Table 2.3 Annual growth rates of Tianjin's key economic indicators (%)

<i>Period</i>	<i>GDP</i>	<i>GOVI</i>	<i>TRS</i>	<i>Export</i>	<i>Foreign investment</i>
1981-5	9.3	9.7	9.3	9.1	94.6
1986-90	5.2	10.5	6.5	5.5	34.7
1991-5	11.7	20.7	9.3	10.9	44.5
1996	14.3	24.5	19.1	35.1	41.4

Sources: Tianjinshi tongjiju, *Tianjin tongji nianjian* 1996 (Statistical Yearbook of Tianjin), Beijing, Zhongguo tongji chubanshe, 1996, pp. 48-52 and *Tianjin tongji nianjian* 1997, pp. 533-7.

Notes

GDP=gross domestic product, GOVI=gross output value of industry, TRS=total retail sales of consumer goods, foreign investment=total foreign investment actually utilized.

consistently high. Over two-thirds of Tianjin's staff and workers was still in the state sector where the percentage was about 64 in Guangzhou.

By the mid-1990s, the difference between the two cities had become even more striking.¹¹ Despite its much smaller size and population, Guangzhou has consistently surpassed Tianjin in many areas. In 1996, Guangzhou's GDP was already about half of that of Shanghai. Its total investment in fixed assets was 47 percent more than that of Tianjin and its saving deposits were almost 80 percent more than Tianjin's. The tertiary sector contributed 48 percent of Guangzhou's GDP, but only 40 percent of that of Tianjin.¹² Guangzhou had surpassed Tianjin in export and acquisition of foreign investment by the mid-1980s. In 1996, Guangzhou's export was about 60 percent higher than that of Tianjin, although Tianjin acquired 15 percent more foreign capital than Guangzhou for the first time. Guangzhou was also ahead of Tianjin in freight and passenger traffic and the volume of post and telecommunications. Guangzhou's port had an annual throughput of 74 million tonnes, which made it China's fourth largest seaport after Shanghai, Qinhuangdao and Ningbo.¹³ The volume of cargo handled by Guangzhou port had jumped seven times between 1978 and 1995, the highest increase among China's principal seaports. While Tianjin had a total of forty-five 10,000 tonne berths, which was more than that of Guangzhou (27) and second only to Shanghai (69), its port handled only 61.9 million tonnes, hence making it only the sixth largest in China.¹⁴

Guangzhou is not only the provincial capital of one the most prosperous provinces in China, but also a pivotal regional cultural, communication, and economic center. When the Communists took over Guangzhou in October 1949, the city was actually designated a centrally administered city, but it later reverted to a provincial capital in 1954. The city has eight municipal districts and four county-level cities (Huaxian, Conghua, Zengcheng, Panyu). Guangzhou is strategically located at the vertex of the Pearl River Delta, the most vibrant area in Guangdong. The city maintains excellent transportation and communication links with other parts of China and Hong Kong and its ports handle more than half of Guangdong's cargoes.¹⁵ With only about 10 percent of Guangdong's population (about 6.56 million), the city contributed 22 percent of GDP, 23 percent of

total industrial output, 18 percent of revenue, 27 percent of total retail sales of consumer products, 11 percent of exports and 19 percent of foreign investment of the province in 1996.¹⁶ While not as prominent as Beijing or Shanghai, it is still the province's prime cultural and educational base. For instance, it accounted for about 30 percent of R&D personnel in big and medium-sized industrial enterprises, 40 percent of government research units as well as 86 percent of scientists and engineers in the province. Twenty-nine of Guangdong's forty-six institutions of higher learning and over 70 percent of their teaching faculty were also located in Guangzhou.¹⁷

Guangzhou's economic growth since 1978, if compared with the Maoist days, is quite remarkable. For instance, the annual growth rate of Guangzhou's GDP increased from an average of 8 percent in 1953–78 to 12 percent in 1981–90, which was higher than the growth rate of the nation and other newly industrializing countries.¹⁸ However, if Guangzhou was compared with other cities in the Pearl River Delta, its economic record in the 1980s paled. Its economic growth rate of 12 percent only followed the provincial average, but it was significantly lower than those of nearby cities such as Dongguan, Huizhou, Shunde, and Foshan, which grew at over 20 percent per year in the 1980s. Guangzhou's slower growth rates could be attributed to the strong presence of the state-owned enterprises (hereafter SOEs), the heavy burden of fiscal remittance to the provincial and central governments, the persistence of bureaucratic inertia, the burden of an aging urban infrastructure, as well as the city's ineffective response to the rapidly changing economic environment.

In the pre-reform era, Guangzhou was the undisputed industrial base of Guangdong and contributed about one third of its industrial output. However, with the rapid growth of new industrial cities in the Pearl River Delta, the city's relative significance in the province's industrial production had dropped (see [Table 2.4](#)). By 1996, Guangzhou contributed only about 24 percent of provincial industrial output. Aside from producing most of the province's basic heavy industrial products such as steel and chemicals, Guangzhou remained the province's leading producer of light industrial goods such as garments, fertilizers, tobacco, bicycles, sewing machines, as well as food products. Nonetheless, it had lost out to other localities in manufacturing the more profitable modern consumer goods.¹⁹ For instance, Shenzhen had overtaken Guangzhou as a manufacturer of electronic calculators, radios, cassette recorders, and television. On the other hand, emerging cities in the Pearl River Delta, such as Foshan, Jiangmen, and Zhongshan, had forged ahead of Guangzhou in producing such products as electric fans, plastic products, chemical fibres, and washing machines.

Coupled with the structural problems of its economy, the city was facing serious challenges by the late 1980s. An impressive economic rebound has, however, taken place since 1990 (see [Table 2.5](#)). In 1991–5, its GDP has increased at an annual average of 20 percent, its industry grew at 26 percent, its total retail sales at 30 percent and its exports at 34 percent. Most importantly, its acquisition of foreign investment expanded by leaps and bounds, rising from US\$377 million in 1991 to US\$2.6 billion in 1996, an increase of 46 percent per annum.²⁰ The growth of the tertiary sector in Guangzhou marked the city as the frontrunner in commerce and service in Guangdong. With the improvement of the

Table 2.4 Select economic indicators of key cities in the Pearl River Delta, 1995

	<i>GDP</i>	<i>GOVI</i>	<i>TRS</i>	<i>Export</i>	<i>Foreign investment</i>
Guangzhou	124.3	111.3	55.0	6.2	2.25
Shenzhen	79.6	91.3	30.0	20.6	1.74
Foshan	54.6	83.6	20.7	3.5	1.08
Jiangmen	35.4	54.3	12.3	2.3	0.64
Huizhou	23.0	31.3	8.7	2.3	0.79
Dongguan	20.6	19.6	8.8	6.4	0.68

Source: Guangdongsheng tongjiju, *Guangdong tongji nianjian 1996* (Statistical Yearbook of Guangdong 1996), Beijing, Zhongguo tongji chubanshe, 1996, pp. 85, 182, 295, 354, 373.

Note

Figures are rounded up. Units for gross domestic product (GDP), gross output value of industry (GOVI) and total retail sales of consumer goods (TRS) are in billion yuan; units for export and foreign investment (actually utilized) are in billion US dollars.

Table 2.5 Annual growth rates of Guangzhou's key economic indicators (%)

<i>Period</i>	<i>GDP</i>	<i>GOVI</i>	<i>TRS</i>	<i>Export</i>	<i>Foreign investment</i>
1981–5	12.7	12.8	21.2	11.2	39.3
1986–90	10.8	13.1	14.5	28.4	11.1
1991–5	20.2	26.1	28.9	34.1	53.2
1996	12.6	16.9	18.3	4.3	15.4

Source: *Guangzhou nianjian* and *Guangzhou tongji nianjian*, various years.

Notes

Figures were rounded up. GDP=gross domestic product; GOVI=gross industrial output value; TRS =total retail sales; export=total export of commodities; foreign investment=actual acquisition of foreign capital and investment.

living standards of the people and the relaxation of government policies in the reform era, Guangzhou's tertiary sector, which covered such areas as trade, transport, communications, tourism, real estate, financial services and others, had developed at a remarkable rate. In 1978, less than 30 percent of Guangzhou's GDP came from the tertiary sector, but it reached 48 percent in 1996.²¹ The share of the secondary sector, namely industry and construction, fell from almost 60 percent of Guangzhou's GDP in 1978 to 35 percent in 1996. In 1978, slightly less than a quarter of the city's working population served in the tertiary sector, but by 1996 the figure rose to over 42 percent.²²

The newly emerging cities in the Delta were noted for their rapid development of collective and foreign enterprises as well as their aggressive strategy in attracting foreign capital. During the 1980s, thanks to its status as a SEZ, Shenzhen had attracted twice the amount of foreign capital and investment as that of Guangzhou and its exports had already surpassed the provincial capital's since the mid-1980s. With a long tradition in overseas

trade, the city used to be the principal export base for the province and has remained the site for China's export trade fair since 1957. For instance, export procurement of the city constituted over 28 percent of the provincial total in 1978.²³ With the creation of SEZs and the rapid development of other Pearl River Delta cities, Guangzhou's share in the province's export procurement had fallen to about 20 percent in the late 1980s.

By the mid-1990s, Guangzhou's rapid economic development had enabled the city to become a frontrunner among China's big cities. In 1996, it ranked only after Shanghai and Beijing in terms of GDP, total retail sales of consumer products and household savings (refer to Table 2.2). In 1980, Guangzhou's industrial output ranked sixth among China's big cities; by 1996, it lagged behind that of Shanghai, Beijing and Tianjin only. With retail sales amounting to RMB68 billion in 1996, it was China's third in domestic trade among cities after Shanghai and Beijing. With an export growth rate higher than that of other key Chinese cities, including Beijing, Tianjin, and Shanghai, in the past decade, Guangzhou's total export was exceeded only by Shanghai and Shenzhen in absolute terms in 1996. Overtaking Shenzhen in 1993, Guangzhou had become the second largest recipient of foreign investment among key cities after Shanghai in 1994 and 1995.²⁴ Only in 1996 did Tianjin (US\$2.9 billion) do better than Guangzhou (US\$2.6 billion) in the acquisition of foreign capital and investment, although the amount of foreign direct investment (FDI) invested in Guangzhou was still higher than that in Tianjin. With the exception of industrial output, Guangzhou has overtaken Tianjin in almost every major economic category (refer to Table 2.2). Guangzhou's GDP was larger than that of Tianjin by one-third and its exports had overtaken those of Tianjin since 1991 and became twice as large by 1996. Guangzhou also compared favorably with Tianjin by a wide margin in various indicators of living standards of the people, whether in terms of wage or savings deposits. The above figures evidently put Guangzhou in the forefront among China's fast-developing cities.

Explaining variations in economic development

There are contrasting explanations of the rapid growth of China's cities. Some scholars argue that central policies remained the key determinant of the rise and fall of China's cities in the 1980s. For example, in her study of Wuhan, a major inland city which fell behind in economic development in the reform era, Dorothy Solinger argued that the key reason for Wuhan's relative decline was the absence of central preferential policy and the detrimental impact of three other related central policies, namely: (1) the coastal strategy that provided preferential treatment for Guangdong and Fujian, the creation of four SEZs and the extension of economic and technological development zones in coastal cities further to the north in 1984; (2) the policy of listing Wuhan separately in the state plan, which only aggravated the already strained relations between Wuhan and Hubei province; as well as (3) the central policy in promoting the development of Shanghai's Pudong area.²⁵ While Wuhan did not lack entrepreneurial political leadership that tried to seize the opportunities for development in the reform era, their energy was instead mainly spent on coping with the obstacles imposed by Hubei and in fighting against other competitors favored by the preferential treatment of the central government.

Other scholars, however, argue that while central preferential policies were important, such policies could not account for the relative success of some of the coastal cities. For instance, despite the preferential policies granted to the fourteen coastal cities since 1984, Jae Ho Chung's study showed that Qingdao did not experience high-speed growth in the 1980s, mainly because of the existence of a conservative municipal leadership.²⁶ However, when a new Mayor took office in 1990 (who later served concurrently as Party Secretary), he implemented various measures that substantially improved the city's investment environment, by carrying out urban renovation, establishing a new airport, expanding the existing EDTZ, and streamlining government offices in charge of major development projects. Such changes further coincided with the creation of a favorable external environment following the normalization and improvement of Sino-Korean relations. Hence after the entrepreneurial municipal leadership had improved the local investment environment, the city was in a strong position to utilize South Korean capital that became available to achieve rapid economic growth in the 1990s.

Three issues in this study merit scrutiny. First, geographical factors, while seemingly important to economic development, could not fully explain Tianjin's or Guangzhou's case. For instance, Guangzhou achieved rapid growth only in the 1990s rather than the 1980s. Favorable geographical conditions, such as proximity to growth poles or sources of investment like Hong Kong, provide a broad parameter conducive to development. Whether such latent conditions are turned into assets that would support policy initiatives very much depends upon policy actions of the political leadership. Geographical location, to be sure, brings about other political and economic consequences. For instance, Tianjin was overshadowed by Beijing in its attempt to build industry and the service sector. Guangzhou's economic success in the 1990s could not be separated from the changes in the regional context—the growing prosperity and economic development of a host of cities in the Pearl River Delta. While these cities competed with Guangzhou over the acquisition of foreign investment and the marketing of their products, their rapid growth also helped to stimulate the development of the tertiary sector in the provincial capital as the city remained the prime transportation, financial, and service center of the province. Tianjin, on the contrary, finds itself facing growing competition not only from other cities in the Bohai Rim area but also from Shanghai and the south China region. Therefore, while this study recognizes the important influence of the geographical context in shaping local economic development, it will also closely examine the policy framework defined by the central authorities and the development strategies pursued by the two cities.

Second, central preferential policies, such as the provision on coastal open cities, continue to provide a favorable framework for Guangzhou and Tianjin to develop in the 1990s. In particular, Deng Xiaoping's southern tour in 1992 not only inspired local leaders but also reassured foreign investors. Equally conducive to economic development and the acquisition of foreign investment by the localities was the decision of the Central Committee to establish a socialist market economy in 1993, which demonstrated China's determination toward economic reform. The relationship between the city and its superior is another significant factor. This relationship is often characterized by a mixture of both conflict and cooperation. The most contentious issues concerned the remittance of revenue from Guangzhou to the province or from Tianjin to the central government, yet

such conflictual relations did not constitute an inhibiting factor that killed economic growth. Rather, if alternative sources are available and if central policies permit, such pressures further compel these cities to rely upon their own efforts to seek investment to fund their development plans. Preferential treatment by the central authorities (or the province) provides a necessary condition for fostering economic development in China's localities. Central-local relations and central policies, though critical, did not offer a sufficient explanation of local economic development in the reform era. This argument, for instance, did not fully explain Guangdong's recent economic success because the continuation of special policies was contingent upon intensive and successful lobbying by provincial leaders in the first place. Certain aspects of such policies were actually discontinued because of changes in central priorities.²⁷ In other words, the continuation of preferential central policies was by itself the product of lobbying by local political leaders who also had to find ways to cope with periodic reversal of central policies. Preferential policies remain paper documents unless they are effectively implemented in accordance with local circumstances. Similar to the case of Qingdao, Guangzhou already had received preferential treatment by the Center since 1984, but its performance in attracting foreign investment and economic growth only paralleled the provincial norm during the 1980s. The central government or provincial authorities might create crippling barriers detrimental to the growth of particular localities, and the lack of constraints did *not* guarantee economic performance. Similarly, Guangzhou and Tianjin benefited, as other localities did, from Deng Xiaoping's southern tour in early 1992, but they remained vulnerable to changes in central policy, as exhibited by the slowdown caused by macroeconomic control imposed in the summer of 1993.

Third, while supportive central and provincial policies were indispensable, the role of municipal leadership, as will be argued below, is critical in explaining Guangzhou's economic rebound in the 1990s. Guangzhou might not have achieved the kind of rapid growth it did in the first half of the 1990s if a more conservative leadership had taken charge. To be sure, the leadership factor alone of course could not provide a satisfactory explanation because other favorable conditions were also necessary. Tianjin, on the other hand, suffered from the lack of an entrepreneurial leadership after the departure of Li Ruihuan in 1989. Nonetheless, the city benefited from a major offensive by Deng in 1992 to further open up China. The special circumstances of Tianjin, such as its well-built infrastructure, its low land and labor cost, its proximity to Beijing, and its skilled workers and technicians, all seemed very attractive to foreign investors when they came to realize the rising cost of operation in Beijing, Shanghai and many cities in south China. In a sense, Tianjin was 'discovered' by overseas investors to be an attractive site for investment rather than promoted by an energetic leadership.

The geographical context of development

The experiences of both Tianjin and Guangzhou highlight the importance of the geographical context of economic development. Two dimensions of Tianjin's regional context of development deserve attention.²⁸ The first concerns its proximity to Beijing, the other concerns its hinterland. Tianjin's proximity to Beijing has seriously constrained

its economic development ever since 1949. One may argue that its closeness to the capital severely limits its development because of political interference or interruption from Beijing. The reality is far more complicated, however. The most important constraint is actually Beijing's decision to develop itself into a major economic center.²⁹ This industrialization process proceeded at the expense of Tianjin because major industrial plants, such as the Shougang steel mill and Yanshan petrochemical plant, would be located in Beijing rather than Tianjin. If both cities competed for a project, it was clear that Beijing would have the upper hand not only because it was the national capital but also because its leaders were often political heavyweights in national politics. Numerous complaints were voiced by Tianjin over such a disadvantage. The rapid growth of services, tourism and other tertiary industries in Beijing in the 1980s further restricted, if not preempted, Tianjin's development in these areas. Because of the close proximity of Tianjin and Beijing, it would be exceptionally difficult for Tianjin to catch up in the development of the tertiary sector as successfully as Guangzhou has done, even if it attempted to do so. In fact, Tianjin researchers and officials hoped that Beijing could concentrate on its role as a political, cultural and diplomatic center while Tianjin would then be allowed to develop as an industrial and trade city.³⁰

Further, because of its proximity to Beijing, the central government expects political stability in Tianjin. In the reform era, such a concern means that price reform and other economic reform could not be easily introduced because Tianjin leaders were very concerned about the inflationary pressure caused by the introduction of market-oriented reform. However, the low-pricing policy worked against Tianjin in the longer run because it did not reflect the forces of supply and demand. The preoccupation of Tianjin leaders on keeping prices low, especially those of daily necessities, distracted their energy from the more urgent task of economic reform. Price stability had become almost an obsession of the Tianjin leadership. What is intriguing is that even such a popular leader as Li Ruihuan failed to spearhead major economic reform during his tenure. Consequently, by the time Tianjin realized that it was necessary to catch up with other provinces, it was a bit too late. In fact, Tianjin scholars even suggested that their political leadership did not develop a sense of crisis until the opening of Pudong and the rapid emergence of other cities in the early 1990s. Guangzhou's experience pointed the other way. With the introduction of price deregulation in food and other items and the encouragement of the private sector in the early and mid-1980s, Guangzhou people became more tolerant toward market-oriented reform, which greatly facilitated the introduction of more advanced reform later. Despite the inevitable increases in price fluctuations, the city found the decision to introduce such reforms in the early 1980s a major success. However, Tianjin's proximity to Beijing is not totally negative. In fact, some foreign investors chose Tianjin not simply because of its low land and labor cost, but also because of its closeness to Beijing, where there is a concentration of foreign diplomatic and business representation.

On the other hand, observers often pointed to the vast hinterland of this region, which stretched from Beijing to Inner Mongolia and Shanxi, as well as to its favorable location in the Bohai region, facing Japan, South Korea and Russia. The rise of Qingdao and Dalian, in particular, has directly threatened Tianjin's role as a trading and industrial base. Hebei,

too, is building its own port in order to bypass Tianjin as its outlet to the coast. While Tianjin's location in this area seems to imply greater access to markets and resources, the reality is in fact far more complicated. Further, with the acceleration of reform all over China in the 1990s, many provinces that once supplied materials to Tianjin began to adjust prices and develop their own manufacturing industries in their home base, hence raising production costs and reducing supplies to Tianjin. For instance, Tianjin's textile and garment industry would have to operate in a highly competitive environment because of rising production costs and keen competition from products manufactured in eastern and southern China. Although Tianjin is strategically located at the heart of the Bohai area and has access to the vast hinterland in north China, the economic dynamism unleashed in the reform era has enhanced competition against Tianjin.

Guangzhou's location in the affluent Pearl River Delta is undoubtedly a blessing; so is its proximity to Hong Kong and its coastal location. As the provincial capital of Guangdong and as the hub of transportation and communication in the Delta, Guangzhou enjoys a strong advantage in the development of the tertiary sector, such as trade, real estate, finance, and other business and professional services such as marketing, and accounting. The rapid growth of medium sized cities like Foshan, Jiangmen and Zhongshan, has, however, eroded its advantage in industrial manufacturing. The creation of SEZs like Shenzhen and Zhuhai has further threatened Guangzhou's foreign trade. In fact, Guangzhou's per capita GDP (RMB22, 183) has already been surpassed by Shenzhen (RMB27,005) and is closely followed by Zhuhai (RMB 19,745) and Foshan (RMB20, 327).³¹ None of the surrounding cities, however, could challenge Guangzhou's role as a multi-functional city. In addition, the four county-level cities under Guangzhou's jurisdiction have also embarked upon rapid growth. The share of the city proper in industrial output fell sharply from 82 percent to 62 percent, while the share of the four constituent cities expanded from 18 percent to 38 percent between 1990 and 1995.³² During the 1990–5 period, although the city proper's GOVI did increase 2.4 times, the growth of its four county-level cities rose by 4 to 10 times.³³ The engine of such growth came mostly from township and village enterprises in these cities, as their share of Guangzhou's GOVI rose from 19 percent in 1990 to over 58 percent in 1995. Further, Guangzhou's proximity to Hong Kong brought many benefits. Like other areas in the Pearl River Delta, for instance, Guangzhou relies upon Hong Kong for the bulk of its foreign investment and the majority of overseas tourists.³⁴ On balance, the regional context of development for Guangzhou seems more favorable than that of Tianjin, especially given the constraints caused by the competition from Beijing. In particular, Guangzhou's strategic location ensures that its edge in developing the tertiary sector and foreign economic relations will not be easily eroded and none of the nearby cities can replace its city functions or challenge its economies of scale.

Central-local relations and central preferential policies

Relations between the central authorities and localities constitute a critical factor shaping local economic development. Two aspects of this issue, central-local fiscal relations and central preferential policies, will be examined below. The fiscal relations between the

cities and their superior authorities are always a determinant of the resources available for economic development. China's socialist economy was distinguished by its dependence on the SOEs for revenue and its neglect of trade and other sectors which were often critical to the urban economy. As Barry Naughton has pointed out, socialist countries wanted to 'achieve industrialization with minimum urbanization costs.'³⁵ In 1978, Shanghai, Tianjin, and Guangzhou handed over respectively 60 percent, 34 percent and 24 percent of their GDP to the central or provincial coffer. Consequently, both Tianjin and Guangzhou could use only about one-third of their revenue for local expenditure while Shanghai could retain a meagre 14 percent of its revenue for its own use.³⁶ Such a milking of revenue from these big cities was reflected in their conspicuous urban decay in the 1980s. Similarly to Beijing and Shanghai, Tianjin and Guangzhou were both under strict fiscal regimes whereby most of their revenue would be remitted to the central or provincial governments.

Tianjin was always an important contributor of revenue to Beijing. Since 1949, most of the fiscal arrangements between the central government and Tianjin have been restrictive. In the pre-reform era, these relations revolved around the variants of the annual total sharing formula. In the reform era, similar arrangements were adopted. Starting from 1976, an annual 'total sharing' formula was adopted whereby both revenue and expenditure would be fixed and a fixed sharing ratio would be calculated on the basis of revenue and expenditure. A total sharing ratio would then be constructed. In the 1979–84 period, this formula was adopted, with Tianjin sharing 50 percent of above-remittance revenue. Since 1985, with the launching of the tax-for-profit reform, Tianjin could share 39.45 percent of the fixed local income and shared income.³⁷ In 1988, when the contract system was introduced to all provinces, Tianjin still had to stick to a less favorable regime. While Shanghai too was granted a fixed sum remittance regime of RMB10.5 billion, Tianjin could only share 46.5 percent of the revenue, whereby revenue within the agreed 4 percent growth rate would be subject to a 50 percent sharing rate and any revenue above the 4 percent growth rate would accrue to the city. In the 1980s, Tianjin turned over a total of RMB24.9 billion to the central government, about 55 percent of its total revenue.³⁸ In the 1990s, the amount of central remittance from Tianjin was still in the range of 40 to 50 percent of its total expenditure or 35 to 38 percent of its total revenue. After the introduction of the tax-sharing reform, the amount of fixed remittance from Tianjin to the central government still amounted to RMB2.87 billion, about 46 percent of its total revenue in 1995.³⁹ In short, the fiscal remittance by Tianjin to the central government constituted a heavy burden on its economy.

Similarly, the fiscal relationship between Guangdong province and Guangzhou is another critical factor affecting the city's development. The city has always been the most important revenue generator for Guangdong province. Most of Guangzhou's revenue was still turned over to the provincial and central governments. In fact, the ratio of remittance to local expenditure rose steadily from about 40 percent in 1979 to 67 percent in 1985 and 100 percent in 1989. In other words, the city had to contribute to the central and provincial coffer as much as it could actually spend on itself. Given the grim financial conditions in 1990–1, there was enormous pressure on Guangzhou's leaders to aggressively seek foreign investment and other sources of capital to fund the city's economic

growth. The actual amount of remittance declined steadily back to only the 1979 level by 1994.

There was a relative reduction in the contribution to central and provincial coffer in the 1990s, but such 'savings' in the region of RMB2 billion, while still useful, were not sufficient to cover the much higher expenditure on investment. For instance, total fixed investment in Guangzhou jumped from RMB 10.4 billion in 1991 to RMB52.6 billion in 1994.⁴⁰ Foreign capital and investment acquired also rose from US\$26.7 million in 1990 to over US\$2.5 billion in 1994.⁴¹ Hence even if provincial-municipal fiscal relations served as a constraint on Guangzhou, its relative relaxation in the 1990–4 period still could not provide a sufficient reason to explain the city's phenomenal growth, because the 'savings' were not large. More importantly, the Guangzhou leadership began to capitalize on funding from other sources.

The implementation of reform and open policy since 1978, especially the special policies toward Guangdong province, offered a golden opportunity for Guangzhou. Such special policies gave the province much greater discretion over economic reform, planning, pricing, material allocation, and domestic trade, as well as foreign economic relations. After intensive lobbying on the part of the provincial leadership and the support of reformist leaders in the central government, such policies were extended in 1985 and 1988. Nonetheless, the most important and direct central preferential policies for Guangzhou as well as Tianjin were the designation in May 1984 of these cities as members of the fourteen coastal open cities. Guangzhou was later designated a city separately listed in the plan of centrally planned cities (*jihua dianlieshi*) in October 1984. As coastal open cities, Guangzhou and Tianjin were granted preferential treatment in a number of important areas, especially over foreign trade and acquisition of foreign investment. Initially, such special treatment included, for instance: approval power for foreign investment projects under US\$5 million (for productive projects) and complete discretion over non-productive projects; exemption of import tariff for equipment used in technical renovation as well as raw materials and machinery for foreign-funded firms; preferential tax treatment (at 15 percent) for technically advanced projects and export processing; discretion in launching market-oriented economic reform; and the creation of an ETDZ to attract foreign investment. In fact, Tianjin's Economic and Technological Development Area (TEDA) has emerged as a key actor in promoting growth and absorbing foreign investment for the city. For instance, in 1996, TEDA accounted for 12 percent of GDP, 15 percent of industrial output and 22 percent of exports of Tianjin.⁴² These preferential policies, which were modeled after those of the SEZs but were not available to other inland cities, were obviously critical for further attraction of foreign investment and acceleration of economic growth.

Similarly, while Tianjin is already a provincial unit, the status as a *jihua dianlieshi* enabled Guangzhou to have direct access to the central government over economic planning without having to go through the provincial government. Aside from enjoying the status of a centrally administered city from 1949 to 1954, Guangzhou was also separately listed in the central plan in 1964. Hence the 1985 decision was the third time the city had been listed separately from Guangdong province. Not only could the city attend national level economic meetings and enjoy access to information and documents, but it would also

enjoy a broad array of economic power covering fifteen areas, namely comprehensive planning, basic construction, use of natural resources, agricultural production, industrial production, transportation and communication, population, acquisition of foreign investment, procurement of major commodities, science and technology, labor and wages, education, land use, allocation and balance of materials, and foreign trade.⁴³ In short, such discretion in formulating development plans, coordinating material allocation and investment, and making policy changes in accordance with local conditions allowed better policy coordination and adjustment. However, unlike other cities that were separately listed in the central plan, Guangzhou's fiscal arrangement was mainly under the authority of Guangdong province because of its importance to the provincial coffer. Nonetheless, like other centrally planned cities that were also provincial capitals, such preferential treatment for Guangzhou was revoked in 1993 because of the obvious tensions between these centrally planned cities-cum-provincial capitals and their provincial superiors.

Political leadership and development strategies

Leaders are important agents in fostering economic development in reform China. The proper combination of developmental factors in a rapidly changing environment constitutes the most important test of leadership and development recipes because there is no single package of policies that can always deliver success, especially in the case of China, where the domestic political and economic environments have been experiencing drastic change ever since 1979.

Tianjin's leadership and development strategy

In the pre-reform era, Tianjin's political leaders were not political heavyweights like Beijing's bosses, even though they were generally more active than other ordinary provincial leaders. For instance, Huang Huoqing (1953–8), a former party secretary, was only an alternate member of the Central Committee (hereafter CC) and Hu Zhaozheng (1963—Cultural Revolution) was not even a CC member when he was made mayor. Since regaining its provincial status in 1967, Tianjin's top party and state leaders have concurrently been full members of the CC. Unlike Beijing or Shanghai, none of Tianjin's top leaders in the pre-1978 era was a member of the Politburo. Paradoxically, the political fortunes of Tianjin's leaders became more prominent in the reform era. Since 1989, three of Tianjin's leaders were current or former members of the Politburo, namely Nie Zifu, Li Ruihuan, and Tan Xiaowen. The career pattern of Tianjin's leaders shows several characteristics (see [Table 2.6](#)). First, Tianjin was used as a stepping stone for potential high flyers in officialdom, although its function in this area was not as important as Shanghai, which produced a great number of post-1949 leaders in the central government. Lin Fujia, Hu Qili, and Li Ruihuan were prime examples. Between 1979 and 1995, there were a total of five party secretaries and five mayors who served in Tianjin. Because of overlapping appointments, only eight individuals had served in these two positions, but three out of these eight individuals, namely Hu Qili, Li Ruihuan, and Tan

Table 2.6 Tianjin's top leaders since 1978

<i>Party Secretary</i>	<i>Mayor</i>
Lin Fujia (June–October 1978)	Lin Fujia (June–October 1978)
Chen Waidai (October 1978–October 1984)	Chen Waidai (October 1978–June 1980)
Ni Zhifu (October 1984–August 1987)	Hu Qili (June 1980–April 1982)
Li Ruihuan (August 1987–September 1989)	Li Ruihuan (May 1982–November 1989)
Tan Xiaowen (September 1989–February 1993)	Ni Bichu (November 1989–May 1993)
Gao Dejian (March 1993–May 1998)	Zhang Lichang (June 1993–May 1998)
Zhang Lichang (May 1998–present)	Li Sheng Lin (May 1998–present)

Xiaowen, were later promoted to a higher position in the Center or a seat in the Politburo. A former vice-mayor, Li Lanqing, was also promoted to be Minister of Foreign Economic Relations and Trade and later a vice-premier and member of the Standing Committee of the Politburo. Such a pattern aptly reflected the important political status as well as opportunities attached to Tianjin's top positions. However, their higher political status also meant that they had to be more involved in national level politics than their Guangzhou counterparts. Even a vice-mayor in Tianjin could enjoy alternate membership in the CC, while very often even party secretaries and mayors from Guangzhou, a provincial capital, were not given any position in the CC. Such political involvement would often be detrimental to the performance of these leaders as champions of their city. Since they had opportunities for further promotion at the Center, they would more likely yield to central pressure rather than promote the interest of their city at the risk of their own career.

Although the situation was not as obvious in the reform era, one might apply the same logic to Guangzhou. A pattern seems to be evolving. Four Guangzhou leaders, namely Liang Lingguang, Ye Xuanping, Xie Fei and Zhu Senlin, were promoted to the top provincial posts. Nonetheless, Ye, as the eldest son of Marshall Ye Jianying, was likely to be promoted to the provincial level whether he had served as Guangzhou's Mayor or not; in fact, he was made a vice-governor first for two years before working as Guangzhou's Mayor and then a provincial governor. Zhu Senlin was the only top provincial leader who was a Guangzhou veteran in the reform era. The widely known conflicts between the province and Guangzhou further complicate the selection of city leaders for the provincial level.

The best known leader of Tianjin in the reform era is, of course, Li Ruihuan, a Tianjin native.⁴⁴ Before returning to Tianjin in 1982, he spent his career in Beijing, first serving as an outstanding construction worker and then as an official in the union system and the Communist Youth League. Born in 1934, Li was transferred to Tianjin in 1981 as a vice-mayor and then promoted to mayor and party secretary. He was noted for his populist political style and his ability to get things done. During his career in Beijing he was able to

cultivate close ties with Wan Li, who later became a vice-premier in the reform era. Li's political mobility was believed to be related to his ties with Wan. Further, the quick recovery of Tianjin in the 1980s earned him a national political reputation and attracted the attention of top central leaders like Deng Xiaoping.

Li's legacy was mixed, if not controversial. For instance, it was widely known that he forced enterprises to fund the massive reconstruction of the city after the Tangshan earthquake, which many believe has depleted resources supposedly allocated for technical renovation or capital construction. Further, his concentration on urban reconstruction was accompanied by his neglect of economic reform. In particular, despite its status as a major port in north China, Tianjin failed to capitalize on the favorable window of opportunity in the 1980s. Although the city was designated a coastal open city in 1984 and had attracted some foreign investment, its exports actually stagnated in the range between US\$1.2 to US\$1.7 billion in the 1980s. In the same period, however, Guangzhou's exports shot up from US\$243 million to US\$1.4 billion. The failure to reform the SOEs and upgrade their technical base severely limited Tianjin's potential for further growth. The slow growth of the tertiary sector meant that the city had missed a golden opportunity in China's commercial expansion. Ordinary people in Tianjin, however, still looked to Li as the most innovative and energetic leader. Although he was appointed a member of the Politburo in 1987 and later a member of its standing committee in 1989, he was not a powerful politician at the central level. He was made Chairman of the Chinese People's Political Consultative Conference in 1993, a united front organ, hence his position in the Center did not immediately bring a great deal of benefit to Tianjin. None of the leaders who came after Li Ruihuan was able to achieve political influence or popularity comparable to their predecessor. As suggested by some Tianjin researchers, Li still exercised strong influence in Tianjin after his departure in 1989.⁴⁵

Recent appointments in Tianjin seem to favor technocrats. For instance, Gao Dejian and Zhang Lichang were both engineers in the heavy industry sector with college education (Zhang did not formally attend university but acquired a college education). In addition, both positions were never shared by natives of the city. Gao was a Shandong native born in 1932 and a long-time official in Jilin responsible for the petrochemical industry. Before his transfer to Tianjin, he was a governor in Jilin and later Minister of Forestry. Similarly, Zhang was a Hebei native born in 1939 who spent his entire career in Tianjin, especially in the metallurgical sector. Even when he was a vice-mayor of Tianjin in 1985, he was made an alternative member of the Twelfth CC. In sharp contrast to their counterparts in Guangzhou and elsewhere, these recent leaders and their immediate predecessors were not known to be very effective or innovative leaders.

Tianjin experienced a revival in the 1990s after the economic slowdown in the second half of the 1980s. In the 1991–5 period, aside from expansion in foreign investment, its GDP and GOVI growth rose respectively at 12 percent and 20 percent per annum. However, whether this revival can be sustained remains to be seen. The rapid expansion of foreign trade and investment in this period was not necessarily the direct result of the development strategy formulated by an active municipal leadership in Tianjin. In many ways, its leaders were still reactive, but the external environment began to favor Tianjin, which was noted for its stable social order, low costs, good infrastructure, and favorable

human resources. The overall strategy of development set out in the Eighth Five-Year Plan (1991–5) in 1991 aimed to develop the city into a ‘technologically advanced and comprehensive industrial base, an open and multi-functional economic center and a modern port city.’⁴⁶ By the formulation of the Ninth Five-Year Plan (1996–2000) and the long-term plan for 2010 in 1996, this goal was only somewhat modified.⁴⁷ As set out in Tianjin’s plan, the objective of the city was to become ‘one of the areas that basically achieved modernization’ by 2010. The more specific goal was to establish ‘one base, five centers’: an industrial base with four industries as pillars (automobiles, electronics, chemical industry and metallurgy); a business and commercial center; a financial center; a science and technological development and information center; a transport and communication center; and an international exchange center. What was perhaps more interesting was that Tianjin’s top leaders began to feel a sense of crisis. In fact, observers were quick to point out that Tianjin’s strategy was too modest and did not show any innovation.⁴⁸ Despite repeated talk by Tianjin’s leaders of expanding foreign economic ties, few actual results were attained in the 1980s. Progress was slow until after China’s new wave of reform stimulated by Deng’s southern tour in 1992. Various dimensions of Tianjin’s development strategy in the 1990s deserve more detailed analysis.⁴⁹

First, the foremost challenge for Tianjin was to reform the state-owned industrial enterprises and to build up its key industries. Despite the introduction of various enterprise reforms, such as restructuring, merging, and share-holding reform, the output of the state industrial sector was still lackluster. The output of the state industries rose from RMB43.6 billion in 1991 to RMB68.2 billion in 1995, which represents an increase of only 56 percent over a five-year period.⁵⁰ The losses of Tianjin’s local SOEs rose from RMB409 million in 1990 to RMB641 million in 1995.⁵¹ The subsidies from Tianjin’s budget for the state sector enterprises still amounted to RMB923 million in 1995, about 15 percent of total revenue!⁵² At the same time, Tianjin further promoted the diversification of its industrial development rather than relying mainly upon the large and medium-sized enterprises, which still contributed almost 50 percent of industrial employment and 42 percent of total industrial output. Since the late 1980s, the city began to decentralize more power to urban districts and counties and towns and to encourage the development of private and collective industries. While not novel at all, this strategy helped to stimulate industrial growth in Tianjin’s nonstate sector. Although the state sector was still dominant, the number of collective enterprises rose from 4,179 to 6,727 and their contribution to the city’s total industrial output already reached 16 percent in 1995.⁵³ Similarly, during the 1991–5 period, the number of foreign-funded firms rose from a mere 228 to 1,830, the industrial output of the foreign sector expanded over seventeen times, and its contribution in Tianjin’s GOVI rose from 5 percent to 33 percent.⁵⁴ Nonetheless, the strengthening of the four ‘pillar’ industries depends not only upon further investment in technical capacity, but also upon the state of competition of the domestic market. For instance, Tianjin’s automobile industry was affected by intense competition with Shanghai and other provinces as well as by the already glutted domestic market for locally manufactured vehicles.

Second, another response of Tianjin to the opening up of China since 1992 was to consolidate its coastal districts into a new coastal development zone (*binhai xinqu*) on the

Bohai coast as an attraction for foreign investment.⁵⁵ This zone comprised seven existing districts or zones, namely TEDA, Tianjin bonded zone, Hangu district, Tangu district, Dongli district, Daiguang district, and parts of Jinnan district, with an existing size of about 188 square kilometers (i.e. roughly the same as the urban districts of Guangzhou). This zone would be further expanded to be 350 square kilometers in ten years (i.e. the future size of the urban district of Guangzhou after completion of renovation and development). Space is still one of Tianjin's greatest advantages. While an office in charge of this new zone was finally established in 1995, this idea was not backed up with funding and special authority by Tianjin, or any special policies granted by the central government.⁵⁶ Most importantly, since the various districts are also trying to compete against one another, it is unclear whether this new concept can attract more foreign investment because the centerpiece of this area is still TEDA, which was already able to attract about 17 to 18 percent of the contracted foreign investment to Tianjin and accommodate about 17 percent of all the foreign-funded firms. Although under the authority of the municipal government, TEDA enjoys a great deal of autonomy in its management and is noted as one of the best ETDZs in China. The number of enterprises operating in the zone rose from a mere fifty-five in 1991 to 543 in 1995, and their registered capital jumped about six times within this period.⁵⁷ The most important of these investors was Motorola from the US, which has invested an accumulated total of over US\$1 billion. Moreover, exports from TEDA also rose from 7 percent to about 30 percent of the city's total exports in the 1991–5 period. Since most of the largest and most profitable foreign enterprises are located in TEDA, it is questionable whether a successful EDTZ like TEDA would wish to further surrender its power and privilege to another superior or share with other local districts which are not yet able to improve their own investment environments.

Third, another related component of Tianjin's recent development strategy was to expand foreign economic ties. Tianjin's acquisition of foreign investment rose sharply from US\$75 million in 1985 to US\$246 million in 1987, but this figure remained in the range between US\$335 million and US\$484 million in the 1988–1991 period. It was only after Deng Xiaoping's southern tour that foreign investment shot up from US\$481 million in 1991 to US\$831 million in 1992 and US\$2.1 billion in 1995.⁵⁸ In contrast to Guangzhou, however, Tianjin did not have a natural overseas partner like Hong Kong. Nor was it able to cultivate special ties with some host countries, like South Korea for Shandong and Taiwan for Fujian. In fact, Hong Kong investors remained the largest investor in Tianjin, contributing almost 30 percent of foreign investment actually utilized in 1996 and 37 percent of the accumulated total.⁵⁹ Exports from Tianjin rose from US\$1.6 billion in 1991 to almost US\$3 billion in 1995, but the driving force beyond this export growth was again foreign-funded firms, whose share in total export shot up from 7.5 percent to 33 percent during this period.⁶⁰ Further, despite the existence of an international airport and good domestic transport links, Tianjin was left out in China's booming tourist industry because the Tianjin government did not have an effective strategy to promote tourism or develop tourist attractions. While the number of tourists visiting the city rose from 56,000 in 1990 to over 200,000 in 1995, it compared poorly with Beijing (2 million), Shanghai (1.36 million) and Guangzhou (2 million).⁶¹ Most

importantly, despite the short distance and the availability of both train and bus services, few visitors to Beijing, a major tourist attraction, ever cared to stop over in Tianjin. A vivid indicator of the underdevelopment of Tianjin's tourism is that by 1995 there were only one 5-star and four 4-star hotels in the entire city.

Last but not least, another related strategy was to promote the Bohai Rim region as a new economic cooperation zone, with Tianjin playing a key role in it. This area comprises 240 million people, or one-fifth of China's population, and 1.12 million square kilometers, about 12 percent of the nation's land area.⁶² The idea to develop this region could be traced to academic debates in the mid-1980s, but in 1992 the central government decided to highlight the role of the Bohai Rim area, which included Tianjin, Liaoning, Hebei and Shandong. The major challenge for Tianjin is that these local economies are more often competing with, rather than complementing, one another. While competition is not necessarily bad, Tianjin might not be in the strongest position in this increasingly competitive era. The combined economic power of other provinces in this area is formidable, and cities like Qingdao and Dalian are already becoming a threat to Tianjin.⁶³ In 1994, for instance, Qingdao's and Dalian's GDP were already about 72 percent of Tianjin's while their industrial output figures were already 50 percent of Tianjin's.⁶⁴

Guangzhou's leadership and development strategy

In the 1980s, most of Guangzhou's municipal leaders were skilful politicians. Despite some limited successes immediately after the designation of the city as a coastal open city, for instance, they were not as successful as their counterparts in the Pearl River Delta in bringing about a breakthrough in economic reform or in attracting foreign capital and investment (see [Table 2.7](#)). Three reasons probably explain why these leaders were not very successful. First, with the exception of Zhu Senlin, most of the municipal leaders served only two to three years. While they might be entrepreneurial and determined, most of them did not serve long enough to bring about decisive changes. Moreover, with the exception of Yang Ziyuan, most of these leaders also ended up being promoted to provincial or central positions. Hence they might have become comparatively more restrained in fighting for the city's interests when they had to confront provincial and central authorities. Second, both the domestic and external environments might have imposed greater constraints on the leaders in the 1980s. For instance, leaders in the 1980s often had to expend a lot of their energy not only in managing scepticism, if not outright obstruction, from Beijing's bureaucrats, but also in diluting the ideological conservatism, and encouraging innovation, among Guangzhou's cadres. They also had to cope with the problems caused by the rigidity of the centrally planned economy and use the limited resources available to renovate the archaic infrastructure. In short, while Guangzhou's leadership in the 1980s had achieved some success in reform and attracting foreign investment, they had not been able to sustain that momentum, either because they were already out of office, or because the national economic environment was no longer favorable to such initiatives, as had happened in the 1988–91 period.

Guangzhou's leaders since 1990 were most successful in attracting foreign investment and fostering economic growth in Guangzhou's contemporary history. While their

Table 2.7 Guangzhou's top leaders since 1979

<i>Mayor</i>	<i>Party Secretary</i>
Yang Shangkun (1979–80)	Yang Shangkun (1979–80)
Liang Lingguang (1980–3)	Liang Lingguang (1980–3)
Ye Xuanping (1983–5)	Xu Shijie (1983–6)
Zhu Senlin (1985–8)	Xie Fei (1986–8)
Yang Ziyuan (1988–90)	Zhu Senlin (1988–91)
Li Ziliu (1990–6)	Gao Siren (1991–98)
Lin Shusen (1996–present)	Huang Hua Hua (1998–present)

Note

The tenure of leaders included their acting period.

leadership and personal qualities could not constitute the only explanation, it was reasonable to argue that this municipal leadership had been effective in taking advantage of the favorable domestic and external environments and speeding up the city's economic development. Indeed, unlike their predecessors, the new leadership that took office in 1990–1 did not have extensive connections in the provincial or municipal party and state apparatus. Both came from lower level localities and had to establish their reputation as leaders of the provincial capital and one of China's major cities.⁶⁵

Li Ziliu, Guangzhou's Mayor from May 1990 to August 1996, was born in Shunde county, Guangdong, in 1932.⁶⁶ Having been promoted from the basic level to become the leader of Shunde county, Li was appointed the Party Secretary of Jiangmen city in November 1985. Under his leadership, both Shunde and Jiangmen had established a reputation as budding economic centers in the 1980s. In December 1989, Li was further promoted to provincial level and appointed Director of the Special Economic Zone Office of the Guangdong Provincial Government. Only six months later he was made a Deputy Party Secretary of Guangzhou and, in June, the Acting Mayor at the age of 58 in May 1990 and formally elected Mayor in February 1991. Given his high school educational qualifications and relatively greater age, it was already difficult for him to be promoted to higher positions after serving one or two terms in Guangzhou. In sharp contrast to the pattern of appointment of all post-1978 Guangzhou mayors, Li was promoted from a lower administrative level, i.e. a prefectural-level city, to the provincial capital. His immediate predecessors, Zhu Senlin (1985–8) and Yang Ziyuan (1988–90), both served in Guangzhou's party and state apparatus for decades while mayors in the early 1980s came from very senior political and administrative backgrounds. Yang Shangkun (1979–80) was of course a well-known senior statesman while Liang Lingguang (1980–3) was a former Minister of Light Industry. Ye Xuanping (1983–5), the eldest son of Marshal Ye Jianying and later Guangdong's Governor, was already a Vice-governor of Guangdong before his appointment as Guangzhou's Mayor. Ye Xuanping, in particular, achieved a national reputation as a pragmatic and open-minded mayor. Li's grass-roots background and his lack of extensive political connections in Guangzhou's party and state hierarchy put him in a much weaker position than he might have wished.

In December 1991, Gao Siren took over the position of Guangzhou's Party Secretary after Zhu Senlin was promoted to be Guangdong's Governor in May. Born in 1944, Gao was a native of Qingdao, Shandong province. He was only 47 years old when appointed Guangzhou's Party Secretary in November 1991. After graduation from Hefei's Industrial University, he spent his entire adult career in various mining and party positions in Shaoguan, Guangdong's heavy industrial base. In sharp contrast to the grass-roots background of Mayor Li Ziliu, Gao had a background similar to other younger, better educated and technocratic leaders in Guangdong.⁶⁷ However, neither Gao nor Li was a veteran cadre in Guangzhou's party and state apparatus. Yet Gao's rich experience in economic management and the industrial economy buttressed his credentials as Guangzhou's party leader. He was also made an alternate member of the CC elected by the Fourteenth Party Congress in October 1992 and the Fifteenth Party Congress in September 1997.

Despite their contrasting backgrounds and personalities, what Gao Siren and Li Ziliu clearly shared was their concern in building Guangzhou into a modern city. Like a host of other rising local leaders in Guangdong, Li Ziliu was a determined reformist. As soon as he took office, Gao Siren argued that the city should capitalize on the many opportunities offered in the 1990s to speed up its economic development. His vision was to build the city into a prosperous, stable, and modern central city, an international trade centre, a national shopping centre, and the nexus in finance, information, science and technology, transportation and communication, as well as culture and entertainment, in south China.⁶⁸ When appointed Acting Mayor, Li Ziliu also proclaimed that the city ought to be one step ahead of the rest of the country in reform and opening to the outside world. He further detailed many of his grandiose schemes, such as the establishment of a Guangzhou Stock Exchange (which was not achieved), the reform of state-owned enterprises, the opening up of the real estate market, as well as the invitation to foreign banks to set up branches in the city.⁶⁹

The focus of Guangzhou's development strategy in the 1990s was to attract foreign investment. The acquisition of foreign investment had been a key priority for the entire Guangdong province since 1978 because it remained a relatively backward area that desperately needed capital in order to boost economic growth. However, whether the localities inside the province would be able actually to attract foreign investment was another matter. Similarly to other areas in the Pearl River Delta, Guangzhou had also been keen to attract foreign capital. The total amount of foreign capital utilized by the city had jumped significantly from only US\$30 million in 1980 to over US\$377 million in 1991.⁷⁰ Nonetheless, its share in Guangdong's total acquisition of foreign capital had remained fairly constant (about 14 percent) in the 1980s. The growth of foreign capital used in the city was about the same as the provincial average, an increase of about twelve times in the 1980–91 period. As most of Guangdong's foreign capital came from Hong Kong, and was mainly invested in export processing, Guangzhou did not always enjoy the same competitiveness as other areas in the Pearl River Delta in terms of wages, geographical proximity, or policy flexibility.

Guangzhou's ability to acquire foreign capital was definitely boosted by the expansion of its economic power in 1984–5. In the 1979–84 period, the total amount of foreign

capital absorbed was only about US\$334 million (US\$55 million on average annually), but it rose to US\$158 million in 1985 and US\$179 million in 1986. In fact, Guangzhou's acquisition of foreign investment suffered a net drop in 1987 and then stayed at a level of around US\$2.5 billion per annum between 1988 and 1990. In contrast, foreign capital and investment utilized by Guangdong increased at an annual rate of 17 percent between 1986 and 1990 while the same figure for Guangzhou was only 11 percent.⁷¹ In the 1991–5 period, however, Guangzhou's acquisition of foreign capital and investment rose at a staggering rate of over 53 percent per annum (refer to [Table 2.5](#)). Its aggressive strategy in utilizing foreign capital and investment also brought about major changes in its economy. In 1990, the number of foreign-invested enterprises was only 760, but their number rose to 7,825 in 1995.⁷² The number of staff employed in foreign-invested enterprises jumped from less than 130,000 in 1990 to 258,850 in 1995, or about 15 percent of the urban working population.⁷³ In 1990, foreign-funded enterprises contributed only 15 percent of Guangzhou's total industrial output, but by 1994, the foreign sector contributed about 40 percent of the total.⁷⁴ In 1990, the share of foreign-funded enterprises in total exports was about 24 percent, but its share had risen to 47 percent by 1995.⁷⁵ After several years of aggressive acquisition of foreign capital and investment by the municipal leadership, the foreign sector had evidently become a key source of growth of Guangzhou's industry and exports by the mid-1990s. The development strategy of Guangzhou's leaders since 1990 included the undertaking of major construction and renovation projects, new measures in facilitating the absorption of foreign capital and investment, and the formulation of a new and comprehensive development strategy.

EFFORTS IN CONSTRUCTION AND RENOVATION

The first and most obvious effort of the municipal leadership was to embark upon a major renovation of the city's urban infrastructure, beginning in 1990, in order to attract foreign investment. These projects included upgrading inner city transport and the construction of a new international airport on the outskirts of the city. The municipal government also expanded urban development to the less developed parts of the city in the southeast. Such massive urban reconstruction was made possible by the aggressive acquisition of Hong Kong investment in real estate and other sectors. In particular, Mayor Li Ziliu was known to be very successful in cultivating special ties with Hong Kong tycoons from his home town, Shunde, and encouraging their investment in Guangzhou in the aftermath of the June Fourth incident.⁷⁶ During 1986–90, Guangzhou's investment in urban basic construction, including public transport, gas and water supply and other utilities, amounted to RMB2.47 billion, about 4.2 times that used during 1981–5. However, such investment further increased sharply in the 1990s, rising by 27 percent in 1991, 68 percent in 1992, 82 percent in 1993, and 68 percent in 1994.⁷⁷ In 1994, investment in urban construction had risen to RMB4.2 billion, which was higher than the total spent in the entire 1980s. The length of roads in Guangzhou's urban districts increased 1.5 times in the 1990–4 period as well.⁷⁸ Guangzhou's path-breaking advances in telecommunications had also made it China's leading center in communications—greatly

improving its investment environment. Comparing 1990 and 1994, the number of telephones in Guangzhou rose 3.3 times, the number of pagers increased 6 times, and the number of mobile phones jumped 22 times!⁷⁹ In 1993, the number of telephones per 100 persons in Guangzhou's urban districts had reached 20.8, the highest among China's cities.⁸⁰

NEW MEASURES IN ACQUIRING FOREIGN INVESTMENT

A multi-faceted and aggressive approach marked the municipal leadership's strategy toward attracting foreign investment in the 1990s. First, the municipal leadership deliberately tried to take Guangzhou's bureaucrats to task by compelling them to rethink the challenges ahead and learn from Guangzhou's competitors. Shortly following his formal appointment as Mayor in February 1991, Mayor Li encouraged popular discussion of Guangzhou's development in the local media: people talked about ways to revitalize their city. In late June 1991, he led a widely publicized ten-day investigation tour of Guangzhou officials to various dynamic medium-sized cities in the Pearl River Delta, which were famous for their flexibility in dealing with foreign investors and aggressive strategies in promoting local economic growth.⁸¹ In order to inform their fellow Guangzhou officials better about the grave challenges the city was facing, the municipal government also organized study tours to two emerging coastal provinces, Shanghai and Shandong, in November 1991. In addition to hosting international conferences and trade shows in Guangzhou and abroad, the municipal leadership also made trips to foreign cities every year after 1991 so as to follow economic and technical developments overseas.

Second, the municipal leadership had made a concerted effort to secure foreign investment in the tertiary sector, especially real estate, as well as infra-structural projects which were indispensable for the city's rapid development. These efforts included construction of the long-awaited subway system in 1994, which was made possible by selling real estate above future stations to Hong Kong investors to raise funds and by securing various loan facilities from overseas investors.⁸² Mayor Li Ziliu himself actually worked as the Chief Executive of the subway project and led most of the trade delegations to Hong Kong and other countries. In 1994, the share of real estate development and related areas in the total of foreign capital and investment utilized jumped from a negligible amount in the late 1980s to over 40 percent.⁸³ By 1994, foreign capital and investment was already contributing close to 20 percent of the investment utilized in urban construction.⁸⁴

Third, another major strategy of the municipal leadership in attracting foreign investment was to provide preferential treatment in development zones and to decentralize authority to lower level authorities. The municipal government not only consolidated Guangzhou's EDTZ and other development zones, but also decentralized various economic powers to its counties, urban districts and individual streets. In 1991, the municipal government continued to provide preferential treatment, such as revenue exemption, tariff reduction, and discretion over investment approval, for its EDTZ, which was the largest among the various development zones in the city.⁸⁵ After intensive lobbying by the municipal government, the State Council finally approved the

construction of a bonded (or free trade) zone inside the EDTZ in May 1992.⁸⁶ In April 1991, the municipal government also approved the construction of the Nansha Economic Development Zone in Panyu, a county level city to the southeast of Guangzhou, which was later officially redesignated an EDTZ. This ambitious project was mainly funded by a Hong Kong tycoon who planned to turn his former home town area into a commercial, residential and transportation hub in the Pearl River Delta.⁸⁷ In order to facilitate the attraction of foreign investment, the municipal government compelled its government departments to speed up the processing of requests made by its county or urban district authorities and delegated various economic powers, including investment approval power up to US\$10 million, to these lower level governments in 1991.⁸⁸

FORMULATION OF A NEW DEVELOPMENT STRATEGY

The acquisition of foreign investment was a key component of the municipal leadership's ambitious attempt to articulate a new and comprehensive development strategy: to achieve basic modernization in fifteen years and turn the city into a modern, international metropolis.⁸⁹ Under the leadership of Gao Siren and Li Ziliu, a new development strategy, entitled 'Guangzhou's Development Proposal to Achieve Basic Modernization in Fifteen Years,' (hereafter the Proposal) was formulated in 1993 in order to realize such goals by the year 2005.⁹⁰ Instead of reiterating old themes such as strengthening Guangzhou's light and textile industry, or promoting both domestic and external trade in general, the Proposal boldly suggested a new vision: to establish Guangzhou as a financial, commercial, and transportation centre, not only in China but also in the Asia-Pacific region.⁹¹

Three aspects concerning the origins of this new strategy merit attention. First, instead of taking incremental or remedial steps, Guangzhou's municipal leadership instead chose to formulate a comprehensive response to the many problems inhibiting its further development and to the increasingly keen competition from the Pearl River Delta and other coastal cities in the 1990s. In 1990, for instance, the central government had approved special policies to develop Shanghai's Pudong district into an international economic, financial, and trading center.⁹² Such a reorientation of the priority of the central government apparently worried Guangdong and Guangzhou.

Second, the municipal leadership seized the new momentum for economic development initiated by Deng Xiaoping's southern tour in early 1992. China was still implementing an economic austerity programme during the 1988–91 period, but the national economic and political scene changed rapidly after Deng's tour. The new development strategy provided an excellent opportunity for the new municipal leaders to assert their authority and articulate their vision for Guangzhou at an opportune moment. During his stay in Guangdong, Deng specifically mentioned that the province should catch up with the Newly Industrializing Countries (NICs) in East Asia within twenty years.⁹³ Guangzhou's goal was to complete this catching-up in fifteen years, five years ahead of Guangdong province, and the growth target of the Proposal was revised to a higher level in order to follow Deng's call to challenge the East Asian NICs.

Third, this latest strategy incorporated bold ideas and new perspectives.⁹⁴ While as comprehensive as earlier development plans which covered social, economic and

technological as well as regional development issues, the Proposal was by far the most carefully formulated and sophisticated development strategy in Guangzhou's contemporary history. While this Proposal had a fifteen-year time frame (1991–2005), many of its suggestions included concrete goals with immediate policy implications.⁹⁵ Moreover, even ahead of the CC's official decision to establish a socialist market economy in the Third Plenum in mid-November 1993, the Proposal took a major step ahead of the nation by articulating the goal of establishing a market economy as its key priority.

Key themes of this new, ambitious development strategy that spanned the period 1991 to 2005 included various bold initiatives.⁹⁶ First, the Proposal articulated a list of ambitious yet specific development targets, including, for instance, an annual GDP growth rate of 13 percent, an annual increase of total retail sales of 20 to 22 percent, an annual export growth rate of 15 percent, readjustment of the share of the tertiary sector in the economy upward from 50 to 60 percent as well as acquisition of foreign investment that amounted to one-third of all capital needs. Second, the Proposal identified six sectors as focuses for future development: advanced light industries, commerce and distribution, finance and insurance, construction and real estate, as well as tourism and other service industries. In other words, the tertiary sector would be the priority of the future, and attracting foreign investment into this area would be the primary task of the municipal government. Third, restructuring enterprise organization, especially the strengthening of eight enterprise conglomerates, including such famous corporations as Wanbao Electrical Appliances, Guangzhou Baiyunshan Enterprise Group, and Nanfang Department Store Group, were identified as key tasks. Fourth, what further distinguished this new development strategy from previous ones was its emphasis on building a variety of markets, namely finance, real estate, technology, labor, producer goods, and consumer goods. Finally, the Proposal rightly pointed out the need for a new approach to urban planning. Most importantly, the developed area within the urban core of Guangzhou would be drastically expanded from the existing 187 square kilometers to 335 square kilometers.

Major changes of the current leadership have been taking place since the mid-1990s. In early 1998, Gao Siren was promoted to become a Deputy Provincial Party Secretary and his post was filled by Huang Hua Hua, a Deputy Provincial Party Secretary and a rising political star. Li Ziliu retired after serving six years as Mayor, a period longer than any others in the post-Mao era. Lin Shusen, a former official in charge of planning in Guangdong province and a former leader from Huizhou, replaced Li in August 1996.⁹⁷ Whether these new leaders will be as successful as their predecessors and whether they will modify Guangzhou's development strategy remains to be seen.

Concluding remarks

This study of Guangzhou's and Tianjin's development path in the reform era suggests several tentative lessons. First, contextual factors, namely a strategic geographical location, favorable central policy treatment and a sound urban infrastructure, are necessary conditions for attracting foreign investment and facilitating economic take-off.

However, specific elements of the regional context, such as Beijing's competition with Tianjin, could become a constraint in many ways.

Second, whether the local government and its leaders would be able to seize these favorable opportunities is a different matter. By the mid-1990s, the shift of central government support from south China to the Yangtze Delta and the growing competition among China's localities have compelled reactions from both cities. Both Tianjin and Guangzhou seemed to have missed opportunities in the second half of the 1980s, and they were not willing to risk falling behind further. The role of local leadership is seemingly critical in Guangzhou's revival in the 1990s, while it is less conspicuous in Tianjin's case. Nonetheless, other incidental factors, such as the rising operating costs in Beijing, and competing coastal cities, which are beyond Tianjin's control, tend to favor the city in attracting foreign investment. The municipal leadership in Guangzhou is more innovative and active than Tianjin's in this endeavor.

Third, both cities are constrained by the undesirable legacies of state socialism, especially the state-owned sector. Both have learned to rely upon foreign-funded firms and collective and private enterprises as new engines of growth, although their performance in these areas is variable. Both have realized the critical importance of the tertiary sector for future growth, but Guangzhou has forged ahead in this area not only because of its early reform experience but also because of its special position in the booming Pearl River Delta.

Last but not least, it is amply clear that the reliance upon overseas capital and investment is critical to late developers like China. Both these cities have drawn upon foreign funding as a new source of capital. Although foreign investment can also be widely found in real estate and various other services, the foreign sector has emerged as an increasingly important source of industrial output and export. Guangzhou's achievements in attracting foreign investment in the 1990s are especially spectacular.

Several problems may thwart Guangzhou and Tianjin in their efforts to achieve their developmental objectives in the near future. First, various structural constraints, most importantly the SOEs, will continue to haunt Tianjin and to a lesser extent, Guangzhou, for some time. The key challenge for Tianjin is to reshape its own industrial base. Further, the changing external environment both challenges and favors Tianjin. For instance, the keen competition among (and from) various areas in north and east China did not necessarily favor Tianjin, but the city did gain from the rising cost of business elsewhere, its sound urban infrastructure, its proximity to Beijing and its coastal location. Second, both cities might still be denied special treatment by the central government in developing the tertiary sector, especially finance. Despite repeated lobbying efforts by Guangzhou's municipal leadership, the city still failed to open the third stock exchange in China after Shanghai and Shenzhen, and was not likely to achieve this goal in the future. Consequently, its future role in international finance will be overshadowed by Shenzhen and Hong Kong; the city could focus on becoming a regional financial center at best. Central preferential policy might continue to favor Pudong over Guangzhou and other cities. For instance, foreign banks have to set up their branches or headquarters in Pudong first if they would like to be given the authority to carry out renminbi business in the future.⁹⁸ Similarly, without further support from the central government, Tianjin may

not be successful in achieving its goal of becoming a commercial and financial center in the north, even though it had a history of international finance in pre-1949 China.

Third, the future of Tianjin and Guangzhou also depends upon their ability to manage effectively their relations with provincial and central authorities. Together with other provincial capitals, Guangzhou's status as a city separately listed in the central plan was lost in 1993.⁹⁹ The central government continued to grant such a status to cities that were important economic centres but not concurrently provincial capitals, such as Shenzhen, Dalian, and Qingdao, in order to reduce the widely known conflicts between these provincial capitals and their provincial superiors. This change in policy status could severely affect Guangzhou's ability to bargain with the centre and lobby for more policy concessions because it would have to deal with its provincial superiors first. However, the perennial conflicts between the provincial authorities and the city were not likely to end. On the other hand, Beijing continues to be a key factor shaping Tianjin's economic development. Whether future leaders from the city can find a better way to deal with the central government remains uncertain.

Finally, both cities could have a tougher time in attracting foreign investment in the future. Guangzhou might not be successful in raising the RMB300 billion needed to accomplish the development objectives laid down in the new development strategy. The official estimate was that one-third would come from revenue and domestic credits, another one-third from enterprises and individuals, and the remaining third from foreign investment.¹⁰⁰ Tianjin's acquisition of investment similarly depends on the changing assessment among foreign investors of the Chinese market's potential.

Economic data in 1996 suggested that Tianjin was able to maintain a steady growth rate of 14 percent while Guangzhou fell to 13 percent as a result of the economic retrenchment in Guangdong (see Tables 2.3 and 2.4). Further, Tianjin showed notable growth in the export and acquisition of foreign investment, whereas Guangzhou slowed down in these areas. Whether these figures suggest a different cycle of growth will set in is perhaps too early to tell. What is clear, however, is that while both cities have benefited from the economic take-off in the early 1990s, they will inevitably be facing keener competition in future because many dynamic new cities are already racing ahead.

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Notes

- 1 Aside from this volume, please refer to the following sources for recent studies of China's coastal cities: Victor Sit (ed.) *Chinese Cities*, Hong Kong, Oxford University Press, 1985; Yeung Yue-man and Hu Xu-wei (eds) *China's Coastal Cities*, Honolulu, University of Hawaii Press, 1992; Y.M.Yeung and Yun-wing Sung (eds) *Shanghai: Transformation and Modernization under China's Open Policy*, Hong Kong, Chinese University Press, 1996.
- 2 For an overview of the Delta, see my chapter, 'Pearl River Delta Development,' in Joseph Cheng Yuk-shek and Maurice Brosseau (eds) *China Review 1993*, Hong Kong, Chinese University Press, 1993, pp. 18.1–18.29. For a bibliography of Guangdong compiled by this author which includes entries on the Special Economic Zones, Guangzhou, and other cities, see *Provincial China: Research, News, Analysis*, 1997, no. 3, pp. 50–63.
- 3 For a multi-disciplinary analysis of Shanghai, see Yeung and Sung (eds) *Shanghai*.
- 4 For a survey of contemporary Tianjin and Beijing, see Brian Hook (ed.) *Beijing and Tianjin*, Hong Kong, Oxford University Press, 1998.
- 5 Tianjinshi tongjiju, *Tianjin tongji nianjian 1997* (Statistical Yearbook of Tianjin 1997), Beijing, Zhongguo tongji chubanshe, 1997, p. 77.
- 6 The following figures are Chen Haodong (ed.) *Tianjinshi Jingji Kaifa* (Economic Exploration of Tianjin City), Beijing, Jingji guanli chubanshe, 1996, p. 1.
- 7 Data on population and size came from *Tianjin tongji nianjian 1997*, pp. 77–82.
- 8 The following draws from the encyclopedic *Tianjin Jianzhi* (A Short History of Tianjin), Tianjin, Tianjin renmin chubanshe, 1991.
- 9 The figure is *Tianjin tongji nianjian 1996*, p. 48.
- 10 The figures are from *Tianjin Jianzhi*, p. 80.
- 11 The following statistics draw from *Tianjin tongji nianjian 1997*, pp. 77–80.
- 12 *Tianjin tongji nianjian 1996*, p. 711.
- 13 Shanghai's cargo load was 164 million tons, see Goujia tongjiqu, *Zhongguo tongji nianjian 1997* (China Statistical Yearbook 1997), Beijing, Zhongguo tongji chubanshe, 1997, p. 529.
- 14 The six top ranking ports are respectively Shanghai, Qinhuangdao, Guangzhou, Dalian and Tianjin.
- 15 Guangdongsheng tongjiju (ed.) *Guangdong tongji nianjian 1995* (Statistical Yearbook of Guangdong 1995), Beijing, Zhongguo tongji chubanshe, 1995 p. 261. Guangzhou handled three times as many cargoes as Zhanjiang, the second largest port in the province.
- 16 The above figures are from *Guangzhou tongji nianjian 1997* (Statistical Yearbook of Guangzhou 1997), Beijing, Zhongguo tongji chubanshe, 1997, pp. 11–12 and *Guangdong tongji nianjian 1997*, p. 68.
- 17 *Guangzhou tongji nianjian 1996*, pp. 118–19.
- 18 *Guangzhou tongji nianjian 1991*, pp. 79–80; Guangzhou Yearbook Editorial Committee, *Guangzhou nianjian 1991* (Guangzhou Yearbook 1991), Guangzhou, Guangzhou nianjian chubanshe, 1991, p. 79.
- 19 See *Guangzhou tongji nianjian 1991*, pp. 164–6; *Guangzhou tongji nianjian 1995*, p. 218.
- 20 *Guangzhou tongji nianjian 1991*, p. 324.
- 21 *Guangzhou tongji nianjian 1997*, p. 26.
- 22 *Guangzhou tongji nianjian 1997*, p. 26.
- 23 The following statistics draw from *Guangzhou tongji nianjian 1992*, p. 309; *Guangdong tongji nianjian 1992*, p. 341.
- 24 *Guangzhou Ribao* (Guangzhou Daily), 6 October, 1994, p. 1.

- 25 Dorothy Solinger, 'Despite decentralization: Wuhan's disadvantages and dependence, and ongoing central power in the inland' (unpublished manuscript).
- 26 Jae Ho Chung, 'A Recipe for Development in a Chinese Coastal City: The Case of Qingdao' (unpublished manuscript).
- 27 For an analysis of the special policies and the changing interactions between the central government and Guangdong, please refer to my chapter in Yeung Yue-man and David Chu (eds) *Guangdong: Survey of a Province Undergoing Rapid Change*, 2nd edn, Hong Kong, Chinese University Press, 1998, ch. 2.
- 28 The following analysis draws from my discussion with Tianjin officials and researchers during two field trips, May 1995 and October 1996.
- 29 I share the observations made by Hans Hendrichske that understanding Tianjin's economic development should take into account political factors, especially its ties with Beijing; see his insightful study, 'Tianjin: Quiet Achiever?', delivered at the workshop on China's Provinces in Reform, Hangzhou, 20–24 October 1996. In fact, the government researchers and scholars that I interviewed expressed the same complaints against Beijing, including the central government's desire for stability in Tianjin.
- 30 Interviews in Tianjin, October 1996. Also see *Tianjin Ribao*, 30 May 1995, p. 7.
- 31 *Guangdong tongji nianjian 1997*, p. 108.
- 32 *Guangzhou nianjian 1995*, p. 63.
- 33 The growth rates of Panyu, Huadu, Zengzheng, and Chonghua were respectively, 631 percent, 704 percent, 967 percent, and 410 percent.
- 34 Hong Kong contributed 60 percent of its foreign investment and 60 percent of overseas tourists, *Guangzhou nianjian 1997*, p. 325.
- 35 Barry Naughton, 'Cities in the Chinese Economic System,' in Deborah Davis, Richard Kraus, Barry Naughton and Elizabeth J. Perry (eds) *Urban Spaces in Contemporary China*, Cambridge, Cambridge University Press, 1995, p. 63.
- 36 *Ibid.*, pp. 68-9.
- 37 Specific central allocations would not be affected and urban maintenance tax would not be shared.
- 38 *Tianjin Ribao* (Tianjin Daily), 3 May 1991, p. 1.
- 39 *Tianjin tongji nianjian 1996*, p. 157.
- 40 *Guangzhou tongji nianjian 1995*, p. 156.
- 41 *Guangzhou tongji nianjian 1995*, p. 342.
- 42 *Tianjin tongji nianjian 1997*, pp. 77–80.
- 43 *Guangzhou nianjian 1991*, pp. 96–7.
- 44 For a biography of Li Ruihuan, see Zheng Yi, *Li Ruihuan Chuanqi* (Li Ruihuan's Legends), Hong Kong, Mingchuang chubanshe, 1991.
- 45 Interview with Tianjin researchers, October 1996.
- 46 This is the goal set out in the Eighth Five-Year Plan, see *Tianjin Ribao*, 3 May 1991, p.2.
- 47 *Tianjin Ribao*, 6 January 1996, pp. 1–2.
- 48 Interview with Tianjin researchers, October 1996.
- 49 For a useful discussion of this issue, see Chen Haodong (ed.) *Tianjinshi Jingji Kaifa*; Wang Hui; and Wan Xinping (ed.) *Huanbohai Jingjiqian* (The Bohai Economic Circle: Tianjin Volume), Beijing, Shehui kexue wenxian chubanshe, 1996.
- 50 *Tianjin tongji nianjian 1996*, p. 216.
- 51 *Tianjin tongji nianjian 1993*, p. 150; *Tianjin tongji nianjian 1996*, p. 238.
- 52 *Tianjin tongji nianjian 1996*, p. 157.
- 53 *Tianjin tongji nianjian 1996*, p. 221.

- 54 *Tianjin tongji nianjian* 1993, pp. 136, 139 and 167; *Tianjin tongji nianjian* 1996, p. 221.
- 55 For basic statistics and description of this new zone, see *Tianjin tongji nianjian* 1996, pp. 394–7; Chen Haodong (ed.) *Tianjinshi Jingji Kaifa*, pp. 172–80. Also see the reports in *Wide Angle Monthly*, December 1994, pp. 82–9.
- 56 Interview with Tianjin researchers, October 1996.
- 57 The following statistics on TEDA draw from their 1995 unpublished statistical report.
- 58 *Tianjin tongji nianjian* 1996, p. 52.
- 59 *Tianjin tongji nianjian* 1997, p. 319.
- 60 *Tianjin tongji nianjian* 1993, p. 218; *Tianjin tongji nianjian* 1996, p. 314.
- 61 *Zhongguo tongji nianjian* 1996, p. 605.
- 62 *Beijing Review*, 27 February–5 March, 1995, pp. 11–15.
- 63 Please refer to Jae Ho Chung’s chapter on these two cities.
- 64 Wang Fei and Wan Xinping (eds) *Huanbohai Jingjiquan*, p. 132.
- 65 The following sections are adapted selectively from my chapter, ‘Guangzhou’s Municipal Leadership and Development Strategy in the 1990s,’ in Stewart MacPherson and Joseph Y.S.Cheng (eds) *Economic and Social Development in South China*, Cheltenham, Edward Elgar, 1996, pp. 122–39.
- 66 The following biographical information draws from *China Directory*, Tokyo, Radio Press, 1987, pp.475–7; Editorial Board of Who’s Who in China (ed.) *Who’s Who in China: Current Leaders*, Beijing, Foreign Languages Press, 1994, pp. 146 and 338–9; Beijing Xinhua, ‘Guangzhou City Names Li Ziliu Acting Mayor,’ *FBIS-CHI-90-111*, 8 June 1989, p. 59.
- 67 Such examples include Lu Ruihua, the Governor and a former official from Foshan, or Zhang Gaoli, a former Executive Vice-governor and a former technocrat from Maoming Petroleum Corporation.
- 68 *Guangzhou Ribao*, 23 January 1992, p. 1. An example that reflected Gao’s reform orientation was his article on reform and development in *Reform Reporter*, March 1994, pp. 4–7.
- 69 *South China Morning Post*, 8 January 1990, p. 10.
- 70 *Guangzhou tongji nianjian* 1992, p. 312; *Guangdong tongji nianjian* 1992, pp. 341, 355 and 399.
- 71 *Guangzhou tongji nianjian* 1991, p. 49; *Guangzhou nianjian* 1991, p. 80.
- 72 *Guangzhou tongji nianjian* 1996, p. 356.
- 73 *Guangzhou tongji nianjian* 1996, p. 405.
- 74 *Guangzhou tongji nianjian* 1992, p. 52; *Guangzhou tongji nianjian* 1996, pp. 57 and 347.
- 75 *Guangzhou tongji nianjian* 1995, p. 339.
- 76 *Hong Kong Economic Times*, 28 August 1996, p. A2.
- 77 *Guangzhou nianjian* 1992, p. 251; 1993 issue, p. 68; 1994 issue, p. 196; 1995 issue, p. 64.
- 78 *Guangzhou tongji nianjian* 1995, p. 267.
- 79 *Guangzhou tongji nianjian* 1995, p. 244.
- 80 *Guangzhou nianjian* 1994, p. 148.
- 81 These six counties and cities were Foshan, Shunde, Zhuhai, Zhongshan, Jiangmen, and Xinhui. Soon afterwards, Zhang Hanqing, a Deputy Party Secretary in Guangzhou, followed Li’s example with another tour to the Delta. *Guangzhou nianjian* 1992, pp. 59, 62.
- 82 *Guangzhou nianjian* 1995, p. 63.
- 83 *Guangzhou tongji nianjian* 1995, p. 344.
- 84 *Guangzhou nianjian* 1995, p. 65.
- 85 This new policy toward the EDTZ was from *Guangzhou nianjian* 1992, pp. 683–5. Another major development zone was a hi-tech development zone in Tianhe district inside the city.
- 86 *Guangzhou nianjian* 1993, p. 57.

- 87 *Hong Kong Economic Journal*, 11 November 1993, p. 2.
- 88 *Guangzhou nianjian 1992*, pp. 689–91.
- 89 The following sections are adapted selectively from my chapter, ‘Guangzhou’s Municipal Leadership and Development Strategy in the 1990s.’
- 90 The text of this plan and the fourteen related plans were published in Guo Xiling (ed.) *Kuaxiang Xinjiyuan de Jueze: Guangzhou Shiwunian Jiben Shixian Xiandaihua Fazhan Fangan* (A Choice for Striding Toward a New Era: Guangzhou’s Development Plan to Achieve Basic Modernization in Fifteen Years), Guangzhou, Guangzhou chubanshe, 1994.
- 91 This master strategy was formally promulgated as Guangzhou Government Document no. 69 (1993) in July 1993. Extensive efforts to promote this vision both at home and abroad were undertaken, including holding discussion and debates in the mass media, organizing international conferences in 1993 and 1994, as well as the promotion of this plan on Hong Kong’s local TV in late November 1994. The first conference was held in 1993 and the second conference in October 1994, see *Guangzhou Ribao*, 6 October 1994, p. 1.
- 92 See General Secretary Jiang Zemin’s report to the 14th National Party Congress in October 1992, *Wenhui Pao*, 13 October 1993.
- 93 Deng Xiaoping, *Selected Works of Deng Xiaoping, Volume III (1982–1992)*, Beijing, Foreign Languages Press, 1994, p. 363.
- 94 The new municipal leadership was concerned about producing a more updated and sophisticated development plan under their supervision. The new development strategy built upon earlier development plans for the 1990s, which actually began in 1988, namely the Eighth Five-Year Plan and the Ten-Year Plan on Guangzhou’s National Social and Economic Development which were approved in January 1991.
- 95 For instance, twenty-five construction projects covering such areas as energy, transportation, water treatment, the automobile industry, the electrical industry, as well as commercial and cultural facilities, were identified as key areas for investment in the coming years, see Xiling Guo (ed.) *Kuaxiang Xingxihuan de Jueze* (A Choice for Striding Toward a New Era), pp. 114–15.
- 96 The following was an updated summary of my discussion in ‘Guangzhou’s Leadership and Development Strategy in the 1990s.’
- 97 *Hong Kong Economic Times*, 28 August 1996, p. A2.
- 98 *Apple Daily* (Hong Kong), 7 April 1996, p. B1.
- 99 See *FBIS-CHI-93-154*, 12 August 1993, p. 16.
- 100 This estimate was provided by the Executive Vice-mayor, Wu Liang, who managed the drafting of the Proposal, see Guo (ed.) *Kuaxiang Xinjiyuan de Jueze*, p. 24.

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A comparative analysis of economic reform and development in Hangzhou and Wenzhou cities

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Introduction

During the reform period Zhejiang has experienced one of the highest growth rates of any province in China. The key features of its reform experience, which have been detailed elsewhere,¹ include: a high accumulation of domestic financial resources but a below average reliance on foreign investment and trade, unusual for a coastal province; a high level of private economic activity; highly unbalanced intra-provincial regional growth; lagging coastal development; a high concentration of economic activity in rural areas with rapid growth of the township and village sector; a GDP structure characterized by a weak agricultural base, imbalanced industrial sector (excessive reliance on the processing and manufacturing of light industrial goods), and relatively undeveloped tertiary industries; weak public infrastructure particularly in the areas of transport and energy; relatively low input of science and technology into industrial output, and a high reliance on the quantitative increase in inputs of labour and capital; a government which to a large extent has played either an obstructionist or passive role in this process; and a very low level of urbanization and an accompanying relatively weak growth of core cities and their subsequent radiating influence on surrounding rural areas. In sum, what could be called the Zhejiang pattern of development (and this is not to say that such a pattern has not been followed in other provinces but the pattern does seem somewhat paradoxical for an economically advanced province such as Zhejiang) has relied on crude, extensive, small-scale, rural-based, domestically-financed industrialization. Additionally, social development in Zhejiang, partly as a result of this type of economic development, has lagged behind in terms of many national indicators, particularly in the fields of education and science and technology.

The low level of urbanization in the province clearly has great relevance for this chapter, which examines and compares economic reform and development in two of Zhejiang's three principal cities (the third being the coastal port of Ningbo).² By Chinese standards Zhejiang province has a below-average percentage of its population living in cities, and even fewer classified as belonging to the urban non-agricultural population, who in the Maoist years were differentiated from the the agricultural population living in cities by the fact that under the command economy they were supplied with grain coupons. Another anomaly in the pattern of Zhejiang's urbanization is the relatively

Statistical profiles of Hangzhou and Wenzhou, 1996

<i>Indicator</i>	<i>Hangzhou</i>	<i>Wenzhou</i>
Total population (1,000)	6,032	7,044
GDP (RMB million)	90,700	51,000
GDP as percentage of Zhejiang's GDP	21.9	12.3
Gross value of industrial output (RMB million)	147,900	100,300
Gross value of agricultural output (RMB million)	8,400	4,791
Total foreign trade (US\$ million)	4,352	452
Total foreign trade as percentage of Zhejiang's total	32.3	3.4
Realized foreign capital (US\$ million)	557	n/a
Realized FDI (US\$ million)	537	79
Realized FDI as percentage of provincial total	35.2	5.2

small size of its principal city, Hangzhou. Measured by a primacy index which compares the population of provincial leading cities with the combined population of the next three most populous cities, at the 1982 census Hangzhou had the lowest index rating in China of 38.7 (100 being the norm). This was below the national average of 43 and well below the 136 recorded for East China.³ In other words the proportion of Hangzhou's population to that of the province (and hence we may conclude its radiating influence) is far less than that of principal cities in other provinces.

At the end of 1984, in the three categories of non-agricultural population as a proportion of total population, city/town population as a proportion of total population, and city/town non-agricultural population as a proportion of total population, Zhejiang stood below the national average. The non-agricultural population component of prefectural-level cities (*jianzhi shi*) was also below the national average, and 62 per cent of Zhejiang's non-agricultural population lived in cities whose population was below 500,000, compared to 40 per cent for China as a whole. The remaining 38 per cent lived in cities whose populations ranged from 500,000 to 1 million (in Zhejiang this meant Hangzhou alone), while the remaining 60 per cent of China's non-agricultural population lived in cities of both this size (20 per cent) and of over 1 million in population (40 per cent).⁴

In 1978 at the start of the reform era, only 6.4 per cent of the population of Zhejiang (which was then 37.5 million) lived in urban districts (*shiqu*) and of these only slightly over half, or 1.4 million, were non-agricultural residents. A decade later, in 1988, these percentages had increased—dramatically in the case of the former category to 37 per cent (mainly due to the administrative redefinition whereby former prefectures and counties were renamed district and county-level cities)—while the latter category had almost tripled to 10 per cent (or 4.2 million) of the total population of 41.7 million.⁵ Of these urban residents of the province, over 1 million, or almost one-quarter of the total, lived in the city districts of Hangzhou, where they comprised less than 20 per cent of the total population of Hangzhou City.⁶ The urban populations of the city districts of Ningbo and

Wenzhou, the second and third largest cities in Zhejiang respectively, were only 533,000 and 391,200.⁷

In 1989 Hangzhou had the twenty-fourth highest number of non-agricultural residents of all Chinese cities. There were twenty-four cities (both district and county-level) in Zhejiang, with Hangzhou having the largest number of non-agricultural residents at 1.1 million, and Jiaxing the fewest with 49,000. Ningbo was the only city in the medium-sized category of 500,000 to 1 million non-agricultural residents, and the province had only three cities (Wenzhou, Huzhou and Jiaxing) in the category of 200,000 to 500,000 non-agricultural residents.⁸ By 1995, the urban population of Hangzhou's city districts totalled slightly less than 1.2 million⁹ of the provincial total of 8 million, while those of Ningbo and Wenzhou had reached 632,200 and 461,900 respectively. Yet in Wenzhou the agricultural population of its city districts still outnumbered the non-agricultural population by about 50 per cent.¹⁰

The Zhejiang pattern of a large number of small cities and towns combined with few major urban centres reflects economic development in the province since Liberation. Whether this trend has been forced on Zhejiang by the policies of both the Maoist years (localized, self-sufficient, autarchic development) and the reform period (rural industrial accumulation) or has been a conscious choice on the part of government to avoid the pitfalls associated with the growth of large consumer cities is debatable.¹¹ The fact remains that about three-quarters of provincial industrial output comes from rural areas, now centred on small towns and cities, and the role and influence of cities in the development of Zhejiang is less than one would expect and in comparison with other coastal provinces.¹² Hence, the necessity for the above statistical detail.

In this province of few large cities, Hangzhou is in a category of its own when the cities of Zhejiang are grouped for statistical purposes.¹³ It has no rival of comparable size or influence, such as pertains in Sichuan province with the two great cities Chengdu and Chongqing (until its 1997 separation as a centrally-ruled city). As the provincial capital, Hangzhou has traditionally been the political, administrative, cultural, tourist and transportation centre of Zhejiang. Before the reform period Hangzhou was the only city in Zhejiang with sub-provincial status, having counties, as well as city districts, under its jurisdiction. Wenzhou City did not obtain this status until 1981, being previously ruled directly by the province (1949–58) and later coming under the leadership of Wenzhou District on behalf of the provincial government. Between 1959 and 1963 Hangzhou acquired seven counties from neighbouring district administrations, and the area of 'Greater Hangzhou' has remained little changed since then. At the start of the Cultural Revolution the area of Hangzhou City encompassed the same five districts and seven counties which are under its jurisdiction today.¹⁴

The concentration of state investment in the city during the Maoist years when the coastal areas of Zhejiang were almost completely neglected, except for defence purposes, turned Hangzhou into the economic centre of the province as well. During the reform era Ningbo and Wenzhou have enjoyed preferential policies thanks to their location (open coastal cities) and economic and trading importance (centrally-listed city in the state plan, free-trade zone and deputy-provincial city in the case of Ningbo), and as such have undermined to some extent Hangzhou's provincial pre-eminence and even provoked a

certain rivalry in vying for central and provincial attention and favour. Nevertheless, Hangzhou's stature as the premier city of the province is unlikely to be challenged in the near future by either of these two cities, particularly Wenzhou. However, in an ominous presage for Hangzhou, in 1995 Ningbo's industrial capacity surpassed that of the provincial capital.¹⁵

Hangzhou possesses a historical and cultural fame and, with its exquisite West Lake, has a tourist attraction of world class which Wenzhou, its recent notoriety as a hot-bed of Chinese capitalism notwithstanding, can hardly hope to match. While Hangzhou may be seen as a slow, provincial city, it can lay claim to a modicum of cosmopolitanism, at least compared to the backwater in which Wenzhou remains confined. Hangzhou is located in the orbit of the re-emerging powerhouse, Shanghai, while Wenzhou is extraordinarily isolated considering that it is a city on the western rim of the mighty Pacific Ocean. Thus, at first sight, comparing the recent development of two cities of such different size and stature seems a rather fruitless and meaningless exercise. However, both Hangzhou and Wenzhou have, in their own very different ways, been success stories of the past two decades of reform. Both represent two models of economic development in the Chinese context: the former relying on rural collective and private industrialization, along the lines of the pattern of development in the Zhebei-Sunan region; the latter on private, household, small-scale specialized industrialization closely supported by a dynamic and resourceful privately-run marketing network. While Hangzhou's pattern of development has emerged to some extent from the collective rural industrialization fashioned in the latter years of the Maoist period, the Wenzhou model, in terms of its emphasis on entrepreneurial skills and the primacy of private property, has its roots in pre-Revolution China. Both cities, somewhat surprisingly given their location, have developed without relying heavily on foreign investment or trade, although external factors have been more prominent in Hangzhou than in Wenzhou.

The respective environments in which the economic development of the two cities has taken place since 1949, and the pattern of this development, have been starkly at odds. First, in terms of gross domestic product (GDP) and per capita income, since 1949 Hangzhou has been the most advanced sub-provincial entity of the eleven prefectures (now, with the exception of Lishui, called cities), while Wenzhou formerly occupied third-last place in the provincial economic hierarchy. Second, in relation to the ownership structure of industry, the large-scale state enterprises built with state investment in Hangzhou during the 1950s and 1960s were almost completely absent in Wenzhou. Third, Hangzhou's economic take-off has come from the township and village enterprise sector piggy-backing off the state sector, while in Wenzhou it has been private and household industry which have led the way. Fourth, Hangzhou, as the provincial capital of a major revenue remitting province, and as a major cultural, historical and tourist city of national renown, has suffered or benefited (opinions vary) from the level of attention which it has received from central and provincial leaders both in the Maoist and reform periods. Wenzhou, on the other hand, isolated within the province and often left largely to its own devices, has had to stand on its own two feet but has been spared the amount of interference accorded the provincial capital. These differences show that within one

province various external factors can help determine the paths which different localities take to economic modernization.

The so-called Wenzhou ‘model’, which was much touted in the mid-1980s, refers to the economic development of a city which is deficient in arable land, densely populated, lacks accessible resources and has inherited a weak public economy. On this basis the traditional household became the foundation for a dynamic manufacturing and trading system which spread out from hamlets and townships to embrace the whole country. Wenzhou specializes in small, simple processing items which state and large-scale enterprises tended to ignore under the planned economy. It has carved out a niche in the market and, with a dynamic entrepreneurial spirit encapsulated in the willingness to take risks, has succeeded in turning a backward neglected town into a thriving city. Wenzhou has sent out its business expertise, labour and managerial skills on to the national market, and has brought back capital, information and technology to develop its local economy. In the Maoist days Wenzhou was constantly attacked as a place where the roots of capitalism found fertile soil, and in the reform era the legitimacy of such a model, and whether it should be called socialism or capitalism (*xingshe haishi xingzi*), has been heatedly debated. Also of great controversy has been the question of the applicability of Wenzhou’s road to development to other parts of the country.

This chapter will examine three sets of factors—those imposed by history and geography, those provided by the centre and province, and those created by the local leadership and people—with a view to obtaining an understanding of the dynamics behind the growth of Hangzhou and Wenzhou over the past two decades. In the case of Hangzhou particular attention will be given to assessing the success of its strategy in building up the city’s tourism industry as a pillar of the local economy, an endeavour which depends on the combination and co-ordination of all three factors. For Wenzhou, while it appears that all three factors considered in this chapter— given, semi-given and self-created— have contributed to the rapid rate of economic growth experienced by the city during the reform period, in essence it has been the revival and flowering of traditional business culture which has been the key to Wenzhou’s re-emergence in the late twentieth century.

Background¹⁶

Hangzhou

Hangzhou was one of the six ancient capitals of China, being the capital of the rump Southern Song dynasty from 1132 until the defeat of the Han by the invading Mongols in 1279. By the time the dynasty fell it was the richest city in the world with a population of 1 million. During this period Hangzhou, which was also called *Xinggong* (meaning transient palace because the Song emperors regarded it as only a provisional capital before they returned to north China) built up such industries as ship-building, silk, ceramics, paper-making and printing, while its commerce, culture, and exotic and sophisticated night-life flourished. Marco Polo, who allegedly visited the city at the end of the thirteenth century, marvelled at its richness and splendour.¹⁷

In 1381, during the reign of the first emperor of the Ming dynasty, Hong Wu, Hangzhou was declared the capital of Zhejiang province and has remained so to this day. In 1896, after the Maguan (Shimonoseki) Treaty was signed with Japan, Hangzhou was declared a commercial port, and the British government established a consulate in the city. At that time the population of Hangzhou was about 750,000. Although there was a small communist movement in the city in the 1920s, it was crushed after Chiang Kaishek's break with the CCP in 1927, and by May 1949, when the city was taken over by the communists, records show that there were only 386 party members.¹⁸ The city's population then stood at 625,000. In the late 1930s and early 1940s Hangzhou was occupied by the Japanese imperial army. The principal and lasting Japanese contribution to the city's architecture remains in the form of the present dilapidated railway station.

In 1949 China's new rulers described Hangzhou as a parasitic consumer city,¹⁹ and they set about transforming it into an industrial city, a goal which they achieved to the neglect of its urban infrastructure, to the destruction or despoliation of many of its famous and beautiful natural and man-made attractions, and to the neglect of other provincial cities, Ningbo and Wenzhou in particular. In 1949 Hangzhou was famous for its cash crops such as green tea (the exquisite Longjing tea in particular), silk and handicrafts. Well-known products turned out by the light industrial sector of Hangzhou, owned principally by national capitalists, included Du Jinsheng silk brocade, Zhang Xiaoquan scissors, Li Deshun chopping knives, West Lake silk umbrellas, Wang Xingji fans and Tianzhu chopsticks. There was no heavy industry to speak of, and only thirty-three factories in the city had over 100 employees.²⁰

Mao Zedong was a frequent visitor to Hangzhou between 1953 and 1966, and spent nearly four months there on his last visit in 1975. Zhou Enlai also made regular trips to Hangzhou, often in his role as host to foreign leaders.²¹ Mao's frequent presence in Hangzhou may have been one reason for the high concentration of state investment in the city during those years. Another factor related to the strategy of diverting resources away from the coast during the First Five-Year Plan and again during the period of the third front from the mid-1960s to early 1970s. Zhejiang had its own mini third front during the Cultural Revolution which, for a while, further exacerbated the unequal and uneven distribution of resources in the province. Although Hangzhou (or more precisely its city districts) is one of the smaller provincial capitals in terms of both area (second smallest) and population, it has always received an inordinate amount of attention from the central leadership. In fact, the local claim that if Hangzhou were a larger city it would almost certainly come under direct central jurisdiction may be more than just parochial boasting or wishful thinking.²²

Hangzhou's dominant role in the economy of Zhejiang even in the reform period can be seen from recent statistics.²³ In 1984 fixed capital assets in Hangzhou comprised 25.5 per cent of the provincial total, gross value of industrial output (GVIO) 30.2 per cent and realized industrial profits and taxes 33.9 per cent. Hangzhou's GVIO ranked fourth of all provincial capitals.²⁴ In 1987, with 13.5 per cent of the population of the province, the city produced 21 per cent of its national income, 24 per cent of the gross value of industrial and agricultural output (GVIAO), 28 per cent of GVIO (27 per cent of heavy industry and 28 per cent of light industry) and 16 percent of the gross value of agricultural

output (GVAO). Over one-quarter of the province's electricity generation came from Hangzhou, and in the production of consumer goods such as watches, televisions, refrigerators, washing-machines and cigarettes it produced from between 50 per cent to 100 per cent (in the case of watches) of provincial output.²⁵ Almost a decade later in 1996, with 13.7 per cent of the population of Zhejiang, Hangzhou contributed 22 per cent of gross domestic product (GDP), invested 16 per cent of total fixed capital assets, supplied 17 per cent of total retail sales, held 25 per cent of urban and rural residential savings, earned 27 per cent of provincial salaries, and trained 65 per cent of the province's university students.²⁶

During the reform period Hangzhou's position in the national economic pecking order has improved dramatically. Among large and medium-sized cities, in terms of GDP it ranked eleventh in 1980 and seventh in 1994. In 1978 Hangzhou's GVIO ranked thirteenth among large and medium-sized cities, whereas by 1988 it had leapt to seventh place. In the intervening decade it had overtaken Nanjing, Qingdao, Anshan, Chongqing, Wuhan and Shenyang. Only Shanghai, Beijing, Tianjin, Suzhou, Wuxi and Guangzhou were ahead of it. In 1993 it ranked ninth in total commodity retail sales, and tenth in terms of local budgetary revenue. Among provincial capital cities, Hangzhou's GVIO stood fourth in 1986 and in 1994 second behind only Guangzhou. In 1993 its GDP ranked second to Guangzhou, while its retail sales ranked fifth and its local budgetary revenue fourth.²⁷

In 1988, among fourteen cities of the Yangtze River Delta, Greater Hangzhou covered the largest area, and ranked fourth in population, GVIAO, total retail sales, and GVIO, third in light industry, the size of its labour force and investment in fixed assets, and fifth in heavy industry and GVAO.²⁸ In the early 1990s its overall economic strength was judged to be roughly commensurate with the size of its population.²⁹

A survey of China's fifty most powerful cities carried out by the state bureau of statistics in 1992 ranked Hangzhou twelfth overall in terms of a comprehensive index which included population, labour power, economy, society and basic infrastructure.³⁰ A 1991 survey of twenty-four developed cities among six coastal provinces, however, revealed a strong contrast between its economic strength and social indicators. While Hangzhou ranked sixth overall, and Wenzhou ranked third last, the difference in terms of quality of life was not great, while in the social order indicator Wenzhou was rated more highly than Hangzhou. Overall, then, during the reform era the rapid growth of Hangzhou's economy has enabled it to regain a central place among China's cities to approximate the historical capital off which it had lived for the previous thirty years. It has reached a stage of economic development far in advance of that attained in Wenzhou.

However, the rate of development of the two cities during the reform period has been comparably impressive. Between 1978 and 1995 Hangzhou's GDP grew by nearly 27 times. Over the same period GVIAO grew by over 17 times, with industrial output increasing by over 21 times and agricultural output doubling. In terms of the composition of GDP, from 1978 to 1995 primary industry increased by 11 times, secondary industry over 24 times and tertiary industry by over 55 times. By 1997 tertiary industry comprised 38.6 per cent of GDP, primary industry 8.7 per cent, and secondary industry 52.7 per cent (for the city districts the proportions in 1996 were 48.3 per cent, 2.4 per cent and

49.3 per cent respectively). In 1995 agriculture made up only 12.4 per cent of the city's GVIAO.³¹

Wenzhou

Wenzhou's development occurred rather late in Chinese history, and its technology and culture were promoted by the influx of immigrants fleeing civil disturbances in the north of China. The Song dynasty was Wenzhou's golden period with great developments in agriculture, handicrafts and transport industries. The city became a port ranking only after Guangzhou, Hangzhou, Quanzhou (Fujian) and the present-day Shanghai in national importance. The mid-fifteenth century witnessed the emergence of a household textile industry (supported by a developed marketing system) and mining, with the municipal economy showing signs of incipient capitalism. Handicrafts were always important in Wenzhou because of the mountainous terrain and the lack of cultivated land which constrained the development of agriculture. Its coastal location was favourable for the development of foreign trade, while isolation from centres of domestic strife and war, as well as from the influence of the central government, gave Wenzhou the leeway to pioneer its own road to development largely free from outside interference. The city was thus able to establish and maintain a private property ownership system, which orthodox Confucian statecraft viewed with suspicion and disfavour.

After the signing of the 1876 Yantai Treaty with Britain, Wenzhou became an open port, and the home to foreign legations, businessmen and missionaries. The entry of foreign goods upset the link between local agriculture and the household industry and marketing system, so that Wenzhou's economy gradually fell into decline. After initially escaping the impact of Japanese aggression and becoming a refuge for outside businessmen and purchasers of war materials, Wenzhou came under Japanese occupation three times and its economy suffered from the ravages of inflation. In the early decades of the twentieth century some industrial enterprises in the textile, and consumer light goods industries (matches, light globes, condensed milk) had been established, together with some commercial enterprises. At the time of liberation in 1949, the population of Wenzhou district stood at 2.76 million, but economic activity had declined dramatically compared to the time prior to the beginning of the anti-Japanese war.

Between 1957 and 1976 Wenzhou's GVIAO averaged only a 2 per cent growth rate per annum, with agriculture almost stagnant.³² Various factors contributed to this slow growth. Wenzhou's high ratio of population density to available land, weak economic foundation, backward transport and communications, and low levels of state investment were contributing factors. But the principal reason for Wenzhou's sluggish economic performance was that the level of its productive forces and the people's long-entrenched tradition of private property ownership were completely at odds with the command economy and the public ownership system put in place by the mid-1950s.

Reform has been the liberator of Wenzhou's economy, and since 1978 it has recorded impressive growth rates. This has not been due to state investment, however. In 1993, of a total accumulated state investment of RMB21.4 billion in the Zhejiang economy, Wenzhou had obtained a mere 6.1 per cent, or 1.3 billion. Hangzhou, on the other hand had received 22.4 per cent, Ningbo 20 per cent and Shaoxing 16 per cent. Reforms to the

Table 3.1 Hangzhou and Wenzhou economic data, 1978–96 (RMB billion, US\$ million)

Year	Hangzhou				Wenzhou			
	GDP	GVIO ^a	X\$US	UFC\$US	GDP	GVIO	X\$US	UFC\$US
1978	2.8	4.3			1.3	1.1		
1979	3.4	5.0			1.5	1.3		
1980	4.1	6.4			1.8	1.7		
1981	4.7	6.9			1.9	1.7		
1982	5.0	7.4			2.1	1.8		
1983	5.6	8.3			2.4	2.1		
1984	6.9	11.1			3.0	2.9		
1985	9.0	14.6			3.8	4.2	0.03	
1986	10.5	17.2			4.5	4.9	0.33	
1987	12.6	20.8		27.8	5.5	6.2	1.0	
1988	15.3	25.2	1.7 ^e	18.6	6.9	8.1	1.0	
1989	16.6	25.9	42.3	48.4	7.3	9.0	5.7	
1990	19.0	38.0	72.9	34.7 ^b	7.8	9.5	2.5	
1991	22.8	45.7	101.8	30.9 ^c	9.3	12.3	36.0	7.7
1992	29.0	58.5	304.0	110.3	12.7	18.1	57.5	24.9
1993	42.5	79.8	468.0	357.0	19.7	34.3	104.4	57.5
1994	58.6	105.8	740.0	420.0	29.7	52.7	180.0	61.2
1995	76.2	128.1	968.5	457.8 ^d	40.7	74.9	276.0	73.5
1996	90.7	147.9	1,204.5	557.3	51.0	100.3	377.0	79.0

Sources: *Hangzhou nianjian* 1987, p. 353; *Hangzhou nianjian* 1996, p. 314; *Hangzhou tongji nianjian* 1996, p. 417; *Zhejiang jingji nianjian* 1986, p. 339; *Zhejiang jingji nianjian* 1988, p. 356; *Zhejiang jingji nianjian* 1990, p. 373; *Zhejiang nianjian* 1996, p. 423; *Zhejiang nianjian* 1997, pp. 411, 412, 425; *Wenzhou tongji nianjian* 1992, p. 21; *Wenzhou shi tongjiju bian*, *Tengfeide Wenzhou—'Bawu' shiqi jingji he shehui fazhan baogao* (Thriving Wenzhou—Report on Economic and Social Development during the Eighth Five-Year Plan), pp. 1, 3, 6.

Notes

X = exports; UFC = utilized foreign capital (includes foreign loans, direct foreign investment, and other forms of private foreign investment). In 1995 over 90 per cent of utilized foreign capital in Hangzhou was in the form of DFI (*Hangzhou tongji nianjian* 1996, p. 457).

a Figures for Hangzhou's GVIO for the years 1978–79 and 1981–3 do not include industrial output at the hamlet (*cun*) level and below. The GVIO figures for Hangzhou are in 1980 (1978–81) and 1990 (1990–3) fixed prices.

b A note to the table states that this figure is up 28.3 per cent on 1989 and refers only to items approved by the city (*Hangzhou nianjian* 1991, p. 284).

c Presumably the above caveat applies to the number for 1991, which is stated to be 89.1 per cent of 1990 (*Hangzhou nianjian* 1992, p. 309).

d \$US321 million (or 70 per cent) of this total was committed to the four state-level development zones in Hangzhou's city districts and Xiaoshan city.

e In 1988 thirty-three foreign trade companies and production enterprises in Hangzhou obtained the power to export directly (*Hangzhou nianjian* 1990, p. 167).

economic system have enabled Wenzhou to create its own conditions for self-generated growth, and have ignited the enthusiasm and creativity of its people to foster a virtual economic miracle. Between 1978 and 1994 GDP grew 9.5 times at an annual rate of 16 per cent, and GVIO by 38 times at 26 per cent per annum, which was higher than both the national and provincial averages. Table 3.1 reveals that this growth rate was also faster than that recorded in Hangzhou, which was no slouch itself. Fiscal revenue grew at an annual rate of 19 per cent. Wenzhou's ranking in GDP and per capita income among the eleven sub-provincial cities in the province rose from ninth in 1978 to fourth and third respectively in 1994. Peasant per capita income increased from RMB114 in 1978 to RMB2,000 in 1994, while the per capita income of the urban population shot up from RMB423 in 1981 to RMB5,113 in 1994. Savings increased from RMB45 million in 1978 to 14.2 billion in 1995. The proportion of tertiary industry in GDP stood at 36 per cent in 1994, which was higher than that in other open coastal cities, and almost precisely the same as that for Hangzhou.³³

Taken overall, Wenzhou's level of economic development is far behind that of Hangzhou's. For example, in 1986 per capita income in Wenzhou stood at only 37 per cent of that of the provincial capital.³⁴ A decade later, in 1995, per capita GDP in Wenzhou at RMB5,806 was still only 45 per cent of the 12,797 in Hangzhou. In fact Wenzhou's per capita GDP was the third lowest of the eleven sub-provincial cities (districts) in Zhejiang.³⁵ As the long-time provincial capital and once imperial capital, Hangzhou's influence and importance has clearly far outweighed that of Wenzhou's. This has resulted in closer supervision over the city which has been beneficial in terms of the provision of resources, but constraining to local initiative and policy flexibility. Wenzhou, on the other hand, has been forced to turn neglect and isolation to its own advantage, which has led to the revival of the initiative and competitive spirit of its people.

That political factors have impacted deleteriously on the spontaneous and vibrant business ethos of the people of Wenzhou is clear from Table 3.1. However, the popular saying 'the mountains are high and the emperor far away' (*shan gao huangdi yuan*) appeals greatly to their subversive and proud parochialism. The people of Wenzhou have been motivated into action on the business and commercial front by their poverty and have a strong sense of local identity and community. This is manifest wherever Wenzhouese congregate, whether it be in Beijing or Brussels. On the other hand, the people of Hangzhou have the reputation of being self-satisfied, selfish, fractious, cunning, stubborn and arrogant (summed up in the term 'iron-heads of Hangzhou' (*Hang tietou*)).

When the national leadership set out in the late 1970s to open up the Chinese economy both Hangzhou and Wenzhou could have reasoned that change would be to their advantage, although the challenges of reform may have aroused greater trepidation among the leaders and people of Hangzhou than their southern counterparts. But the two cities faced this future with entirely different historical baggage: Hangzhou with the proud consciousness of its central role in the history of the province and country, which had been consolidated by the level of attention which it had received during the Maoist years; Wenzhou with an acute awareness of its isolation from the mainstream of national political and economic life, which had been reinforced by the frequent political campaigns

directed against the roots of capitalism which seemed in the eyes of communist propagandists to have found more fertile soil in Wenzhou than anywhere else in China.

Recipes for development: comparative analysis of Hangzhou and Wenzhou

Given factors

History

Both Hangzhou and Wenzhou are cities of the Han Chinese, with very little influence of non-Han culture evident in modern times. Linguistically, the local dialect in Hangzhou exhibits the lingering influence of its cosmopolitan past when speakers from across the country lived there for over 150 years while it was the capital of the empire. The dialect of Wenzhou, on the other hand, is almost completely incomprehensible to a native of Hangzhou or to a *putonghua* speaker. This may be a reflection of its long isolation from the mainstream of Chinese culture and even that of the province. The people of Hangzhou are proud of their city, and like others with parochial tendencies, elevate it to greater significance and importance than it either deserves or has achieved. The same localism is evident, but with an even greater intensity, in Wenzhou. This parochialism was manifest particularly strongly during the Cultural Revolution, when isolated communities such as those in Wenzhou banded together defensively in opposition to outsiders entering their territory waving the Little Red Book. Violent clashes occurred, with outside Red Guards and provincial military units the target of a concerted attack by local army and militia forces.³⁶

For much of the Maoist period Hangzhou, kept under close supervision by the centre and province, represented political and economic orthodoxy, while Wenzhou was suspected for its capitalist inclinations and separatist tendencies. During the Cultural Revolution and into the late 1970s the provincial leadership was always on the look-out for signs of the capitalist road in Wenzhou. It was no accident that a provincial conference concerning 'new-born bourgeois elements' (*xinsheng zichanjieji fenzi*), convened by the Zhejiang Academy of Social Sciences in late 1978 chose Wenzhou as its venue.³⁷ Wenzhou's dubious reputation was one reason why the provincial leadership reacted so cautiously in the mid-1980s to the claims that Wenzhou's road to development represented a model which could be replicated in other parts of the country.³⁸

Hangzhou's parochialism is reflected partly in an intense popular antagonism toward and envy of the adjacent metropolis of Shanghai. An article in the provincial government gazette in 1995 by a standing committee member of the provincial people's congress dismissed the idea that in planning for the future Hangzhou should be considered an ordinary provincial capital or Shanghai's 'backyard',³⁹ This posturing notwithstanding, however, the power and influence of Shanghai, both nationally and regionally, is well understood. During the 1950s and the Cultural Revolution Zhejiang's leaders often looked to Shanghai when sniffing the winds of political change. In the 1950s Zhejiang's

party leader Jiang Hua was a member of a provincial Maoist political clique which included Ke Qingshi in Shanghai and Li Jingquan in Sichuan. Then, in the Cultural Revolution the rebels among Hangzhou's working class held up Wang Hongwen as their role-model and leader. In the mid-1970s, when Wang was the Politburo member responsible for party affairs in East China, the provincial leaders were acutely aware of his influence both in the region and in Beijing.⁴⁰ Thus, Hangzhou has held an ambivalent attitude towards the powerful proximate presence of Shanghai.

Location

Hangzhou is situated on the southern flank of the Yangtze River Delta in the rich Jiangnan plain region. The city proper is situated less than 100 kilometres from the Bay of Hangzhou, where the Qiantang River, which flows through the south of the city from west to east, meets the sea. As the southern terminus of the Grand Canal, Hangzhou possesses convenient water access to the interior of the province, to the Great Lake (*taihu*) and beyond to the north, and via the coast to the rest of China and the world beyond. It is a major railway junction for lines east to Ningbo, north to Shanghai, and south through Jiangxi province to Guangzhou and other cities in the south and south-west of China.

Despite its proximity to the ocean, Hangzhou suffers from an extreme climate with four well-defined seasons. Winter is dry and cold, and summer hot and humid. The city, including counties, covers a total area of 16,596 square kilometres. Two-thirds of the terrain is classified as mountains, 26 per cent plains, with rivers, and lakes and reservoirs making up the remaining 8 per cent. This topography accounts for the saying 'seven parts mountain, one part water and two parts land'. Hangzhou has under its jurisdiction six urban districts, five county-level cities and two counties. The population density for the city as a whole was 360 persons per square kilometre. This was lower than the provincial average of 429 persons per square kilometre. Population density in the city districts, however, was as high as 3,338, with the old Upper City district having a population density of 31,592 persons per square kilometre, similar to that of Shanghai's urban districts.⁴¹

While the larger city covers an area of almost 16,600 square kilometres, the area of the city districts at 430 square kilometres (prior to the 1996 expansion) made Hangzhou the fourth smallest of all provincial capitals (and its GDP the fourth lowest), and the second smallest of cities with a population of over 1 million.⁴² Hangzhou city proper is hemmed in on all sides, with little room for growth. Consciousness of this situation provoked continued speculation concerning the inevitable expansion of the city.⁴³ It appears that the municipal leadership had long desired to enlarge the area encompassed by the city districts but had been stymied by the determined opposition of local leaders who stood to lose pieces of valuable land in the process. Also, it may have been the case that Hangzhou's leadership lacked the political clout or powers of persuasion to obtain the support of their superiors for this long overdue move. In May 1996 the city finally achieved its goal, when the provincial authorities approved its plan for two city districts to absorb townships and a village from Xiaoshan and Yuhang cities. The sensitivity of this decision may be seen from the fact that the plan went through ten drafts over a period of fourteen months before the

final arrangements were drawn up. Under the plan the area of the city districts increased in size by almost 50 per cent from 430 square kilometres to 688 square kilometres, and their population by 13.5 per cent from 1.4 million to 1.6 million.

In 1995 the total GVIAO of the transferred five townships and one village amounted to almost RMB6 billion, while fiscal revenue came to RMB115 million. These figures equalled 10.1 per cent and 3.4 per cent, respectively, of the city districts' existing GVIAO and fiscal revenue.⁴⁴ On the other side of the ledger, however, Xiaoshan was losing 11.8 per cent of its GVIAO and 11.3 per cent of its fiscal revenue, while Yuhang was being deprived of 8.6 per cent of its GVIAO and 4 per cent of its fiscal revenue.⁴⁵ It is clear from the official report that the local authorities in both adjoining cities were most unhappy with the decision, but pledged to subordinate parochial interests to the greater good.⁴⁶ The present comprehensive plan for the city's development, upon which work commenced in the second half of 1993, set aside two of the transferred districts for future industrial development.⁴⁷ Clearly, both Xiaoshan and Yuhang will have to be compensated for the improved value of these valuable pieces of real estate.

It is claimed that the province was forced to remove local leaders opposed to the plan and replace them with more compliant successors before Hangzhou realized its expansionist ambitions.⁴⁸ Evidence to support this allegation seems substantial. In October 1995 the party secretaries of both Xiaoshan and Yuhang cities were replaced. In the case of Xiaoshan a deputy-secretary of the Hangzhou city party committee, holding also the post of secretary of the city's Discipline Inspection Committee (and who continued to hold these posts concurrently), took over the post, while in Yuhang it was a cadre who was simultaneously promoted to the standing committee of Hangzhou's party committee (a position his predecessor continued to hold). The previous party secretary of Xiaoshan had been only an ordinary committee member of the CCP Hangzhou city committee.⁴⁹ In the case of Xiaoshan, however, the removal and arrest of the city's party deputy-secretary/ mayor for corruption in 1995 certainly played a part in the decision to send in such a senior cadre to take over the party secretary's post.⁵⁰ While the decision to expand the land area of Hangzhou's city districts can undoubtedly be justified on many grounds it confirms the impression that the city's leaders place the interests of the metropolitan districts well above those of the rural areas, and that in their mind, as it is in the minds of its citizens, the term Hangzhou is confined essentially to the 500 or so square kilometres surrounding the West Lake.

Wenzhou is situated on the coast in the south-east corner of Zhejiang. In 1981 the State Council approved the formation of Wenzhou City, which incorporated the surrounding counties as well as city districts under its jurisdiction. Today, the city includes three city districts, two county level cities and six counties. It covers an area of 11,784 square kilometres with mountains occupying 78 per cent of this area. At the end of 1995 the population was 6.98 million with a population density of 587 people per square kilometre in the city as a whole and 1,036 in the city districts. Among the fourteen open coastal cities Wenzhou's population density is second only to Shanghai's. Per capita cultivated land in 1995 was a mere 0.025 hectares (compared to 0.032 hectare for Hangzhou and an average of 0.038 hectare for the province),⁵¹ resulting in a surplus rural labour force of over 1 million.

Table 3.2 Passenger and freight volumes, 1995

	<i>Passengers (m)</i>				<i>Freight (m tn)</i>				<i>Port (m tn)</i>	
	Total	Rail	Road	Water	Total	Rail	Road	Water	Sea	River
Hangzhou	166.2	12.4	149.2	3.4	103.5	4.8	70.2	28.4	0.0	18.5 ^a
Wenzhou	121.4	0.0	106.0	15.4	33.4	–	21.8	11.6	8.9	0.0
Ningbo	196.7	5.2	188.7	2.8	95.5	5.4	78.4	11.7	68.5	0.0

Sources: *Zhejiang tongji nianjian* 1995, p. 395, 1996, p. 415; Hangzhou figures are drawn from *Hangzhou tongji nianjian* 1996, pp. 204–5 (which show a discrepancy with figures in the provincial yearbook).

Note
a 1994.

Wenzhou is closer to the northern Taiwan port of Jilong (206 kilometres) than it is to either of the two closest provincial capitals and major urban centres of Hangzhou and Fuzhou (400 kilometres), and therefore does not really benefit from the radiating influence either city exerts on its environs. Wenzhou is only 580 kilometres from the Japanese port of Nagasaki, and therefore is well situated in the fast-growing western Pacific region. However, it lacks railway links to the interior, and so cannot fully take advantage of its geographic location. This contributes to the fact that the volume of freight turnover at Wenzhou port is far lower than in other open coastal cities. In 1989 China's busiest port, Shanghai, put through 146 million tons compared to Wenzhou's 4.5 million tons. Ningbo with 22 million tons, Qingdao with 31 million and Dalian with 51 million were far ahead of Wenzhou. Of the open coastal cities, only Weihai with 2 million tons and Beihai with 1 million tons had a lower turnover. A major reason why Wenzhou's port is so undeveloped is that the provincial authorities have decided first to develop the northern port of Ningbo before turning their attention to Wenzhou.⁵²

Because of the absence of rail, which is a cheaper form of freight transport than road, Wenzhou relies almost entirely on this latter mode of transport to link itself with the rest of China. There are 239 kilometres of national roads and 1565 kilometres of provincial roads within its boundaries. However, congestion on these roads is so great that in the early 1990s it took twelve hours to complete a bus trip of about 400 kilometres to Hangzhou. Table 3.2 compares Wenzhou with Ningbo and Hangzhou in terms of passenger and freight movement. What is clear from the table is the extent to which the three major cities of the province rely on road transport (and water) to shift freight, a reflection of the almost complete neglect of railway building in Zhejiang since 1949. The 1990s have witnessed some attempt to make up for this neglect but Zhejiang is still greatly under-served in comparison with other provinces.

One of the major challenges facing Wenzhou is what to do with its surplus rural labour force. The shortage of arable land has constrained the development of agriculture, which in turn cannot provide an adequate support base for industrial development. Wenzhou also lacks energy and mineral resources, which further inhibits the development of a heavy

industrial base. Nevertheless, it does possess more intangible factors for economic development, the chief one being that the unfavourable ecological environment has galvanized a spirit of risk-taking among its inhabitants. Many of Wenzhou's rural inhabitants have been forced to pursue non-agricultural pursuits—household-based industry and commerce in particular. These traditional traits were suppressed but not eradicated, by the ideological and political attacks on private entrepreneurship during the Maoist period.

The second factor concerning Wenzhou's development relates to a traditional emphasis on profits (*gong li*) and respect for commerce (*zhong shang*), a countervailing cultural tradition to mainstream Confucian values which emphasized the rites (*gong li*) and agriculture (*zhong nong*). During the southern Song dynasty, a school of learning emerged in Wenzhou known as the Yongjia school. It criticized the hegemonic Confucian value system and proposed more attention to industry, commerce and profit in order to enrich the country. This was partly an ideological reflection of the flourishing state of local industry and commerce at the time. At the end of the nineteenth century three local scholars, known as the 'three gentlemen of Dong Ou' (East Wenzhou), reiterated this basic position.⁵³ This distinctive cultural and ideological tradition has provided a basis for the entrepreneurial spirit of the people of Wenzhou, which has served them well in the reform period.

Semi-given factors

Preferential policies

In its strategic pursuit of reform and opening to the outside world, the Chinese government has, since the late 1970s, granted a series of preferential policies to assist in local development, principally in the favourably located and endowed coastal region. Both Hangzhou and Wenzhou have been the recipients of such privileged treatment. Wenzhou was included in the fourteen coastal open cities declared in 1984 solely due to the accident of its location, and presumably because Zhejiang was entitled to two cities in the list and, after the logical first choice of Ningbo, Wenzhou had no competitors for second place. This is stark evidence of the state of underdevelopment of Zhejiang's coastal regions.

On the other hand the preferential policies which have been bestowed on Hangzhou have less to do with its location, although this has not been an unimportant consideration, but more to do with the stature the city possesses in Chinese national consciousness, history and culture. During the almost half-century of the PRC's existence, as was pointed out above, the city has also become the economic centre of Zhejiang and thus can press its claim for favourable treatment from the centre with greater justification. There also seems to be a phenomenon whereby once Ningbo, and to a lesser extent Wenzhou, received preferential treatment from the centre, Hangzhou has requested or expected either compensation or matching policy consideration.

In 1984, when the focus of reform shifted from rural to urban China, Hangzhou found to its cost that its inland location meant that Ningbo and Wenzhou, and not it, were included in the list of fourteen coastal cities granted preferential policies for attracting and approving foreign investment. During the Sixth Five-Year Plan (1980–5), then, the initiative for attracting most of the limited foreign investment which was directed to Hangzhou seems to have come from the city authorities, with the subsequent endorsement of the centre and the province.⁵⁴ This was because the city enjoyed no special privileges to attract overseas investors. Nevertheless, during this period the city imported 332 items of technology worth US\$144 million, of which sixty-seven worth US \$67 million were put into operation. The first productive-type joint venture was signed in July 1980, and in 1983 the first joint-equity venture (*hezi*) was signed in the textile industry. It appears, however, that most of the early investment was directed into the tourist industry with the construction of hotels.⁵⁵

It has only been in the 1990s that foreign trade and investment in Hangzhou have recorded significant advances (refer to Table 3.1). The turning point for the city came in 1988, at the time Zhao Ziyang was launching his strategy of integrating China's coastal provinces more closely into the international economy. Zhao visited Zhejiang twice, in 1987 and again in 1988 to sound out and gain the support of the provincial leadership for his initiative. In March 1988 the State Council formally approved the establishment of a development zone encompassing Hangzhou city and five of its counties.⁵⁶ In the same year seventy-six city-level and seven county-level import and export companies, as well as nineteen enterprises, obtained approval from the provincial bureau of economic relations and trade to conduct export business (before 1988 Hangzhou had no power to conduct its own foreign trade). Local companies responded promptly to this decision and, by the end of the year, nearly 1,000 export-empowered enterprises (including county, district, bureau and TVEs) had been established. A cumulative total of sixty-four foreign investment enterprises and three city enterprises operating overseas were approved.⁵⁷

The local authorities took a series of measures to build on Zhao's 'outward strategy'. In March 1988 the city government set up a leading small group to oversee external economic relations. It was headed by a deputy-mayor with one deputy each from the city commission for external economic relations and trade, the city planning commission and the city economic commission. At the same time, thirty city-level commissions, offices and bureaus established external economic relations and trade departments or offices, as did the city's counties and city districts. In the same month the city government decided to recruit experts in the field of foreign trade through an open national selection. In mid-May 1988 the mayors of Hangzhou and the two northern Zhejiang cities of Jiaxing and Huzhou met in neutral territory at a Shanghai hotel to discuss joint action in regard to gathering and disseminating information concerning foreign trade. The meeting was presided over by Hangzhou's mayor. The city announced to the representatives of foreign consulates and companies based in Shanghai who attended the meeting that it had drawn up a list of 191 items where it was seeking foreign investment and economic cooperation. In July 1988, the city government approved and circulated a three-year plan from the city planning commission concerning the development of external economic links, which put forward four areas for development.⁵⁸

Despite this flurry of activity in 1988, Hangzhou's progress during the 1980s in opening to the outside world lagged behind its neighbouring cities in north-east Zhejiang and southern Jiangsu. In 1989 its degree of external interaction (total foreign trade purchases as a percentage of GVIAO) stood sixth at 6.7 per cent behind Changzhou, Shaoxing, Jiaxing, Suzhou and Nantong.⁵⁹ In terms of its utilization of foreign investment Hangzhou also stood sixth, behind Ningbo, Nanjing, Suzhou, Wuxi and Nantong. In relation to the timing of its shift toward the international economy (that is the time when the rate of increase in procurements for foreign trade exceeded the rate of increase in GVIAO) Hangzhou's shift occurred between 1988 and 1990, two years later than the same shift in Suzhou. In 1990, Suzhou (which like Hangzhou is an inland city and enjoys no greater level of preference from the centre) had an interaction with the international economy 1.9 times higher than Hangzhou.⁶⁰

By 1990, then, the depth of Hangzhou's opening to the outside was much shallower than that of Shenzhen and other SEZs, the fourteen economic and technology development zones, or the fourteen open coastal cities (including Ningbo and Wenzhou), but deeper than that of ordinary development zones. At this time Hangzhou was categorized as one of fifty-three sub-provincial cities and 234 counties which enjoyed preferential policies extended by the centre commensurate with this open status.⁶¹

As early as 1989, well before the revival of the reform programme spurred on by Deng Xiaoping's southern tour of early 1992, the city authorities attempted to rectify this situation and to seek inclusion in new sets of preferential policies extended to the localities. In late 1989, the city government set up the Hangzhou high-tech industrial development zone.⁶² In March 1990 the provincial government approved this initiative and, a year later, in March 1991, the State Council formally approved its inclusion as one of twenty-seven such state-level zones in the country. A slice of land adjacent to the Xiasha sector in the Qianjiang investment zone was added to the new zone so that it would have room for future expansion. Management regulations and a series of associated measures relating to foreign trade and economic relations, taxation, investment in fixed assets and labour came into effect in March 1992.⁶³

In June 1990 the Hangzhou city government, with the approval of the provincial government, announced at a news conference the establishment of the Qianjiang investment zone for foreign and Taiwanese business people. That Hangzhou, as the capital of Zhejiang (the home province of Chiang Kaishek and many leading figures in the KMT) would attempt to attract investment from Taiwan shortly after the first tentative steps toward rapprochement between the mainland and its island province is not surprising but shows great enterprise. Five slices of land on both banks of the Qiantang river, totalling 14 square kilometres, were set aside. The approach taken to the development of the investment zone was to build it in stages by attracting foreign and Chinese investors to construct their facilities on leased land. This was called 'enticing the bird to build its nest' (*yinniao zhuchao*). Tourist facilities, including a golf course, a recreation village and high class villas, were to be constructed.⁶⁴

The initiative for the bestowal of preferential policies on Hangzhou came from both the centre and the city. In May 1992 a cadre from the state bureau of tourism led a group of representatives from eight central ministries and commissions to Hangzhou for a three-

day inspection of its West Lake Tourism and Resort Zone. Their brief was to discover whether it possessed the facilities and potential to qualify as a national tourism and resort zone. The group was suitably impressed and reported its recommendations to Beijing. In October 1992, the State Council formally approved the establishment of the Hangzhou Zhijiang State Tourism and Leisure Zone, as one of twelve such zones in China. By that time US\$150 million had already been invested in the project.

An eight-point preferential policy was extended to the zone relating to tax concessions on foreign enterprises, the waiving of import duties and customs fees on imported building materials, office equipment and infrastructure equipment, permission for shops in the zone to deal in foreign currency, for foreign tourist bus companies to operate so long as they used domestically-manufactured buses, for the operation of joint venture travel companies, for the retention for the first five years of all funds raised from leasing land which would be reinvested in social infrastructure, as well as all foreign exchange earned in the zone, which could be rolled over for development projects.⁶⁵ In late 1994 the municipal people's congress standing committee passed a draft set of regulations for the zone, which was then endorsed by the provincial people's congress and proclaimed in May 1995.⁶⁶ It was the first tourist and recreation zone in the country to draw up local management legislation.

Then, in April and May 1993 the State Council approved the establishment of the Hangzhou and Xiaoshan economic and technology development zones (ETDZ) respectively.⁶⁷ Ningbo (October 1984⁶⁸) and Wenzhou (May 1992⁶⁹) had already been given approval to establish such zones.⁷⁰ Originally, such zones were granted only to open coastal cities as part of the package of preferential policies bestowed upon them. Hangzhou's ETDZ thus enjoys the same status as its counterparts. Furthermore, in late 1995 the State Customs Service approved the establishment of a 1,000 square metre customs free-trade warehouse (*haiquan baoshui cangku*) within the Xiaoshan ETDZ.⁷¹ This may be Hangzhou's first move in applying for a full-scale free trade zone to match that granted to Ningbo in 1992.

With the additional land secured by the city districts in May 1996 (see above) the Hangzhou ETDZ is now part of the city proper. The township where it is located is set to become an industrial satellite city, to be built in three stages by the end of 1998. Although the development zone is situated almost 20 kilometres from down-town Hangzhou, and the present road leaves much to be desired, Hangzhou has made a strategic decision to shift its industry away from the centre of the city, which is to focus on tourism, commerce and high-tech, non-polluting industries. Nevertheless, the ETDZ possesses convenient port, rail, road, air and inland sea transport links. It will become the eastern terminus of a future overhead light rail system, which will link the zone to the city in fifteen minutes.⁷² Together with the Zhijiang tourism and resort zone and the Hangzhou high-tech industrial development zone, Hangzhou now possesses four (of which three are located in the city districts) of the eight state-level development zones in Zhejiang (Ningbo has three⁷³ and Wenzhou one), and so has received very favourable treatment indeed from the central authorities. It appears that in some cases the city took the initiative and the centre gave formal, post facto approval to projects which had already got off the ground.⁷⁴

A further affirmation of Hangzhou's national importance was its 1994 elevation, along with fifteen other cities including Ningbo, to the status of a deputy-provincial city (*fushengji chengshi*).⁷⁵ Hangzhou was one of ten provincial capitals on which this honour was bestowed, and empowers it to negotiate directly with Beijing, thus bypassing the provincial authorities.⁷⁶ This decision seems to have had great bearing on, among other things, the ranking of cadres and public servants working in the city establishment in that they were all, at the stroke of a pen, promoted one half-grade in the state bureaucratic hierarchy. Now, the party secretary of Hangzhou holds equal rank with a deputy-governor, while his deputies are the equivalents of provincial departmental heads (*tingzhang*), city mayors and district commissioners (*zhuan yuan*).

The ramifications of this decision were to exacerbate existing and rising tensions between Hangzhou and Zhejiang by giving officials of the former higher status, and perhaps emboldening them to view the province with less respect. It also made the offer of a posting to rural areas of the province less attractive for city officials.⁷⁷ For example, while the post of county government head (*xianzhang*) in, say, Wenzhou city, was ranked higher than that of a deputy-provincial city bureau chief (*juzhang*), the latter's salary and benefits were greater. In a status- and privilege-conscious bureaucracy such as China's, such changes are not unimportant and, in this instance, work directly against the policy of posting city cadres to rural areas for regular furlough.⁷⁸

Despite its status as an open coastal city since May 1984, Wenzhou has received less favourable treatment from the centre and the province than Hangzhou. At the end of 1984 the city government evidently wrote a report to the State Council requesting permission to develop an ETDZ but, considering the poor state of the city's infrastructure and other factors, Beijing refused the request.⁷⁹ The city was to wait almost a decade for approval. In 1986 the central government arrived at the decision that to rely on state funds to solve the problem of surplus labour in Wenzhou was not feasible. Hence, in September 1987 it approved the establishment of twelve experimental zones (*shiyangu*), including one in Wenzhou, to accumulate funds via the market and the non-state sectors. Wenzhou was given the authority to pass laws relating to its developed TVE sector as well as to establish order in a somewhat chaotic market situation.⁸⁰ However, after the events of 1989 the experiment was abandoned, and market reforms since 1992 have made the experiment redundant. In 1992, when the State Council approved the establishment of an economic and technology development zone in the city, Wenzhou became the second last among the fourteen open coastal cities to open an ETDZ.

In terms of attracting foreign capital and technology to modernize local industry, Wenzhou has lagged well behind Hangzhou, and foreign capital has not played a great role in the city's development to date, as Table 3.3 shows. This is probably due to perceptions by potential investors that its poor transport and communications infrastructure make it a less attractive site. Additionally, the local authorities may not have vigorously pursued such investment.

Table 3.3 Use of foreign funds, 1993

<i>Deputy-provincial</i>	<i>Prefecture-level</i>	<i>County-level</i>	<i>Provincial</i>
Hangzhou ^a	Wenzhou ^b		
Qingdao ^{b,c} with Dalian ^{b,c}			
Xiamen ^{c,d}	Fuzhou ^{a,b}		
Chengdu ^a			Chongqing ^c
	Nantong ^b	Zhangjiagang	
		Panyu with Nanhai	
Guangzhou ^{a,b}			Tianjin ^b

Note

In 1995 the output of joint ventures comprised 21.6 per cent of Hangzhou's GVIO at the village level and above. See *Hangzhou tongji nianjian 1996*, p. 142. But this GVIO figure only made up two-thirds of total GVIO for the city.

Revenue sharing and taxation policies

Between 1978 and 1995 Hangzhou's budgetary revenue increased by nearly six times, at an annual average rate of 10.8 per cent, while outlays increased at the considerably faster rate of fifteen times, or 17.6 per cent per annum.⁸¹ Before 1980, all budgetary revenues were handed over to the centre and province, and expenditure levels were determined by the province and contracted out with retention of savings. In 1980 this fiscal system was changed to one of 'delineation of revenues and outlays, contracting to different levels' (*huafen shouzhi, fenji baogan*) and was fixed for five years. In 1985 the province adjusted the base figures for revenues and outlays for its cities and counties without changing the system. In the same year Hangzhou extended its finance system to the district level, a move which was completed in 1986. From 1986 it established village (township) level finances, and this task was completed by August of the same year. In other words, the city's budget was disaggregated into a series of local-level budgets managed by cadres lower down the administrative pecking-order.

To mobilize further the initiative of counties and districts a fiscal management system of 'linked revenue and expenditures, shared revenue increases' (*shouzhi guagou, zengshou fencheng*) was introduced. In 1986 the city gave tax breaks to twelve large and medium-sized backbone enterprises in the silk, textile and chemical fibre industries. On the outlays side of the ledger, food subsidies per capita in the urban districts of Hangzhou amounted to RMB140. By the end of 1986 budgetary revenues in Hangzhou had increased 2.2 times over 1978, while expenditures had increased 4.5 times, at average annual rates of 10.3 per cent and 20.8 per cent respectively. The city was levying twenty-three different taxes.⁸²

According to the local authorities, even before the changes to the fiscal contracting system which were introduced in 1988, Hangzhou's finances were experiencing an alarming trend. The rate of growth in outlays was outstripping that of revenues. Subsidies were a substantial and growing burden on the budget. Arbitrary policy requisitions by the centre further undermined the levels of retained revenues, so that by the mid-1980s it was claimed that with a retention rate of 12 per cent of collected budgetary revenues Hangzhou retained the lowest percentage of all provincial capitals.⁸³ This certainly helped to exacerbate the undoubted tensions which persist to this day between the provincial and municipal authorities.

Changes to the sharing arrangement with the province which were implemented in 1988 further aggravated Hangzhou's fiscal plight on both sides of the ledger. All taxes and revenues from 264 enterprises 'owned' by the province were shifted to provincial coffers. In relation to the contract system for grain and oil, starting in 1988 the province devolved the financial management of enterprises in charge of marketing grain to the city and counties, and implemented a contractual arrangement whereby grain enterprises were to be responsible for their own profits and losses. The city and counties would subsidize the price gap between the procurement and retail price. This 'reform', or passing the buck for loss-making enterprises, further increased the pressure on city and county finances. In 1988 budgetary outlays on food price subsidies rose 78 per cent over the previous year, and amounted to RMB380 per capita for urban residents of the city districts. In order to bring in more revenue, the scope of the value added tax was enlarged.⁸⁴

In 1989 and 1990 the impact of national retrenchment policies compounded Hangzhou's budgetary woes.⁸⁵ In 1989 a deficit occurred in the budget of the city districts which, in 1990, ballooned to RMB103 million. The main reason for this situation related to problems being experienced by the major source of budgetary revenues—industrial enterprises. While the city relied heavily on industrial enterprises for taxation and other budgetary revenues, these enterprises in turn were confronted with rising prices for their raw materials and energy, which outstripped price rises for finished products. In addition, Hangzhou's enterprises were hit on the one hand by high rates of taxation (the average remittance rate of profits and taxes in the early 1990s was 44.5 per cent, higher even than the average rate of 40 per cent in Shanghai), while on the other hand their retained profit rates were the lowest among enterprises in all cities of comparable size in East China. This meant that enterprise funds for technical renewal and expansion had to come largely from bank loans. The renovation of older enterprises to improve their profitability required large infusions of capital and would take time to reach fruition. Industrial plants and equipment were outdated, with fully automated operations occurring in only 1.5 per cent of the city's enterprises, mechanized operations in 22 per cent, while manual or semi-mechanized operations were still taking place in the remaining 77 per cent.

Although budgetary revenues increased by 213 per cent during the decade from 1980 to 1990, at an average incremental rate of 8.5 per cent, remittances to the centre, which amounted to 79 per cent of locally-collected revenues, increased by 8.7 per cent per annum. The portion retained by the locality (including special grants from the centre and province) increased at only 6.7 per cent. Revenue was forgone because finance departments allowed enterprises in the budget to retain an extra RMB 100 million in funds

and reduced taxes. In 1984, the year in which the State Council declared fourteen open coastal cities, the city's bureau of finance introduced tax rebates and subsidies to stimulate activity in the export sector so that Hangzhou would not be left behind. This illustrates how a city like Hangzhou was forced to make sacrifices to stay in touch with other localities which were the beneficiaries of preferential policies.

Another factor behind the bleak fiscal outlook at the time related to budgetary subsidies which, in 1990, stood at 32.5 per cent of total outlays (including remittances), or 38.6 per cent of local expenditures. In the ten years from 1980 to 1990 these subsidies increased at an annual rate of 13.9 per cent, compared to an increase in total budgetary expenditures of 8.5 per cent. By 1990 the situation had become so grave that the fiscal regime was described as subsidy finance (*butie caizheng*). The fiscal contracting system was also disadvantageous to Hangzhou. In 1988 the city, as with other sub-provincial cities, implemented a system of 'incremental increase in remittances and division of surpluses' (*dizeng shangjiao, chaoshou fencheng*). The annual increase in contracted revenue was set at 6 per cent, and in the three years from 1988 to 1990, when the economy went from rapid growth to recession, Hangzhou was not able to meet this high target.

It was claimed that with a budgetary revenue equal to 25 per cent of the provincial total Hangzhou's base fiscal contracting figure was ten times that of other cities in the province. Traditionally, Hangzhou had supplied about one-half of total provincial remittances to the centre, due largely to the heavy taxation burden imposed on its industrial enterprises, which left them with insufficient rates of profit retention. By the 1990s these enterprises were facing what was graphically described as a 'meltdown from overwork' (*jilao chengji*). Possessing the highest proportion of urban residents among all cities in Zhejiang, Hangzhou's subsidy burden was correspondingly heavier, with virtually all its citizens recipients in one form or another. Finally, as a nationally-renowned tourist city, and as the political, cultural and communications centre of Zhejiang, the city accommodated a large number of employees and their families from government departments, businesses, public utilities and educational institutions, who comprised about one-quarter of the city's population. This put enormous pressure on basic infrastructure such as schools, water and electricity supplies, medical services, transport and communications, a burden which the budget was largely unable to carry.

The fiscal problems of the 1980s required tackling on two fronts: the uncovering of extra sources of revenue accompanied by the reduction of expenditures in areas such as investment in capital construction, where funds could be obtained from other quarters, or on wasteful and inefficient items such as price subsidies. In 1992 the prices of meat, eggs and bean products was deregulated and, to conform with this price reform, quota contracts were introduced for enterprises engaged in marketing these foodstuffs. In 1992 price subsidies for meat, coal, bean products, vegetables, grain and oil fell by RMB44.6 million, and in 1994 total price subsidies fell 7 per cent on the previous year.⁸⁶ By 1995 price subsidies had been reduced to RMB30 million and were falling, compared to the figure of RMB165 million and rising in 1990.⁸⁷ In 1993 the city districts' budget went into the black for the first time in four years.⁸⁸

On the revenue side Hangzhou stepped up the rate of annual average revenue increases from just over 6 per cent in the Seventh Five-Year Plan to almost 17 per cent in the

Eighth plan. In the final three years of the plan (1993–5), budgetary income rose substantially (see Table 3.4).⁸⁹ The source of budgetary income came overwhelmingly from industrial and commercial taxes levied on enterprises, and considering the parlous financial condition of the state sector, this meant the thriving collective and private sectors, in particular TVE enterprises, were driving increases in budgetary revenues. With increased revenues, Hangzhou had more funds available to spend on education and health, as well as on urban upkeep.

Between 1983 and up to the taxation reform of 1994 Wenzhou had an agreement with the province whereby it retained 70 per cent of all revenues it collected above a fixed contracted sum. While the city proper as well as counties such as Leqing, Ruian and Cangnan were in surplus, the remaining counties relied on subsidies from the province, including, in the case of some very poor counties, fixed systemic subsidies. Since the 1980s, Wenzhou's local budgetary revenue has increased considerably, as Table 3.4 indicates. In 1994 55 per cent of its budgetary expenditure was directed to culture, education, health and administrative expenses. Extra-budgetary outlays are directed mainly to infrastructure developments and investment in enterprise replacement and reconstruction, and these funds exceed those coming from the budget.

Devolution of investment authority

The devolution of authority to approve foreign investment to the city, its counties and urban districts, as well as national-level development zone management committees, has, through a series of decisions since the late 1980s, been greatly enlarged. This process has gone hand in hand with the granting of a series of preferential policies to the city, as outlined above. In September 1984, the State Council approved a circular regarding problems in reform and opening to the outside in Hangzhou, which granted the city government the authority to approve productive-type investments up to US\$5 million and to any kind of investment (without a monetary ceiling) in the city's tourism industry. This led to a record figure for foreign investment in 1985, mainly in hotels, and provided a boost to foreign trade.⁹⁰ As indicated above, the State Council granted this authority because of the importance it attached to Hangzhou both as a tourist city and as a city of national historical and cultural importance.

In March 1988, Hangzhou gained the authority to approve direct foreign investment items up to US\$30 million. At the same time the foreign trade system was reformed, to devolve power and responsibility for performance to the localities and their foreign trade companies. When the State Council declared Hangzhou and five of its counties an open zone in 1988 the provincial authorities immediately responded by devolving the power to scrutinize and approve items up to US\$30 million for foreign investment, overseas travel for business personnel involved in foreign enterprises, and enterprises engaged in self-managed exports, and items relating to the processing and assembling of imported materials for both compensatory and standard foreign trade.⁹¹ This put Hangzhou on the same footing as Ningbo, which was given these powers after it obtained separate listing in the state plan in 1987.

Table 3.4 The fiscal situation in Hangzhou and Wenzhou, 1978–96 (RMB billion)

Year	Hangzhou			Wenzhou	
	Revenue	Outlays	Remittances	Revenue	Outlays
1978	0.94	0.17	–	0.1	0.1
1979	–	–	–	0.1	0.1
1980	1.19	0.22	–	0.2	0.1
1981	1.29	0.24	–	0.2	0.1
1982	1.41	0.25	–	0.2	0.1
1983	1.54	0.33	–	0.2	0.2
1984	1.73	0.47	–	0.3	0.3
1985	1.86	0.58	–	0.4	0.3
1986	2.06	0.73	1.0	0.5	0.5
1987	2.26	0.71	1.1	0.6	0.5
1988	2.47	0.96	–	0.8	0.6
1989	2.55	1.14	–	0.9	0.8
1990	2.53	1.18	–	0.9	0.9
1991	2.68	1.23	–	1.0	0.9
1992	2.86	1.33	–	1.1 ^b	1.0
1993	3.95	1.85	–	1.9 ^b	1.5
1994	4.85 ^b	2.15	2.9 ^a	2.2 ^b	1.6
1995	5.51 ^b	2.49	3.2 ^a	2.6 ^b	2.1
1996	6.4 ^b	3.02	3.7 ^a	–	–

Sources: *Hangzhou nianjian*, various years; *Chongman shengjide Wenzhou*, pp. 90–1; *Wenzhou tongji nianjian 1996*, p. 196.

Notes

Remittances include those to both the centre and province.

a Remittance of the 'two taxes' (consumption tax and value-added tax) to the centre.

b Includes '2 taxes' collected for the centre.

In May 1991 the city government issued a circular devolving the power to scrutinize and approve (and simplify the procedures for obtaining such approval) all foreign investment items which conformed to state production policies and criteria relating to funds, energy and raw materials and which did not require overall state balances, as well as those not affecting quotas or certificates of approval. The maximum sums involved were US\$5 million for the five cities (counties) of Xiaoshan, Yuhang, Fuyang, Lin'an and Tonglu, and US\$2 million for Jiande and Chun'an counties and the five city districts. Investments above these limits and up to US\$10 million were to be reported to the city commission for foreign economic relations and trade, or would come under the scrutiny of the city planning and economic commissions. Investments between US\$10 million and US\$20 million, or items involving major disputes, were to be referred to the joint office in charge of foreign economic relations. In July 1991 the provincial government bestowed authority on the management committee of the Qianjiang investment zone to scrutinize and approve investments up to US\$20 million in relation to the leasing of land, enterprise management, taxation, labour affairs, issues impinging on foreign relations and overall co-

ordination, as well as the requisition of cultivated land up to 5 *mu* and non-cultivated land up to 20 *mu*.⁹²

In April 1992 the city government confirmed these powers to scrutinize and approve foreign investments, and gave the Hangzhou high and new-tech zone management committee the same limits (US\$20 million) as the Jiangbei and Jiangnan management committees of the Qianjiang investment zone. It also increased the approval limits of the five city districts to US\$5 million. Twenty city bureaus (companies) gained the same authority as the city districts. The city also established an examination and approval responsibility system for the leaders of county (city) governments and management committees. Also, in order to simplify procedures and raise office efficiency, the government circular stipulated that for items which did not exceed US\$500,000 and which did not relate to the leasing of land or capital construction, a one-off filling in of the 'Form for examining and approving joint ventures and equity partnerships in Hangzhou city' would substitute for reporting on such proposals and presenting feasibility studies to superiors. The personnel involved in scrutinizing agreements and regulations were to be trained and, after being certified, could assume such duties.

Then, in July 1992, the provincial government issued its circular on devolving the authority to scrutinize and approve foreign investment, and to simplify procedures, in respect of proposals, feasibility studies, agreements and regulations. For the management committees of the Hangzhou high-tech zone, and the Jiangnan and Jiangbei sectors of the Qianjiang investment zone, the limit was increased to US\$30 million; for Xiaoshan and Yuhang cities, whose economic-decision making powers had been enlarged, the limit was set at US\$20 million; for Fuyang, Tonglu and Lin'an, which are part of the Hangzhou coastal development zone the figure was US\$15 million; and for Jiande and Chun'an counties it was US\$10 million. All items within the above parameters were to be processed by the Hangzhou foreign economic relations and trade commission, while business registration papers were to be handled by the Hangzhou industrial and commercial management bureau.⁹³ It appears that by the early 1990s the extent to which decision-making power had been devolved in Hangzhou and its subordinate jurisdictions far exceeded that granted to the open coastal city of Wenzhou, and that the province was highly conscious of matching any preferences granted to either Ningbo or Wenzhou by extending them to its provincial capital. As an open coastal city Wenzhou enjoys the power to approve investment items up to US\$30 million, while for the counties under its jurisdiction the maximum level is US\$10 million. In fact, Hangzhou's decision-making authority over foreign investment is equal to that of all but the most favoured group of special economic zones. It enjoys the prerogatives of an open coastal city without having to satisfy locational criteria.

Ownership structure of enterprises

In 1995, Zhejiang's state sector contributed only 13.9 per cent of provincial GVIO, the lowest proportion of any Chinese province. However, Hangzhou's state sector is twice the provincial average while Wenzhou's is half. This is a reflection of the concentration of state investment in the provincial capital during the Maoist period and the almost

complete neglect of Wenzhou's state sector. Zhejiang's collectively-owned industry contributes 53.6 per cent of provincial GVIO compared to Hangzhou's 45 per cent and Wenzhou's 25.9 per cent. Zhejiang's individual economy makes up 20.9 per cent of provincial GVIO, twice Hangzhou's 11 per cent but only two-thirds the 30.3 per cent in Wenzhou. The 'other' ownership sector (comprising private sector, stock-ownership, mixed-ownership enterprises and foreign-invested enterprises) contribute 11.6 per cent to provincial GVIO, compared to 18.4 per cent in Hangzhou and 37.1 per cent in Wenzhou. Thus, while the public industrial sector in Zhejiang amounts to 67.5 per cent of GVIO, it is 70 per cent in Hangzhou but only slightly over 30 per cent in Wenzhou⁹⁴ (see Table 3.5).

There are, however, interesting contrasts within each city. Looking at the state industrial sector's proportion of GVIO in city districts and a comparatively developed and backward county (city) in both Hangzhou and Wenzhou we discover the following: the state sector contributes 39.1 per cent of GVIO in Hangzhou's city districts, only 16.3 per cent in adjacent Xiaoshan city (which is one of the most economically powerful counties in the country), and 29.4 per cent in the most backward county of Chunan. In Wenzhou City, the state sector comes to 11.9 per cent of the city districts' GVIO, 2 per cent in the developed county of Ruian and 22.8 per cent in the county of Wencheng which is considered one of the poorest counties in Zhejiang and receives special assistance from the province.⁹⁵ By contrast the private sector's proportion of GVIO in the above three sub-city administrations in Hangzhou is 3.7 per cent (city districts), 8.5 per cent (Xiaoshan) and 10.6 per cent (Chunan), while in Wenzhou it is 21.7 per cent (city districts), 40 per cent (Ruian) and 56.8 per cent (Wencheng).⁹⁶ From the above figures it is clear that the state sector is much stronger in Hangzhou than in Wenzhou, and that in both cities it plays a comparatively more important role in localities where the economy is less developed, with the exception of the city districts of Hangzhou for the historical reasons outlined above.

One important reason for the decline of the state sector in Hangzhou during the reform period has been the relative shift in the industrialization of the city from its suburban districts to the counties and rural areas. In 1978 the city districts contributed 70.8 per cent of the city's GVIO, and in 1986 59.3 per cent (both calculated in 1980 fixed prices). In 1990 this proportion had fallen to 46.8 per cent, and further to 38.7 per cent by 1995 (both calculated in 1990 fixed prices). One of the reasons behind this trend is the policy of shifting polluting, heavy and undesirable industries out of the city districts, which has seen secondary industry as a proportion of GDP in the city districts fall from 52.5 per cent to 50 per cent between 1990 and 1995, while in the greater city secondary industry had risen from 50.7 per cent to 53.7 per cent of GDP.⁹⁷

In recent times industrial growth rates in the city's counties have been far greater than those in the city's districts. For example, during the Seventh Five-Year Plan (1986–90), the annual average growth rate for GVIO in Hangzhou as a whole was 13.8 per cent. For the city districts it was 6.5 per cent compared to a range for the seven counties (cities) from a low of 14.5 per cent to a high of 27.5 per cent. This was largely because of the rapid growth in the TVE sector, averaging 27.2 per cent over this period, compared to 6

Table 3.5 GVIO and work-force by ownership, 1978–95 (%)

	1978	1985	1990	1991	1992	1993	1995
<i>Wenzhou</i>							
State							
Output value	35.7	19.4	16.5	16.5	13.7	9.4	7.4
Work-force		26.9	28.7	30.3	30.7	31.5	31.2
Collective							
Output value	55.1	55.2	50.8	51.9	48.5	38.4	32.5
Work-force		43.6	36.9	35.9	34.1	28.8	28.0
Other							
Output value	0.0	0.7	1.6	2.1	2.2	2.9	4.4
Work-force		0.4	0.6	0.6	0.9	1.1	1.4
Individual/private							
Output value	9.0	24.5	31.0	29.5	35.6	49.4	55.7
Work-force		29.1	33.8	33.2	34.3	39.6	39.4
<i>Hangzhou</i>							
State							
Output value		53.0	34.7	40.4	35.3	25.1	21.0
Collective							
Output value		46.1	40.0	36.9	36.4	33.9	27.8
Other							
Output value		0.8	2.4	3.1	5.4	11.9	17.9
Urban residents' committees and individual							
Output value		0.2	0.2	0.2	0.2	0.3	n/a
Hamlet and below (includes private, joint and collective)							
Output value			22.7	19.4	22.6	28.8	n/a
Hamlet			17.2	14.9	20.7	21.5	n/a

Sources: *Wenzhou tongji nianjian*, various years; *Hangzhou nianjian*, various years.

Notes

1 The 1985 column for Hangzhou is in fact 1986, and for that year the figures include neither individual nor hamlet industry. Hangzhou's figures for 1990–4 are based on 1990 fixed prices.

2 If share-based co-operative enterprises (*gufen hezuo qiye*) were included in the private sector (they are officially considered to be part of the collective sector but, because 90 per cent of their shares are controlled by individuals, they really belong to the private sector), then about 70–80 per cent of Wenzhou's industrial economy is privately-owned. Additionally, although the state component of GVIO fell to 7.4 per cent in 1995, it controls large enterprises in the areas of finance, post and telecommunications, government instrumentalities and customs. Thus, in fact the state's influence is higher than the table suggests, and approaches the proportion of the work-force it employs. The work-force employed in the private sector is also an under-estimation because it does not include those employed in rural industries.

3 While Wenzhou has four categories, Hangzhou has five, with items four and five referring to urban and rural industries respectively. Hangzhou's figures thus tend to fudge the degree of non-public control of the industrial economy.

Table 3.6 Comparison of state industry in Hangzhou and Suzhou

Year	Net output		Industrial/commercial taxes	
	Hangzhou	Suzhou	Hangzhou	Suzhou
1985	1.7	0.8	0.6	0.2
1989	2.5	1.3	0.9	0.2
1989:1985 percentage	46.9	66.9	48.1	20.1
Annual average rate	10.5	13.7	10.4	4.7

Source: *Jiushiniandai Hangzhou jingji fazhan yanjiu*, p. 9.

Note

Absolutes in RMB billion.

per cent for the state sector.⁹⁸ During the Eighth Five-Year Plan, the rate of growth for GVIO in Hangzhou as a whole had doubled to 27.5 per cent (in 1990 fixed prices). Only the growth rate in the city districts, at 22.8 per cent, was lower than this average, with the growth rates for the other seven administrative sub-divisions ranging from a low of 25.8 per cent in Xiaoshan city to a high of 44.2 per cent in Lin'an county.⁹⁹

In effect the driving force behind Hangzhou's industrial growth has shifted from the city districts, where the bulk of state-owned, large-scale enterprises were located during the command economy period, to the countryside where the dynamic TVE sector and non-state enterprises are concentrated. During the Seventh Five-Year Plan the growth rate for Hangzhou's state industries at 4.8 per cent (it increased to 9.7 per cent in the Eighth Five-Year Plan¹⁰⁰) was well below the rate for the seven counties (8.9 per cent), the provincial average of 7.6 per cent and the national rate of 7.3 per cent. One of the reasons for this poor performance (between 1986 and 1989, of fifteen cities with populations between 1 and 2 million, Hangzhou's state industry performed worst) was the excessive taxation burden. While in Hangzhou industrial/commercial taxes came to 37.8 per cent of net output, in the neighbouring city of Suzhou the rate was only 18.8 per cent, as Table 3.6 indicates.¹⁰¹

Local analysts have noted that Hangzhou's economy has not played an important radiating role into its hinterland, particularly in comparison with other cities in the region. While Hangzhou has a population of over 1 million, compared to a maximum of 100,000 in the county towns in the neighbouring city of Shaoxing to Hangzhou's immediate east, the developmental level of the rural economy in Shaoxing's mountain districts is ahead of that in Hangzhou's. The reason for this apparent paradox is the long-term separation of town and country in Hangzhou, which has inhibited the formation of enterprise groups which divide tasks between city and countryside.

Rural reform has provided a major impetus for the industrialization of Wenzhou's countryside. The contract responsibility system has liberated the rural labour force and, under the operation of market forces, has allowed Wenzhou to overcome its chronic shortage of raw materials which the planned allocation system had failed to deliver. Individual and private activities, for so long suppressed and driven underground, have

Table 3.7 Structure of investment in fixed assets, 1991–4 (Hangzhou and Wenzhou)

	1991	1992	1993	1994	1995
State investment					
Wenzhou	622	1,083	1,309	2,622	
Hangzhou	2,152	2,573	4,788	7,000	9,913
Foreign investment					
Wenzhou	7.7	24.9	57.5	61.2	73.5
Hangzhou	30.9	110.3	367.8	420.0	457.8
Bank loans					
Wenzhou	3,582	4,153	5,372	7,086	
Hangzhou	18,790	22,170	27,407	44,509	n/a

Sources: *Wenzhou tongji nianjian*, 1992–5; *Hangzhou nianjian*, various years.

Note

State investment and bank loans in RMB million; foreign investment in US\$ million.

resumed in open fashion and flourished, even if much of this private activity has been dressed up in collective garb. The change to the property system has been the major impetus behind the rapid economic growth in Wenzhou. The public sector of the industrial economy has fallen from 90 per cent in 1978 to 30 per cent in 1995. Thus, while the central government has provided a favourable macro policy environment, local initiative has pushed these policies to and beyond political limitations.

The state sector of Wenzhou's economy has been perennially weak. Previously, Wenzhou was considered to be on the front line against the enemy regime across the Taiwan Straits, and so from 1949 to 1978 the state invested a mere RMB88 per capita in the region (compared to the national average of RMB600, and the provincial average of RMB240). In 1957 the size of Wenzhou's economy was comparable to that of Ningbo's, but after the restoration of the Hangzhou-Ningbo railway in that year, and the subsequent skewing of state investment, Ningbo's GDP grew to twice that of its southern counterpart. The lack of state investment was the principal reason behind the weakness of the state industrial sector, as Table 3.7 illustrates. In 1995 only 5.3 per cent of independent or subsidiary industrial enterprises at the village level and above in Wenzhou belonged to the state sector, compared to 16.1 per cent in Hangzhou.¹⁰² Table 3.5 shows that in the same year the state sector contributed four times as much to Hangzhou's GVIO as its opposite number in Wenzhou.

Table 3.7 reveals that even in the early to mid-1990s state investment in Wenzhou has been only about 30–40 per cent of that in Hangzhou. In terms of the use of foreign investment funds Wenzhou has absorbed only about 15–20 per cent of what has been directed into the provincial capital. Foreign investment and enterprises play a small role in the economy of Wenzhou. As bank loans are directed principally toward state and collective enterprises, the table also shows that this source of investment in Wenzhou was only 15–20 per cent of that in Hangzhou, where these ownership sectors are stronger.

In 1994 and 1995 Wenzhou had a surplus of bank deposits over loans of almost RMB20 billion. Because of the nature of the financial system, these funds were lent outside the region to support state and collective enterprises in other parts of the country. This has been a further constraint on the region's economic development imposed by the unreformed financial system.

In addition to the weakness of the state sector in Wenzhou the city does not possess the conditions for the large-scale development of rural collective enterprises, as has occurred in Hangzhou and elsewhere. There is only one medium-sized city in the region (Wenzhou), which possesses a weak industrial base. Thus the links between town and countryside, which have provided the impetus to the rapid development of collective rural industrial enterprises in southern Jiangsu and northern Zhejiang, are much weaker. Backward transport links exacerbate the city's isolation, because of the high cost and difficulty of bringing in large-scale machinery and production materials. The traditional emphasis on private property rights accentuates the disdain for collective undertakings, and is the major explanation for the neglect of this sector. It is clear that the drive behind economic growth in Wenzhou has come largely from the private sector.

Another important aspect of economic reform in Wenzhou is that the traditional outflow of labour to other parts of the country, which was suppressed during the Maoist period and thus went underground, has resumed in large numbers. Official statistics for 1993 reveal that 528,600 members of the work-force left Wenzhou, but it is estimated that the actual figure was more like 900,000. This not only solves the problem of rural surplus labour but assists in the primitive accumulation of capital. It is calculated that in 1993, for Leqing city alone, the total income from this outside labour amounted to RMB900 million, or RMB6,000 per capita. Applying this figure to the whole city would bring the total income to RMB5 billion. This means that Wenzhou's gross national product (GNP) is significantly greater than its GDP because of the earnings and remittance of funds by Wenzhou residents working outside the locality. Additionally, these business people, merchants, traders and workers bring back to Wenzhou new skills, techniques, ideas and a larger view of the world than if they had remained in their isolated, parochial home town. Finally, Wenzhou's private economy, whether in relation to funds, technology or labour, has always been strongly market-oriented. Its products are sold on the market, so the rapid development of markets in recent years has been greatly advantageous to its economic growth.

Leadership

Like the provincial leadership, which continues to be dominated by outsiders,¹⁰³ the degree of localization of Hangzhou's party and government leadership is not high, although in recent years the mayor has tended to be a native of the province (see Table 3.8). No Hangzhounese has ever held the post of either city party secretary or mayor during the reform period, continuing the tradition established during the Maoist era. Those cadres who have held the position of head of the party and government establishments in Hangzhou have never, in the reform period, gone on to any higher postings but rather have been shifted sideways into the provincial administration. This

Table 3.8 (First) Secretaries of the CCP Hangzhou City Committee

Zhang Zishi (Shandong), July 1975–February 1979, First Secretary (son of Kang Sheng)
Zhang Jingtang (Shandong), February 1979–June 1981 – First Secretary
Chen Anyu (Dinghai, Zhejiang), June 1981–April 1983 – First Secretary
Li Dexin, April 1983–May 1987 – Secretary
Wu Renyuan (Shaoxing), May 1987–January 1992 – Secretary
Li Jinming (Henan), January 1992–present – Secretary

Table 3.9 Mayors (Chairmen of the Revolutionary Committee) of Hangzhou

Zhang Zishi (Shandong), July 1977–February 1979
Chen Anyu (Dinghai), June 1979–December 1981
Zhou Feng, December 1981–May 1983 Mayor
Zhong Baixi, March 1984–October 1988 Mayor (Acting Mayor April 1983–March 1984)
Lu Wenge, April 1989–January 1992 Mayor (Acting Mayor October 1988–April 1989)
Wang Yongming (Ningbo?), May 1992–present Mayor (Acting Mayor January–May 1992)

Note

In December 1981, in accordance with the stipulation's of the Organizational Law of the PRC for local-level people's congresses and governments, the city established a people's congress, the revolutionary committee was changed into the people's government, and a mayor and deputy mayors were elected.

suggests that their performance has not been such as to attract the attention of the central leadership. On the other hand, amongst Wenzhou's leaders, Chen Zuolin, who was also deputy-secretary and secretary of the provincial party committee from 1975 to 1983, later rose to the position of secretary of the central Discipline and Inspection Commission. One of his successors, Yuan Fanglie, became head of the provincial supreme court. Liu Xirong has risen to become secretary of the provincial Discipline Inspection Committee, and is now a deputy-governor of the province responsible for the agricultural sector.

The present mayor of Hangzhou (Table 3.9), Wang Yongming, was promoted to the post from the position of vice-mayor of Ningbo, a city where he had worked since 1989 (his former counterpart in Wenzhou, Chen Wenxian, was also a former deputy-mayor of Ningbo). Prior to that posting Wang worked in the provincial bureaucracy. Both Wang and party secretary Li Jinming, who was transferred to Hangzhou from the position of party secretary of Nanyang district in Henan, took up their posts in January 1992, on the eve of the renewed push for economic reform across China. While Li and Wang have presided over the most rapid rate of economic growth in Hangzhou's history, and in particular the biggest facelift to the city's appearance for many centuries, it is difficult to find many citizens who would bestow more than the most grudging praise on their performance. Neither man was elected to the CCP's 15th Central Committee.

Until recent times, the post of party leader in Wenzhou (see Table 3.10) was not a position greatly sought after by ambitious politicians, because the risk of failure or committing a major mistake was great. Wenzhou was a difficult place to rule, due largely

Table 3.10 Secretaries of Wenzhou District (City) Party Committee

Chen Zuolin (Anhui), October 1975–December 1977
Wang Yumin (Shandong), December 1977–May 1980
Zheng Jiashun (Fujian), July 1980–November 1981
Yuan Fanglie (Shandong), December 1981–December 1985
Dong Chaocai (Zhejiang), December 1985–9
Liu Xirong (Jiangxi), 1989–91 (son of Zhejiang’s revolutionary martyr Liu Ying^a)
Kong Xiangyou (Zhejiang), 1991–2
Zhang Youyu (Huangyan, Zhejiang), 1993–present

Notes

a Liu Ying was elected party secretary at the 1st provincial congress of the CCP held in Pingyang county, Wenzhou, in 1939. In 1942 he was arrested by the Guomindang and executed in Yongkang county. Zhonggong Zhejiang shengwei dangshi ziliao zhengji yanjiu weiyuanhui bian, *Zhonggong Zhejiang dangshi dashiji (1919–1949)* (Chronology of Major Events in the History of the CCP in Zhejiang), Hangzhou, Zhejiang renmin chubanshe, 1990, pp. 152–3, 165, 166.

In September 1981 the State Council approved the amalgamation of Wenzhou district and city, under the system of the city exercising jurisdiction over the counties. In December 1981 the CCP Wenzhou district and city party committees merged and became known as the Wenzhou city committee.

to its isolation and the daring entrepreneurial parochialism of its inhabitants combined with their indifference to the series of political campaigns launched during the Maoist era. The post of Wenzhou party leader was normally reserved for outsiders in order to ensure that the isolation and difficulty of the post did not breed an attitude of independence from the politics and policies of the centre and the province. Thus, either loyal non-entities, leading provincial party leaders, or military figures, held the position. In recent years, the position has carried with it membership of the standing committee of the provincial party committee (this honour has long been reserved for the party leader of Hangzhou). This means that the incumbent must spend considerable time outside the city in the provincial capital. See Table 3.11.

Today, anecdotal evidence suggests that the city and county leaders in Wenzhou are predominantly locals, which means that policies respond more readily to local realities. In the early stages of reform, the Wenzhou leadership adopted a largely hands-off approach, and stood back almost helplessly before the rapidity and depth of changes occurring around it. Since the 1990s it has taken a more pro-active stance to try and rein in and exercise legislative control over some of the worst excesses of Wenzhou’s unrestrained, anarchical and, at times, sleazy economic growth. Financial and social policies have been drawn up in an attempt to redistribute economic wealth and to introduce welfare benefits to those in need (for more on this see below in the section concerning self-created factors).

Legislative jurisdiction

It appears that the legislative autonomy of sub-provincial people’s congresses in Zhejiang is very limited, and that laws (*faqiu*) (as distinct from administrative regulations or

Table 3.11 Mayors (Chairmen of Revolutionary Committee) of Wenzhou City (District)

Shen Yun, October 1975–March 1977
Dai Guang (Shandong), March 1977–October 1978
Zheng Jiashun (Fujian), October 1978–November 1981
Zheng Jiashun (Fujian), December 1981–April 1983
Lu Shengliang (Zhejiang), April 1983–1988
Liu Xirong (Jiangxi), 1988–May 1990
Chen Wenxian (Zhejiang), May 1990–1996
Qian Xingzhong (Zhejiang), 1996–present

Note

In September 1978 the district revolutionary committee was dissolved and a district special commission was established. In September 1981 the district and city were merged to form a prefecture-level municipal government empowered to rule counties.

xingzheng guizhang), which these bodies pass in relation to reform and opening to the outside, require approval from their provincial superiors. For example, the regulations concerning state-level development zones in Hangzhou all required endorsement from the standing committee of the provincial people's congress before being passed back to its municipal subordinate for final proclamation. In 1992 the city authorities passed a set of management regulations (*guanli guiding*) for the state Zhijiang tourist and recreation development zone, but in 1995 it was the standing committee of the provincial people's congress which passed ordinances (*tiaoli*) for the same zone.¹⁰⁴ Wenzhou enjoys no more legislative autonomy than Hangzhou.¹⁰⁵

In sum, it is evident that the centre and the province have more than adequately compensated Hangzhou for its geographic liability in not being a coastal city by bestowing upon it a series of preferential policies which recognize and reinforce its historical and political importance. Wenzhou, on the other hand, as the following section will illustrate, has either preferred or been forced to rely upon its own devices to take full advantage of the opportunities which reform has offered. While springing to national prominence in the mid-1980s for the peculiar model of economic development which it fostered, and becoming an object of curiosity for visiting leaders from Beijing and Hangzhou, the initiative and drive behind its rapid economic development has, for the most part, been internally generated. Central leaders such as Gu Mu, who exercise responsibility for overseeing the policy of opening to the outside world, have taken an interest in Wenzhou's development as evidenced by their trips to the isolated city, while provincial leaders, being more doubtful about the legitimacy of the 'Wenzhou model', have seemingly been content to allow their superiors from Beijing to take responsibility for economic experiments in this volatile city.

Locally-generated factors

This section of the chapter will examine three factors which have contributed to the unique economic structure which has emerged in Wenzhou over the past decade and

more: innovations in the enterprise system; the formation of markets; and the role of local government. While the centre and province have clearly played some role in determining the overall direction in which economic growth and development have occurred in Wenzhou, the great majority of the credit for its achievements should be attributed to the revival of the entrepreneurial spirit which the regulatory economy and Maoist politics had attempted, without complete success, to obliterate. In Hangzhou, however, the interaction (both co-operative and conflictual) between central, provincial and local authorities has been much greater, so that locating the principal causal factors behind its rapid growth is a more difficult exercise. While changes in Wenzhou have built up their own momentum, making government intervention and guidance a tricky proposition, attempts to steer Hangzhou's economy in desired directions have not always been successful. The tourist industry will be examined as a case study in the interaction of location, history, preferential policies and local initiative, in an attempt to locate the crucible of development in this city.

Since 1978 Wenzhou's private economy has grown at a rapid rate, as statistics provided above testify. This private industrial structure, based on household industry, is dispersed and small-scale, and undertakes specialized commodity production on the basis of a highly specialized division of labour. This division of labour occurs at both the household and district levels in the production and circulation of commodities. First, households carry out one particular task in the production of a specific good, similar to the division of labour in a factory by workshop or work team. In Wenzhou this division is linked tightly to create an organic whole. The household workshop (*zuofang*) is by nature small and product quality is low, but the capital required is minimal, which lowers costs and gives the product a competitive edge, particularly in China's vast rural market-place. The marketing of products takes the place of enterprise organization.

Second, the production of commodities is specialized by region at three levels. Wenzhou as a whole produces goods which large-scale enterprises ignore or are unwilling to produce because of poor margins. The superiority of Wenzhou's specialized, socialized production process is that starting with low levels of accumulation, few funds and second-rate technology it gradually overcomes these shortcomings by rapid growth with the manufacturing of items to the value of RMB tens or hundreds of million. The rural areas of Wenzhou specialize in different products by drawing on local advantages. These products include low voltage electrical equipment, mining lights, hardware products, motor vehicle spare parts, metal signs, badges, buttons, plastic and leather shoes, and recycled synthetic fabrics. At the most basic level the division of labour occurs by village or district based on production centres. For example, Leqing county is the production base for low voltage electrical equipment, based on ten or more specialized hamlets and villages. Each contribute their own particular component and division of labour, but collaborate to form a production system. Liushi township is the heart of this production base. This system is not constrained nor determined by administrative division, but is an organically-formed entity emerging from the process of reproduction which also helps to raise labour productivity. The market plays a major role in bringing these producers together, unlike the situation in southern Jiangsu or northern Zhejiang, where the links between town and country are strong but the division of labour among rural

enterprises is comparatively weak. Wenzhou's rural economy relies almost entirely on markets to flourish.

The division of labour in Wenzhou greatly reduces starting-up costs, particularly in the early stages of industrialization before economies of scale become more important. For example, to open a shoe manufacturing plant in China requires the investment of RMB several tens of millions, making the risks great and the chance of bankruptcy very real. In Wenzhou the household manufacturing of discrete stages in the production process, and the immediate market feedback from wholesale merchants, provides household manufacturers with the flexibility to switch to fashionable items. Take the manufacturing of cigarette lighters for example. Costs in Wenzhou are about 40 per cent of that in other parts of China, allowing local manufacturers to establish a commanding position in the domestic market.

In the mid-1980s a new economic entity arose in Wenzhou's rural areas—the 'co-operative share-holding enterprise' (*gufen hezuo qiye*) which emerged as a result of the pressures being exerted on the household enterprise by market competition and the continuous primitive accumulation of capital. Wenzhou was the first place in China to experiment with this form of enterprise. Because this type of economic ownership is officially recognized as part of the collective economy it enjoys the preferential policies which apply to this sector. But in reality it is a hybrid of the stock company and the co-operative system, and falls between the public and private sectors. By clarifying and distinguishing private property rights and guaranteeing their protection, the co-operative share holding company avoids the lack of transparency between ownership rights and responsibility, and low operational efficiency, which afflicts the collective sector.

Since the 1980s there has been a rapid increase of investment in fixed assets in Wenzhou, rising to 50 per cent per annum since 1991. By the end of 1988 the number of household industries had fallen from over 30,000 to about 10,000. The co-operative share holding company emerged in 1984, and by 1987 contributed 54 per cent to rural GVIO and 25 per cent to total GVIO in the city. By 1991 these proportions had risen to 80 per cent and 40 per cent respectively, with economic results far superior to those in state and unreformed collective enterprises. Two trends have emerged among co-operative share holding companies. The first is that individuals control the shares and, in some cases, one individual owns all the shares in a particular enterprise. The second is the concentration of shares, so that many enterprises resemble limited liability companies. This assists in concentrating decision-making power, encouraging a longer-term outlook by reinvesting profits, and in supervising performance. In the 1990s the co-operative share holding company has begun to exhibit the weaknesses of smallness of scale and lack of depth, and so a process of amalgamation and joint operations has emerged which has taken three forms: a co-operative share holding factory based on specialized hamlets and villages; an enterprise group based on the most favourably endowed entity; and transformation to a limited liability company. In Wenzhou the general trend is to make property rights absolutely transparent.

The second factor behind Wenzhou's particular brand of economic development concerns lowering exchange costs by the formation and development of a market system. The tables below illustrate that the development of markets in Wenzhou has been

Table 3.12 Development of Wenzhou's commodity markets

<i>Year</i>	<i>Number</i>	<i>Specialized markets</i>	<i>Turnover</i>	<i>Turnover as percentage of retail sales</i>
1981	251	—	—	—
1984	393	79	0.7	41.9
1985	417	135	1.1	50.3
1986	472	267	1.3	51.5

Source: Zhang Renshou and Li Hong, *Wenzhou moshi yanjiu* (Studies of the Wenzhou Model), Zhongguo shehui kexue chubanshe, 1990.

principally in the private sector, and these compensate for the weakness of the state circulation system. In Wenzhou, markets take different ownership forms, including individual, joint and contract.

First, there are specialized commodity markets, which are an expression of the division of labour in the production of commodities (see Table 3.12). Second, production materials markets have come to replace the planned allocation of key industrial inputs. By the end of 1991 the proportion of production materials sold by the plan and market respectively was as follows: steel 1:9, cement 1:4 and coal 1:6. This has helped in the speedy increase of industrial output.

Then there are financial markets.¹⁰⁶ Because much of the non-banking financial system is underground or semi-underground its turnover is difficult to calculate. Figures for year-end 1994 show that total savings in Wenzhou at RMB9.9 billion, totalled only 41.3 per cent of the RMB23.9 billion of Hangzhou. This great discrepancy does not conform with subjective impressions, and is a reflection of the fact that because the private economy in Hangzhou is relatively weak, with wages and salaries being the main form of income, the demand for funds from the informal financial sector is not great. In addition, Hangzhou does not have the small-town personalized credit-guarantee system which operates in Wenzhou, so that cash tends to be kept in banks. Figures reveal that bank loans in Wenzhou equal only 35 per cent of the cash held by enterprises, with 25 per cent coming from the informal sector. Conservative estimates are that in 1994 total informal financial assets in Wenzhou exceeded RMB20 billion, of which savings deposits comprised about 50 per cent, private credit 20 per cent, cash held in hand and negotiable securities 20 per cent, rural financial institutions 5 per cent, and the remainder 5 per cent.

Finally, there are labour markets. Wenzhou has both structured and informal labour markets, with the latter predominant. The former include employment agencies run by state labour bureaus and collective and private entities. The latter balance demand and supply by enabling enterprises to recruit technical personnel to fill specific positions. Another important aspect of Wenzhou's development relates to the outflow of labour across the country. In Beijing, for example, there are 250,000 people from Wenzhou in different trades and businesses. Tables 3.13 and 3.14 reveal the dominance of the private economy in Wenzhou's commercial sector, both by sales and work-force. This reinforces

the predominant position of the private sectors in industrial production, with about 70 to 80 per cent of output coming from non-state enterprises. It would appear that the battle for supremacy between 'socialism' (*she*) and 'capitalism' (*zi*) in Wenzhou has already been decisively won by the latter, while even in Hangzhou the private sector has either surpassed or caught up the public sector in its share of sales and employment.

The role of local government during this dramatic shift of economic power to the private sector in Wenzhou has shifted from passive shrugging of the shoulders to pro-active intervention, and can be divided into three phases. The early period of reform until 1987 witnessed a period of government inaction, as the centre and province permitted the development of the private economy in Wenzhou. An exception to this passivity occurred in October 1982 when the city party committee and government held a meeting of 1,200 delegates from rural household industrial and commercial businesses to encourage the development of the sector. This created a relaxed mini-climate in the region. At that time the main contradiction was that between the planned economy and the market, and the government was forced to intercede to solve problems in the clash between these two irreconcilable forces. The general thrust was to relax policy and to allow the development of markets by easing restrictions on the operations of private businesses (in relation to taxation, registration, etc.), on the movement of labour, and on the nature and method of financial transactions.

During the second phase, between 1987 and 1991, the government began to take a more pro-active stance, with the creation of a state-approved reform development experimental zone and the passing of regulations concerning market activities and property rights. By 1992 Wenzhou's economy had become one where the market had absorbed the plan, but it was only after Deng Xiaoping's southern tour of 1992 that the government strengthened its role to one of pushing forward system reform and supporting the market economy.

*Hangzhou's tourism industry*¹⁰⁷

In a series of statements and policy decisions since the early 1980s the central authorities have made it clear that they consider Hangzhou's tourist industry to be a key to the city's economic future. In fact Hangzhou has long been considered one of China's major tourist cities. Well before the arrival of overseas tourists (including compatriots from territories claimed by China) in large numbers in the 1980s, it has been a popular destination for honeymoon couples, conferences and sightseers of all ages from within the country, and especially from the surrounding Jiangnan region.

Since China has been reopened to the world Hangzhou's great tourist potential has again come to the attention of the central authorities. In 1978 there were already 6 million domestic tourist visits to Hangzhou, which by 1985 had increased to 15.5 million. Before 1978 overseas tourists to Hangzhou had numbered about 50,000 per year, but by 1985 the numbers had increased substantially to 238,400. During the Sixth Five-Year Plan foreign currency earnings from overseas tourism jumped 1.9 times.¹⁰⁸ In 1981 the State Council included Hangzhou in a group of four key Chinese cities deserving environmental

Table 3.13 Structure of work-force in the commercial sector (%)

	1985	1986	1987	1989 ^a	1991	1993	1994 ^b
Wenzhou							
Non-private	55.7	51.1	37.9	37.4	40.7	20.6	24.5
Private	44.3	48.9	62.1	62.6	59.3	79.4	75.5
Hangzhou							
Non-private	n/a	n/a	n/a	60.4	60.2	n/a	44.4
Private	n/a	n/a	n/a	39.6 ^c	39.8 ^c	n/a	55.6 ^d

Sources: Calculated from *Hangzhou tongji nianjian 1991*, pp. 336–7; and *Hangzhou tongji nianjian 1996*, p. 249–52 by adding together the work-force in the wholesale and retail trades, and the food and beverages industry (*canyinye*).

Notes

a 1990 for Hangzhou.

b 1995 for Hangzhou.

c Includes mixed, state-rented and individual.

d Includes private, individual, mixed, shares and foreign.

Table 3.14 Total retail sales by ownership I (%)

	1980	1985	1990	1994 ^a
Wenzhou				
Non-private	97.6	72.2	43.9	22.2
Private	1.8	25.1	40.0	52.9
Peasant to non-agricultural	0.6	8.8	16.1	24.9
Hangzhou				
State and collective	n/a	89.1	84.5	50.1
Private ^b	n/a	10.9	15.5	49.9
Peasant to non-agricultural	n/a	6.4	13.3	20.0

Source: *Hangzhou nianjian*, various years.

Notes

Non-private includes state, collective and S and M co-operative. Private includes individual, private and shares.

a 1995 for Hangzhou.

b Includes individual, mixed (i.e. collective and individual), stock and other.

protection. In 1982 it was one of the first group of twenty-four cities proclaimed as possessing historical and cultural importance.¹⁰⁹ In November of the same year the State Council decided that the scenic spots and famous sites of the West Lake district should be elevated to national importance. In May 1983, it approved a comprehensive plan for Hangzhou city and named it a 'famous historical and cultural city, and national key scenic and tourist city'.¹¹⁰ At the fifth city party congress in October of the same year the tourist industry was given top priority in terms of future development.

In August 1984 the city party committee held a work meeting to relay the gist of talks given by 'leading comrades' of the State Council in response to Hangzhou's report on further opening to the outside and carrying out comprehensive reform to its economic system. The meeting decided that the principles guiding reform were to be 'dual reform' (reform of the economic management system and of existing enterprises) and 'dual opening' (*kaifang* and *kaifa*). The State Council office then issued a 'Summary of the meeting discussing problems in Hangzhou's reform and opening to the outside' (*Guanyu taolun Hangzhou gaige he kaifang wentide huiyi jiyao*) which stated in part that 'Hangzhou must be built into a tourist centre and a first-rate international scenic and tourist city in China's South-east'.¹¹¹

In September 1984 the State Council office reiterated this strategic shift for the city's development and, in the following month, the provincial party secretary led a delegation comprising the city's mayor and other city leaders to Beijing to report on Hangzhou's work to the leaders of the State Council.¹¹² In the following February, the city government established a leading small group to overhaul the city's strategic plan, and the revised draft was completed in May 1985. These events show that precisely at the time that the emphasis of China's reform programme was switching to the cities Hangzhou captured the attention of the national leadership, and that it was its place in China's culture and history, as well as its attractiveness as a tourist destination, which brought Hangzhou to the centre's attention.

However, an official account of Hangzhou's tourist industry written in the mid-1980s seemed more interested in listing the problems confronting it rather than the ways in which these could be overcome. It pointed to the conflict between tourism on the one hand and industrial development with its associated environmental pollution on the other. As for the gap between returns from the tourist industry and the investment required to develop it, it was estimated that while revenue from the tourist industry amounted to about 6 to 10 per cent of national income, the investment required in infrastructure, development and protection of tourist resources was massive. Third, there was the discrepancy between responsibility, authority and benefits. The city was responsible for construction, but gained little benefit from tourism (for example it did not run hotels) and lacked the power to issue visas or link up directly with the outside world to promote the industry.¹¹³

Nevertheless, 1985 seems to have been the turning-point for Hangzhou's tourist industry. The city's tourist bureau signed joint venture agreements with foreign investors to build three new international hotels, and the provincial authorities signed an agreement to renovate the city's best hotel and turn it over to foreign management. In January 1986 Hangzhou hosted a five-day meeting of the mayors of the four famous tourist cities of Hangzhou, Xian, Guilin and Suzhou. The meeting was sponsored by the China City Economic and Social Yearbook Executive Committee, the China Urban Scientific Research Association and the city government. A total of eighty bureaucrats and experts exchanged experience concerning the development of the tourist industry, and discussed a strategy for solving the common problems confronting it.

Following on this meeting, at the end of March 1986 State Councillor Gu Mu, then head of the State Council's tourist coordination small group, inspected Hangzhou, Tonglu

county, Ningbo, Shaoxing and other scenic and tourist spots in Zhejiang. Gu told the provincial leaders that 'Zhejiang has rich tourism resources and is a key province where the economy and tourism are developing together. You should formulate a unified plan and comprehensive development centred on Hangzhou's West Lake scenic district and places of historic interest and natural beauty.' He also pointed out that in developing its tourist industry Zhejiang should consider dividing the process into two stages. During the first stage development should centre on Hangzhou, with the protection, fitting out and opening of the West Lake scenic district's natural sights and places of historical interest. Attention would be devoted to dining, lodging, touring and recreational amenities, intra-provincial air services and transport, and gifts. The goal was to make Hangzhou, popularly known as heaven on earth, an even greater attraction for both domestic and overseas tourists.¹¹⁴

In 1987, a year after Gu's directives, Hangzhou ranked eighth as a destination for overseas tourists, while the industry contributed 11 per cent to Hangzhou's foreign currency earnings, making these earnings the ninth highest among Chinese cities.¹¹⁵ By 1990 Hangzhou received the fifth highest number of international tourists of any Chinese city. During the Seventh Five-Year Plan numbers grew 36 per cent and revenue increased by four times compared to the period of the Sixth Five-Year Plan.¹¹⁶ However, domestic tourist numbers grew more slowly than expected, perhaps due to the inability of tourist facilities to cope with greater numbers. Then, in 1989, the first of two catastrophic events hit Hangzhou's international tourist industry. The fallout from the suppression of the student movement in Beijing on 4 June was immediate and dramatic. In June and July 1989 tourist numbers dropped 83 per cent over the corresponding months of the previous year.¹¹⁷ It was only the increase in tourists from Taiwan which saved the industry from a complete collapse in that year, and by 1990 Taiwanese 'compatriots' comprised 60 per cent of overseas tourists to Hangzhou.¹¹⁸

By the beginning of this decade Hangzhou dominated the tourist industry in Zhejiang. In 1991 70.4 per cent of tourists (both domestic and overseas) visiting Zhejiang came to Hangzhou, and the city took in 88.1 per cent of provincial earnings from tourism. Hangzhou stood seventh among Chinese cities in terms of overseas tourist numbers and foreign currency earnings, and its hotel room-occupancy rate, at 72 per cent, was the highest among seventeen key Chinese tourist cities.¹¹⁹ An article summing up the first fifteen years of reform in Hangzhou asserted that a feature of the city's growth was that the tertiary sector had become its economic base and tourism its foremost industry.¹²⁰ This was a great turnaround from the pessimism and despair of the mid-1980s.

However, the overseas tourist market seems to have slumped somewhat during the Eighth Five-Year Plan. The increase in tourist numbers during this period slowed to 31 per cent (compared to 36 per cent in the previous plan period) while revenue slowed to a 1.39 times increase (compared to a four-fold increase in the Seventh Five-Year Plan). While revenue increased by an average annual rate of 21 per cent during the years 1991–5, actual tourist numbers fell by an annual average of 2 per cent.¹²¹ This was caused mainly by the second disastrous event which hit the industry in 1994, with the murder of Taiwan tourists at Qiandao Hu (Thousand Isle Lake) in Chun'an county in the south-west of Hangzhou.¹²² Unlike the 1989 events, which were beyond the control of the city

authorities, it appears that poor management played some part in the tragedy in Chun'an, and the tardy and inadequate response of the authorities led to suspicions of a cover-up. Consequently, the number of tourists from Taiwan to Hangzhou fell precipitously by over 100,000 from 1993, so that their proportion of the city's overseas tourists fell to 20.8 per cent from 60 per cent four years earlier.¹²³

The above alarming trends have occurred despite improvements having been made to infrastructure facilities such as transport links. The most convenient point for foreign tourists to reach Hangzhou is from Shanghai or Hong Kong. There are now at least two daily flights to Hong Kong. In September 1993 a charter flight between Hangzhou and Singapore commenced. Tourist figures for 1994 revealed that the number of tourists from Singapore had reached 19,000, the third highest among all foreign nationals visiting Hangzhou in that year, a clear indication of the importance of direct air links.¹²⁴ Since the double-tracking of the railway line from Shanghai was completed in late 1991 train times have improved and double-decker tourist trains make several trips daily.¹²⁵ In the summer of 1993, with the assistance of the provincial and city governments, the municipal electricity department supplied off-peak electricity to internationally rated hotels, and exempted them from the air-conditioning surcharge.¹²⁶

Hangzhou always has the enormous domestic market on which to fall back. Such factors as the greatly increased amounts of disposable income in the hands of urban Chinese which flows into sectors such as tourism, and the five-day working week for white-collar workers introduced in 1995, which has greatly increased leisure time, have even induced the city authorities to shift the focus of development in the Zhejiang tourism and resort zone to the domestic market.¹²⁷ This decision makes a lot of sense when it is realized that while overseas tourists to the city completed 440,000 visits and injected US\$ 126 million into the city's economy in 1995, in 1994 domestic tourists chalked up a massive 20 million visits which resulted in the withdrawal of RMB4.5 billion from circulation.¹²⁸

It appears then that even the best efforts of the centre, province and city to present Hangzhou in the most favourable light to potential overseas tourists have been less than completely successful, although it is unclear whether the trends of the past few years will continue or whether the city has the capacity to reverse the slide in overseas tourist numbers. The tourist industry, then, is an interesting case where the advantages bestowed by history, location and preferential policies are insufficient to overcome a malaise in the city administration, which seems to lack drive and verve, and the lack of a consistent and attainable set of targets and good administrative skills.

Conclusions

In the analysis and comparison of the revival and rapid economic growth of Hangzhou and Wenzhou discussed in this chapter, the given factors of history and location have been both beneficial and constraining to trends which have evolved over the past two decades. Hangzhou's location and history have been greatly beneficial to it in terms of the continuing favourable treatment which it receives from the centre. Hangzhou's pride in its past, and its central role in the affairs of the province have engendered a degree of

reliance on outside support and self-satisfaction in its own status which seems to have inhibited local initiative except when it has been a matter of obtaining matching benefits granted to cities such as Ningbo. Wenzhou's favourable location remains a latent advantage only, and will continue to be so until its backward transport and communications links are modernized. However, the legacy of its cultural history, with traditional strengths in commerce, small-scale industry and risk-taking, have re-emerged in an entirely different environment but to equally great effect. Clearly, the state has played an active role in guiding Hangzhou's development, and has bestowed upon it a series of preferential policies, while in Wenzhou the entrepreneurial class has, to a large degree, compensated for the state.

The differences in the approach to reform and economic growth in Hangzhou and Wenzhou are striking. Hangzhou has relied on suburban and rural collective and private industry as the engine of development, while Wenzhou has turned to its previously suppressed but not extinguished private sector. Hangzhou has received significantly more state and foreign investment than Wenzhou which, starved of these funds, has had to turn to creative ways of mobilizing its own financial resources. Both cities have relied little on foreign investment—Hangzhou to a greater extent than Wenzhou—but the degree of Hangzhou's interaction with the world economy is much less than that of other comparable cities in the Jiangnan region such as Suzhou and Wuxi.

Until the latest phase in China's modernization (post 1992) Hangzhou's approach to reform, with several notable exceptions detailed in this chapter, has seemed to be one of waiting for the initiative to come from the centre or the province—and the latter has hardly been the most enterprising of provincial authorities. The Wenzhou leadership could not adopt this approach, but its passivity and inaction in the midst of dramatic and rapid change and growth was striking. For a certain period the direction which Wenzhou's economy was taking shocked the provincial leadership into an almost catatonic state, from which it emerged only when a central leader, Gu Mu, gave it the official imprimatur of approval. Wenzhou's rise to national prominence is a remarkable example of the capacity of the Chinese people for hard work, thrift and innovation. It would seem that with the development of its port facilities (for the present, the centre and Zhejiang are pouring investment into Ningbo's Beilun port), the completion of the railway to the inland part of the province (with future railways planned along the coast south to Fuzhou and north to Ningbo) and the opening of direct links with Taiwan, Wenzhou's future is bright. Hangzhou's dominating position in the provincial economy may well recede as Ningbo and Wenzhou rise to regional and national fame.

The case study of the tourism industry presented in this chapter suggests that Hangzhou has not been able to take best advantage of its given and semi-given factor endowments even in relation to a policy area generally recognized as having the highest priority for its future development and prosperity. Successive municipal administrations must accept the blame for such a policy failure. Repeated incantations of such clichés as 'heaven on earth' are no substitute for hard work and capable management in improving the facilities, amenities and service standards of the tourist industry.¹²⁹

Wenzhou, on the other hand, rather than trying to live up to a more glorious past, is trying to rid itself of a tarnished image of a much more recent vintage. The struggle for

survival and subsistence in the southern city has always been of a different dimension to that in the provincial capital. There has been no room for complacency or self-satisfaction in Wenzhou's path to development, and if the undoubted entrepreneurial skills of its citizens could be harnessed to endeavours in other realms such as education or culture, Wenzhou would shake off its reputation as a place obsessed with money to the exclusion of all else. Such a transition may very well be under way in the second phase of its modernization.

Acknowledgment

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Notes

- 1 See Keith Forster, *Zhejiang in Reform*, Sydney and Honolulu, Wild Peony and University of Hawaii Press, 1998.
- 2 That the data in this chapter are more complete for Hangzhou is due mainly to the fact that Wenzhou's statistical yearbooks (and this is true up until the 1996 edition) are, unlike the majority of Zhejiang's sub-provincial city yearbooks, still not published by the national bureau of statistics press in Beijing, but are essentially restricted (*neibu*) publications. It is particularly difficult to obtain detailed fiscal data concerning Wenzhou.
- 3 Sidney Goldstein, 'Urbanization in China: New Insights from the 1982 Census' (paper presented at the Workshop on China's 1982 Population Census, December 1984), pp. 44–6.
- 4 *Zhongguo renkou Zhejiang fence* (China's Population—Zhejiang volume), p. 194.
- 5 *Zhongguo tongjiju, Zhongguo chengshi sishinian* (China's Cities Over Forty Years) (Beijing: Zhongguo tongji xinxi zixun fuwu zhongxin, 1990), p. 44.
- 6 *Hangzhou nianjian 1989* (Hangzhou Yearbook 1989), Hangzhou, Hangzhou daxue chubanshe, 1990, p. 261.
- 7 Zhejiangsheng tongjiju bian, *Zhejiang tongji nianjian 1989* (Statistical Handbook of Zhejiang 1989), Yichun, Zhongguo tongji chubanshe, 1989, p. 406.
- 8 *Zhongguo chengshi fazhan shi* (A History of the Development of Chinese Cities), Harbin, Heilongjiang renmin chubanshe, 1992, pp. 468–78.
- 9 In addition to the permanent population Hangzhou's city districts had a registered transient population of almost 300,000 in 1995, equal to 20 per cent of the population. The number of transients had increased by 50 per cent over the number registered in 1989. See Wang Weiwu, 'Hangzhou chengshi liudong renkou shikong yanbian jiqi jizhi fenxi' (An Analysis of the Spatial Evolution and its Mechanisms in the Transient Population of Hangzhou City), *Zhejiang jingji* (Zhejiang Economy), 1997, no. 10, pp. 60–3.
- 10 Zhejiang tongjiju bian, *Zhejiang tongji nianjian 1996*, Beijing, Zhongguo tongji chubanshe, 1996, p. 32.
- 11 See the views of the provincial government in Zhejiang sheng renmin zhengfu, 'Duolun qudong yi shi xing zhen jiakuai nongcun gongyehua he chengzhenhua jincheng' (Moving on

- Many Wheels and Using Cities to Develop Towns and Speed Up Progress in Industrialization and Urbanization), *Jingji yanjiu cankao*, 1996, no. 808/809, pp. 51–5.
- 12 See Li Wangming *et al.*, ‘Zhe-E chengzhen fazhan duibi jiqi qishi’ (An Illuminating Comparison of Urban Development in Zhejiang and Guangdong), *Zhejiang jingji*, 1997, no. 7, pp. 58–60. This and other documents will appear in a future edition of *Chinese Economic Studies*, entitled ‘Contemporary Issues Concerning the Economy and Society of Zhejiang Province’.
 - 13 There is a great deal of confusion concerning the term city, but it is of crucial importance to clarify the issue. In the Chinese context it now refers to the sub-provincial administrative entity formerly known as the district or prefecture (*diqu*), and combines the core city districts (if such districts existed, which was not always the case) with surrounding counties. This is a definition very alien to the Western context, because the Chinese city in effect includes more rural than urban land and people, and leads to very misleading assumptions concerning economic development, which will be pointed out below. While such administrative divisions as province and county normally refer to area, a city usually refers to a place (*dian*). See Jin Yuanhuan and Wang Jianyu, ‘Zhejiang liangge zhongxin lun’ (On Zhejiang’s Two Centres), *Zhejiang shehui kexue* (Zhejiang Social Sciences), 1997, no. 2, pp. 30–3. The people of Hangzhou would not consider the counties under the jurisdiction of the city as part of Hangzhou, but rather as part of Hangzhou district, a term which they continue to use although it has no official administrative status. The condensation of China’s urban residents toward their country cousins partly accounts for this distinction. On the other hand it appears that the term Wenzhou has traditionally encompassed a broader geographic region than the city districts, which were very undeveloped. Nevertheless, government yearbooks, in their use of the terms Hangzhou and Wenzhou, reflect this bias toward the city districts proper, so that sometimes the identification of the smaller administrative and geographic entity becomes conflated with the larger.
 - 14 Zhejiang sheng zuzhibu, Zhejiang sheng dangshi yanjiushi, Zhejiang dang’anguan (eds) *Zhongguo gongchandang Zhejiang sheng zuzhishi ziliao (1922.4–1987.12)* (Materials on the Organizational History of the CCP in Zhejiang—April 1922–December 1987), Liangzhu, Renmin ribao chubanshe, 1994, pp. 889, 904–5, 936–7, 940, 1013, 1023–8. At the end of 1996 the State Council approved the establishment of a sixth district, Binjiang, incorporating land sliced off from the adjacent county-level city of Xiaoshan. See ‘Zhejiang sheng renmin zhengfu guanyu tiaozheng Hangzhou shi shixiaqu xingzhengqu huade tongzhi’ (Circular of the Zhejiang provincial people’s government concerning the administrative divisions of city districts directly under Hangzhou city), 28 December 1996, *Zhejiang zhengbao* (Zhejiang Government Gazette), 1997, no. 4, p. 14.
 - 15 *Zhejiang tongji nianjian* 1996, p. 408. During a field trip to Ningbo in November 1997 I was struck by the determination expressed by officials to catch up and surpass Hangzhou in economic and social development. In fact, in each place I visited (Shaoxing, Huzhou, Yiwu and Ningbo) the number of derogatory comments made about Hangzhou stunned me.
 - 16 The material concerning Hangzhou in this section is drawn from Hangzhou shi difang bianzuan weiyuanhui zhuban, *Hangzhou nianjian* 1987, Shanghai, Hongqi chubanshe, 1987, pp. 18–19; Zhejiangsheng jingji yanjiu zhongxin bian, *Zhejiang shengqing, 1949–1984* (The Affairs of Zhejiang), Hangzhou, Zhejiang renmin chubanshe, 1986, pp. 873–87; briefing on Wushan, Hangzhou, 12 January 1977. After this chapter was basically completed, a revised version of a six-volume history of Hangzhou appeared in mid-1997, edited by Zhou Feng and published by Zhejiang renmin chubanshe, and based on an original seven-volume edition with limited circulation. The volumes are entitled *Nanbei chaoqian guHangzhou* (Ancient

- Hangzhou of the Pre-South and North Dynasties), *Sui-Tang mingjun Hangzhou* (Hangzhou—Famous Prefecture of the Sui and Tang Dynasties), *Wu-Yue shoufu Hangzhou* (Hangzhou—Capital of the Wu and Yue Kingdoms), *NanSong Jingcheng Hangzhou* (Hangzhou—Capital of the Southern Song Dynasty), *Yuan-Ming-Qing mingcheng Hangzhou* (Hangzhou—Famous City of the Yuan, Ming and Qing Dynasties), and *Minguo shiqi Hangzhou* (Hangzhou During the Republican Period). See also the comprehensive history of Hangzhou in Lin Zhengqiu, *NanSong ducheng Lin'an* (Lin'an, The Capital City of the Southern Song), (Hangzhou: Xiling yinshe, 1986); and the account in Dai Junliang (ed.), *Zhongguo chengshi fazhanshi* (A History of the Development of China's Cities), Harbin, Heilongjiang renmin chubanshe, 1992, pp. 211–16.
- 17 Marco Polo, *The Travels*, Harmondsworth: Penguin Books, 1978, pp. 213–29.
 - 18 Zhonggong Hangzhou shiwei zuzhibu, Zhonggong Hangzhou shiwei dangshi ziliao zhengji yanjiu weiyuanhui, Hangzhou shi dang'anguan bian, *Zhongguo gongchandang Zhejiang sheng Hangzhou shi zuzhishi ziliao* (1922.4–1987.12), p. 142.
 - 19 See 'Shengwei guanyu wu yuefen gongzuo yu zhigong yundong wentide huiyi jiyao' (Key points of the meeting held by the provincial party committee concerning work in May and problems in the workers and staff members political movement), 17 May 1949, in Zhonggong Zhejiang shengwei dangshi yanjiushi, Zhejiang sheng dang'anguan (bian), *Zhonggong Zhejiang shengwei wenjian xuanbian* (A Selection of Documents of the CCP ZPC), Hangzhou, Zhonggong Zhejiang shengwei bangongting, 1988, pp. 8–11; and for an early post-Liberation description of Hangzhou by its then party secretary, see Jiang Hua's report to the first municipal party conference of the CCP, June 1950, in *Jiang Hua zai Zhe wenji* (Jiang Hua's Zhejiang Selected Writings), Hangzhou, Zhejiang renmin chubanshe, 1992, pp. 25–6.
 - 20 *Zhejiang shengqing*, p. 874.
 - 21 See Zhejiang sheng Mao Zedong sixiang yanjiu zhongxin, Zhonggong Zhejiang shengwei dangshi yanjiushi bian, *Mao Zedong yu Zhejiang* (Mao Zedong and Zhejiang), Beijing, Zhongyang dangshi chubanshe, 1993, pp. 271–3; Tie Ying, 'Nanwangde 1975nian' (An unforgettable 1975), 'Mianhuai Mao Zedong' bianjizu, *Mianhuai Mao Zedong* (Cherish the Memory of Mao Zedong), Beijing, Zhongyang wenxian chubanshe, 1993, pp. 347–56; Zhejiang sheng Mao Zedong sixiang yanjiu zhongxin, Zhonggong Zhejiang shengwei dangshi yanjiushi bian, *Zhou Enlai yu Zhejiang* (Zhou Enlai and Zhejiang), Beijing, Zhongyang dangshi chubanshe, 1992.
 - 22 For speculation on the possibility that more cities will be elevated to the status of centrally-ruled cities, as occurred with Chongqing in March 1997, see Matt Forney, 'Chongqing's promotion brings it under Beijing's wing', *Far Eastern Economic Review*, 7 November 1996.
 - 23 However, it must be kept in mind that these statistics refer to Greater Hangzhou (including the counties and county-level cities over which it has administrative responsibility). Looked at in this way, in 1993 the GDP of Hangzhou ranked ninth among the cities of China, but taking the GDP of city districts alone it did not rank in the top thirteen cities (a similar pattern occurs for Suzhou). The GDP of Greater Hangzhou ranks second among provincial capitals but is third lowest if only the city districts are included. The proportion of provincial GDP from Hangzhou's city districts has declined from 11.6 per cent in 1980 to 9.9 per cent in 1990. See 'Zhejiang liange zhongxin lun'.
 - 24 *Zhejiang shengqing*, p. 883.
 - 25 *Hangzhou nianjian 1988*, Beijing, Hongqi chubanshe, 1989, pp. 356–7.
 - 26 Hangzhou shi tongjiju bian, *Hangzhou tongji nianjian 1997*, Beijing, Zhongguo tongji chubanshe, 1997, pp. 30–2.

- 27 *Hangzhou nianjian* 1994, pp. 28–30.
- 28 *Hangzhou nianjian* 1988, p. 358.
- 29 Zhou Haile, 'Reform: The inner power of sustained development: The view from the Suzhou-Wuxi-Changzhou region' (paper presented to the conference China's Provinces in Reform: Social and Political Change, Suzhou, October 1995), p. 3, note 1.
- 30 *Hangzhou nianjian* 1995, pp. 14–16.
- 31 *Hangzhou tongji nianjian* 1996, pp. 18–21; *Hangzhou tongji nianjian* 1997, p. 23; *Hangzhou Ribao* (Hangzhou Daily), 22 March 1998.
- 32 The only closely comparable figure available for Hangzhou is an annual average growth rate of 9.8 per cent for GVIAO and 6 per cent for GVAO between 1949 and 1984. However, it is almost certain that for the comparable period 1957 to 1976 Hangzhou's growth rate would have been substantially higher than that of Wenzhou's.
- 33 Considering the high proportion of the private economy in Wenzhou and the constant under-reporting from this sector, these figures are biased toward the conservative side.
- 34 *Wenzhou tongji nianjian* 1987, p. 320.
- 35 *Zhejiang tongji nianjian* 1996, p. 408.
- 36 See Keith Forster, *Rebellion and Factionalism in a Chinese Province: Zhejiang, 1966–76*, New York, M.E.Sharpe, 1990, chs 2–4.
- 37 See *Renmin Ribao*, 2 October 1978, p. 3.
- 38 See Keith Forster, 'The Wenzhou Model for Economic Development: Impressions', *China Information*, 1990–1, vol. 5, no. 3, pp. 53–64.
- 39 Xu Miaoquan, 'Jianshe da Hangzhou, fazhan da lüyou' (Build up a Large Hangzhou and Develop Large-scale Tourism), *Zhejiang zhengbao* (Zhejiang Government Gazette), 1995, no. 14, p. 29.
- 40 See Forster, *Rebellion and Factionalism in a Chinese Province*, passim.
- 41 *Zhejiang tongji nianjian* 1996, p. 4; *Hangzhou tongji nianjian* 1996, pp. 17, 19.
- 42 *Zhejiang Ribao* [hereafter ZJRB], 23 September 1992.
- 43 For example, see the article by the Dean of the School of Economics and Management at Hangzhou University in ZJRB, 6 January 1993, describing the expansion of the city south across the Qiantang River as inevitable.
- 44 Calculated from *Hangzhou tongji nianjian* 1996, pp. 28, 289.
- 45 Calculated from *Hangzhou tongji nianjian* 1996, pp. 28, 290–1. See also Yuhang shi difangzhi bianzuan weiyuanhui, *Yuhang nianjian* 1997, Hangzhou, Hangzhou chubanshe, 1997, pp. 38–9.
- 46 ZJRB, 9 May 1996.
- 47 *Hangzhou Ribao*, 24 October 1996.
- 48 Local source.
- 49 *Hangzhou nianjian* 1996, pp. 42, 49–50.
- 50 ZJRB, 18 July, 2 September 1995; 19 January 1996; *Hangzhou nianjian* 1996, p. 26.
- 51 *Zhejiang tongji nianjian* 1996, pp. 32, 410.
- 52 This was true in the period of the Seventh Five-Year Plan (1986–90). See *Zhejiang jingji nianjian* 1987, pp. 52–60.
- 53 Wang Fengxian and Ding Guoshun, *Zhedong xuepai yanjiu* (Studies of the East Zhejiang School), Hangzhou, Zhejiang renmin chubanshe, 1993.
- 54 Zhuo Mingwei, '90niandai duiwai kaifang jingji geju' (The Economic Pattern of Opening to the Outside World in the 1990s), in *Hangzhou shi shehui kexueyuan bian, Jiushiniandai Hangzhou shehui wenhua fazhan yanjiu* (Studies of Hangzhou's Social and Cultural Development in the 1990s), Hangzhou, Hangzhou daxue chubanshe, 1991, pp. 257–66; and

- Pan Renlian and Tang Mingquan, “‘Sanzi’ qiye xianzhuang he fazhan qushide tantao’ (The Present State of ‘Foreign-invested’ Enterprises and Thoughts on Trends for Development), *Jiushiniandai Hangzhou shehui wenhua fazhan yanjiu*, pp. 267–73.
- 55 Hangzhou difang zhi bianzuan weiyuanhui bian, *Hangzhou shizhi* (Hangzhou City Gazetteer), Beijing, Zhonghua jia chubanshe, 1995, vol. 1, p. 115; Hangzhou shi shehui kexueyuan bian, *Jiushiniandai Hangzhou jingji fazhan yanjiu*, pp. 257–8, 267–8. In 1985 work commenced on three international joint-venture hotels in Hangzhou, while an existing hotel on the banks of the West Lake was extensively renovated under a joint venture agreement.
- 56 *Hangzhou nianjian* 1989, p. 22. The decision to enlarge the coastal open economic development zone encompassed an additional 21 counties and county-level cities in other parts of Zhejiang. See *Zhejiang jingji nianjian* 1989, p. 432.
- 57 *Hangzhou nianjian* 1989, pp. 22, 122–7; *Hangzhou nianjian* 1987, p. 134. The city had established a bureau and company of foreign trade in 1973, which commenced supplying merchandise to the major ports of Tianjin, Shanghai and Guangzhou in the following year.
- 58 *Hangzhou nianjian* 1989, pp. 23, 122–7. In the wake of the Tiananmen tragedy of June 1989 the city moved immediately to reassure foreign investors that its policy toward foreign investment had not changed. See *Hangzhou nianjian* 1990, p. 21.
- 59 This percentage was in fact lower than that recorded in 1981 and 1982, and the same as that recorded in 1983. For a table of the proportion of foreign trade purchases to Hangzhou’s GVIAO from 1981 to 1986 inclusive, see *Hangzhou nianjian* 1987, p. 135.
- 60 *Jiushiniandai Hangzhou jingji fazhan yanjiu*, pp. 7–8. In 1992 the newly-appointed Hangzhou party secretary led a thirteen-member delegation to Suzhou to study and inspect the city’s development. *Hangzhou nianjian* 1993, p. 18.
- 61 *Jiushiniandai Hangzhou jingji fazhan yanjiu*, p. 259.
- 62 *Zhejiang jingji nianjian* 1991, pp. 475–6.
- 63 *Hangzhou nianjian* 1992, pp. 19, 176; *Hangzhou nianjian* 1993, pp. 323–5.
- 64 *Hangzhou nianjian* 1991, pp. 18, 157.
- 65 *Hangzhou nianjian* 1993, pp. 16, 22, 172.
- 66 *Hangzhou nianjian* 1995, p. 25; *Hangzhou nianjian* 1996, pp. 25, 123, 339–40.
- 67 *Hangzhou nianjian* 1993, pp. 175–6; 1994 issue, pp. 14, 16, 17; 1995 issue, p. 20; Hu Ping (ed.) *Zhongguo jingji tequ kaifang diqu nianjian* 1994 (Yearbook of China Special Economic Zones and Development Areas), Beijing, Gaige chubanshe, 1994, pp. 46, 50, 118–20, 129–30; *Zhongguo jingji tequ kaifang diqu nianjian* 1995, pp. 268–9, 376–7. Regulations for both zones were passed by the provincial people’s congress standing committee in April 1994 (*Zhejiang nianjian* 1995, p. 520). Earlier, in February 1991 the six cities of Suzhou, Wuxi, Changzhou (in southern Jiangsu), and Hangzhou, Jiaxing and Huzhou (in northern Zhejiang) had established an economic and technology co-operative zone. See *Hangzhou nianjian* 1992, p. 18; *Zhejiang jingji nianjian* 1992, p. 407. Whether the April 1993 decision rendered the zone redundant is unclear, but no more information is available concerning the zone in relevant Hangzhou official publications.
- 68 See the provisional regulations for the Ningbo economic and technology development zone passed in June 1985 by the standing committee of the provincial people’s congress in *Zhejiang jingji nianjian* 1986, pp. 49–51; and final ordinances, which rendered the provisional regulations inoperative, passed in May 1988 by the same body, in *Zhejiang jingji nianjian* 1989, pp. 59–61. These ordinances were revised by this same body in May 1993. See *Zhejiang nianjian* 1994, p. 499.

- 69 In September 1992 the standing committee of the provincial people's congress passed regulations for the Wenzhou economic and technology development zone. See *Zhejiang nianjian* 1993, p. 467.
- 70 *Zhejiang shengqing*, p. 897; *Zhejiang jingji nianjian* 1986, p. 342; *Zhejiang nianjian* 1995, p. 507; *Zhongguo jingji tequ kaifang diqu nianjian* 1994, p. 117.
- 71 *Hangzhou nianjian* 1996, p. 121.
- 72 *Hangzhou nianjian* 1993, pp. 175–6.
- 73 In addition to the Ningbo ETDZ and the Ningbo free trade zone (November 1992), in 1993 the State Council agreed to the same level of treatment reserved for state-level economic and technology development zones to Ningbo's Daxie island. See *Zhejiang nianjian* 1996, p. 312; Ningbo shi difang bianzuan weiyuanhui bian, *Ningbo shizhi* (Ningbo City Gazetteer), Beijing, Zhonghua shuju chubanshe, 1995, vol. 3, p. 3078. The provincial people's congress standing committee passed regulations for this zone in August 1994. See *Zhejiang nianjian* 1995, p. 520.
- 74 The success of the four development zones can be measured by the fact that in 1995 they attracted 14.5 per cent of approved DFI enterprises, 43.3 per cent of contracted investment and 22.5 per cent of foreign investment utilized in the city in that year (*Hangzhou nianjian* 1996, p. 311).
- 75 'Zhongyang jigou bianzhi weiyuanhui guanyu Guangzhou deng shiliu shi xingzheng jibie wentide tongzhi' (Circular of the Central Administrative Establishment Commission Concerning the Question of the Administrative Status of Guangzhou and Fifteen Other Cities), 25 February 1994, in 'Zhongguo difang zhengfu jigou gaige' bianjizhu bian, in *Zhongguo difang zhengfu jigou gaige* (Reform of China's Local Government Structure), Beijing, Xinhua chubanshe, 1995, p. 85; *Hangzhou nianjian* 1995, p. 19.
- 76 At the end of 1995 the city government had offices in Beijing, Shanghai (established prior to 1987), and the three special economic zones of Haikou (1987), Shenzhen (1988) and Xiamen (1988). *Hangzhou nianjian* 1988, p. 50; 1989, p. 42; 1996, p. 45.
- 77 Interview, Hangzhou December 1996.
- 78 A follow-up circular clarified some controversial issues which had emerged as a result of this decision. See 'Zhongyang jigou bianzhi weiyuanhui yinfa "guanyu fushengji shi tuogan wentide yijian" de tongzhi' (Circular of the Central Administrative Establishment Commission Printing and Issuing 'Opinions Concerning Several Problems in Deputy-Provincial Cities'), 19 February 1995, in *Zhongguo difang zhengfu jigou gaige*, pp. 102–4. The circular canvassed five points: the relationship of the sixteen deputy-provincial cities to their provincial superiors, the ranking of their area and line subordinate administrations, cadre management, salaries, and the call by other provincial capitals for deputy-provincial status.
- 79 Wenzhou shi tongjiju bian, *Tengfeide Wenzhou—'bawu' shiqi jingji he shehui fazhan baogao* (Soaring Wenzhou—Report on Economic and Social Development During the 'Eighth Five-Year Plan'), Wenzhou, 1996, p. 55.
- 80 Zhang Minjie, 'Wenzhou "di er ci chuangye"' (Wenzhou's 'Second Pioneering Phase'), *Shehuixue yanjiu* (Studies in Sociology), 1996, no. 4, p. 72.
- 81 *Hangzhou tongji nianjian* 1996, pp. 20–1.
- 82 *Hangzhou nianjian* 1987, pp. 153–4.
- 83 *Zhejiang shengqing*, p. 884. For example, in 1987 Hangzhou 'lent' the centre RMB57 million, of which 31 million came from the city districts. It purchased 49 million in state bonds, of which the city districts bought 29 million. In addition the city remitted 1.1 billion to the centre and province, an increase of 11 per cent on 1986. See *Hangzhou nianjian* 1988, pp. 190–2.

- 84 *Hangzhou nianjian* 1989, pp. 141–9.
- 85 The following five paragraphs are based on Wu Wenbiao, ‘Hangzhou caizheng suo mianlinde wenti ji qi sikao’ (Problems Facing Hangzhou’s Fiscal State and Reflections Thereon), *Jiushiniandai Hangzhou jingji fazhan yanjiu*, pp. 191–202.
- 86 *Hangzhou nianjian* 1993, p. 192; 1995 issue, p. 162.
- 87 *Hangzhou tongji nianjian* 1991, p. 348; *Hangzhou tongji nianjian* 1996, p. 292.
- 88 *Hangzhou nianjian* 1994, p. 152.
- 89 *Hangzhou tongji nianjian* 1996, pp. 384, 468. Of course these were years of high inflation.
- 90 *Jiushiniandai Hangzhou jingji fazhan yanjiu*, p. 258.
- 91 *Hangzhou nianjian* 1989, pp. 122–7; *Jiushiniandai Hangzhou jingji fazhan yanjiu*, p. 258.
- 92 *Hangzhou nianjian* 1992, pp. 169, 177.
- 93 *Hangzhou nianjian* 1993, p. 165.
- 94 *Zhejiang tongji nianjian* 1996, p. 413. The proportion of state enterprises among independent and subsidiary industrial enterprises at the village level and above is 16.1 per cent in Hangzhou but only 5.3 per cent in Wenzhou. See *Zhejiang tongji nianjian* 1996, p. 412.
- 95 Per capita GDP in the six administrative entities referred to is 25,287 (Hangzhou city districts), 10,311 (Xiaoshan), 3,536 (Chunan), 13,037 (Wenzhou city districts), 6,680 (Ruian) and 1,779 (Wencheng). See *Zhejiang tongji nianjian* 1996, p. 422.
- 96 *Zhejiang nianjian* 1996, p. 443.
- 97 *Hangzhou nianjian* 1987, p. 353; *Hangzhou tongji nianjian* 1996, pp. 397, 418.
- 98 *Hangzhou jingji fazhan yanjiu*, p. 4.
- 99 *Hangzhou tongji nianjian* 1996, pp. 418–19.
- 100 *Hangzhou tongji nianjian* 1996, p. 417.
- 101 *Hangzhou jingji fazhan yanjiu*, pp. 9–10.
- 102 *Zhejiang tongji nianjian* 1996, p. 412.
- 103 See Keith Forster, ‘The Political Economy of Post-Mao Zhejiang: Rapid Growth and Hesitant Reform,’ in Peter Cheung, Jae Ho Chung and Zhimin Lin (eds) *Provincial Strategies of Economic Reform in Post-Mao China: Leadership, Politics and Implementation*, Armonk, M.E.Sharpe, 1998, pp. 145–211.
- 104 *Hangzhou nianjian* 1993, pp. 323–5; *Hangzhou nianjian* 1996, p. 25.
- 105 By contrast, in March 1988, a year after it was elevated to the status of a separately-listed city in the state plan, the State Council designated Ningbo as a comparatively large city (*jiaodade shi*) and bestowed on it powers to pass laws and administrative rules of local application (*difangxing fagui, xingzheng guizhang*). See *Ningbo shizhi*, vol. 1, p. 143.
- 106 Since the establishment of stock markets in 1991 it was thought that with their well-known traditions of saving and entrepreneurship the people of Wenzhou would be attracted to this form of investment. Yet it has been Hangzhou where the fever for the stock-market has taken hold, with turnover there the third highest in the country and far in excess of that in Wenzhou. The reasons are that the rate of return (*huibaolij*) on household based industrial and commercial businesses in Wenzhou is very high, and interest rates in the non-banking sector at 2–3 per cent per month are higher than the rate of increase on the share market. The high level of trust among lenders and borrowers in a small city where a person’s word can be taken on trust means that a large amount of surplus funds go into this form of investment. Additionally, the people of Wenzhou, with their traditions of industry and commerce, are allegedly unwilling to invest in a new investment vehicle with which they are unfamiliar and whose fortunes are determined by outsiders.
- 107 Unless noted to the contrary, the statistics in this section refer to the city districts alone.
- 108 *Dangdai Zhongguode Zhejiang*, p. 261.

- 109 *Dangdai Zhongguode Zhejiang*, p. 260; *Hangzhou shizhi*, p. 117. Ningbo was included in the second group announced at the end of 1986. See *Zhejiang jingji nianjian 1987*, p. 449.
- 110 *Hangzhou shizhi*, p. 119, 120; *Hangzhou nianjian 1987*, p. 40.
- 111 *Hangzhou shizhi*, p. 124.
- 112 *Zhejiang shengqing*, p. 882.
- 113 *Dangdai Zhongguode Zhejiang*, p. 262.
- 114 *Hangzhou nianjian 1987*, p. 65.
- 115 *Hangzhou nianjian 1988*, pp. 69, 71–2.
- 116 *Hangzhou jingji fazhan yanjiu*, p. 5.
- 117 *Hangzhou nianjian 1989*, p. 93.
- 118 *Hangzhou nianjian 1991*, p. 93. Chinese from Hong Kong and Macau made up 8.9 per cent, Overseas Chinese 8.7 per cent and foreigners 22.3 per cent (with Japanese first, followed by the USA and Western Europe).
- 119 *Hangzhou nianjian 1992*, p. 100.
- 120 *Hangzhou nianjian 1994*, p. 29. In 1978 tertiary industry comprised 16.3 per cent of GDP (18.3 per cent in the city districts); in 1985 21.3 per cent (27.6 per cent in city districts); in 1990 33 per cent (city districts 44.8 per cent) and in 1995 37.1 per cent (city districts 48.4 per cent). See *Hangzhou nianjian 1987*, p. 347; *Hangzhou tongji nianjian 1996*, p. 397.
- 121 *Hangzhou tongji nianjian 1996*, pp. 384, 391.
- 122 *ZJRB*, 18 May, 19 and 20 June 1994.
- 123 *Hangzhou nianjian 1995*, p. 142. Foreigners comprised 59.8 per cent, Overseas Chinese 3.3 per cent and Hong Kong and Macau compatriots 16.1 per cent.
- 124 *Hangzhou nianjian 1994*, p. 134; 1995 issue, p. 142.
- 125 *Hangzhou nianjian 1992*, p. 23. In spring 1998 a new non-stop service was introduced from the suburbs of Shanghai to Hangzhou's East station, and the trip takes only one and one-half hours.
- 126 *Hangzhou nianjian 1994*, p. 134.
- 127 *Hangzhou nianjian 1996*, p. 123.
- 128 *Hangzhou nianjian 1995*, pp. 142, 307; 1996 issue, p. 36.
- 129 In 1992 the central government established a yearly system to choose China's most hygienic and environmentally clean cities. Hangzhou made an enormous effort to finish in the top ten cities, as if its very reputation was at stake. See *Hangzhou nianjian 1993*, pp. 20–4; 1994 issue, pp. 17, 19; 1996 issue, pp. 27–8, 30. In 1995 it was announced that Hangzhou had lost its permanent status as a hygienic city, and the city leaders were suspiciously silent concerning the result of the subsequent 1995 inspection of the city by the central team. See *ZJRB*, 19 August 1995.

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Preferential policies, municipal leadership, and development strategies

A comparative analysis of Qingdao and Dalian

Jae Ho Chung

Despite the radically transformed relationships between Beijing and localities, our research focus on local government in post-Mao China has been largely limited to provinces and villages. While the province is undoubtedly still the most crucial level of local administration, the steady growth of sub-provincial governments—sub-provincial cities in particular—and the dramatic expansion of their role in economic management during the reform era necessitate the diversification of our research interests.¹ Owing to their comparative advantages in articulating local interests, executing central and provincial policies, and monitoring micro-compliance, sub-provincial cities perform an indispensable role in the complex process of economic reform. Most importantly, they spread ‘developmental ideologies’ and distribute opportunities of reform both intra- and inter-provincially. Vertically, they work as ‘agents’ of the center, not without a considerable degree of discretion, in carrying out policies of reform and opening. Horizontally, they constitute ‘corridors’ of development by linking foreign capital with domestic businesses.² Despite their crucial importance, however, sub-provincial cities have rarely been studied in the light of their contributions to reform, with the notable exceptions of the special economic zones (SEZs) and Wuhan.³

This study, based on the assumption that there may be a more or less common recipe for development shared by China’s coastal cities, addresses the following questions. What kind of factors promote economic development in sub-provincial cities? Where does the locomotive of development reside and where do incentives for growth come from? And how are they put to use in concrete terms? Theories of state-led export-based growth, which explicate the remarkable success of the East Asian Newly Industrializing Economies (NIEs) fail to account for local variations in post-Mao China. While most coastal cities were opened up during the 1980s to support the national strategy of export-led growth, some became highly successful while others lagged behind. Among the centrally administered cities, Shanghai was very adept in pushing for growth, while Tianjin was caught up even by Guangzhou. Among the SEZs, Shenzhen was the most successful, while Shantou fell into near oblivion. Similar variations can be found among ‘coastal open cities,’ with Guangzhou and Ningbo leading the group, while Nantong and Beihai are muddling through. Perhaps a more remarkable contrast may be identified among numerous county-level cities.

Differences in geographical location and factor endowments—geographical proximity to Hong Kong or Taiwan, possession of an international harbor or airport, availability of

Statistical profiles of Qingdao and Dalian, 1996

<i>Indicator</i>	<i>Qingdao</i>	<i>Dalian</i>
Total population (1,000)	6,903	5,374
GDP (RMB million)	71,020	73,310
GDP as percentage of provincial GDP	11.9	23.2
Gross value of industrial output (RMB million)	111,737	129,789
Gross value of agricultural output (RMB million)	23,174	16,066
Total foreign trade (US\$ million)	4,619	4,370
Total foreign trade as percentage of provincial total	25.5	32.2
Realized foreign capital (US\$ million)	936	1,139
Realized FDI (US\$ million)	798	1,006
Realized FDI as percentage of provincial total	30.3	57.9

experienced personnel and entrepreneurs, industrial structure, and so on—may explain many of these variations, but this study purports to supply some additional answers which may well be more crucial than those factors that are given or largely fixed. The experiences of the SEZs, Guangdong, Shandong and Shanghai underscore the crucial importance of preferential policies granted by Beijing.⁴ Preferential policies are important in two aspects: (1) they constitute domestically-directed signals that the designated local recipients would be permitted and encouraged to break out of the ideological and institutional constraints and try out new things; and (2) they are also understood as externally-targeted messages that foreign cooperation with these special localities would be fully protected by the central authorities.⁵

Preferential policies alone, however, cannot bring about sustained development. The cases of Shanghai and several other provinces suggest that the local leadership factor is perhaps as essential as their resource endowments and preferential policies.⁶ Specifically, we may focus on concrete strategies devised and adopted by local leaders in their pursuit of growth as well as on the extent to which these leaders were successful in bargaining with the provincial and, often, central authorities over deregulatory policies, revenue-sharing and property rights. As China's economic reform has been heavily dependent upon international trade, foreign investment, and technologies and management know-how imported from abroad, the promotion and expansion of transnational linkages also constitute a very crucial component of the recipe of coastal development. Important in this respect is the presence of a willing and capable foreign partner, without which a locality's pace of growth is likely to be both slow and unstable.⁷

This study compares the two successful cases of Qingdao and Dalian in accordance with the three categories of factors assumed to be key ingredients of the 'coastal recipe' for development.⁸ The selection of the two cities was guided by the following considerations. First, the pace of economic growth in both cities has been so fast that they have constituted the 'dragon head' (*longtou*) as well as 'development corridor' for Shandong and Liaoning, respectively.⁹ Second, as will be detailed later, Qingdao and Dalian share very similar historical experiences and locational endowments, which allow us to control

for these variables. Third, the privileges in terms of selective preferential policies that Beijing has bestowed on these two cities are almost the same, with very few differences. Fourth, both Qingdao and Dalian had powerful central officials, Yu Zhengsheng and Bo Xilai, respectively, assigned by Beijing. Fifth, both cities have relied heavily on international economic cooperation for their high growth. Thus, the selection of Qingdao and Dalian constitutes a ‘most-similar-system’ design which is usually adopted to account for different outcomes. While both cities are successful cases among the coastal cities, their patterns of development differed rather significantly in that Dalian’s growth accelerated during the 1980s, while Qingdao’s development was largely delayed until the early 1990s. What accounts for this often neglected but meaningful variation? This study suggests that the differences in the timing of Beijing’s provision of preferential policies, local ideological and policy orientations, relations with administrative superiors, and the partners for international economic cooperation jointly contributed to the different pace of development in the two cities.

This chapter consists of five sections. The first provides a brief overview of the two case cities, including their economic performance during the post-Mao reform era and their historical and natural endowments. The second section examines the factor of preferential policies from Beijing by focusing on what sort of privileges Qingdao and Dalian have enjoyed and how these policies have affected the pattern of growth in these cities. The third section explores the local leadership dimension by identifying its key role in creating favorable local policy environments for developmental reforms. The fourth section investigates transnational and inter-regional linkages these cities have established for economic cooperation. The final section provides a conclusion as to the prerequisites for local economic development and some key factors that may cause variations.

Economic development in Qingdao and Dalian: an overview

Throughout the centralized Maoist period, Qingdao, as a prominent light-industrial (especially textile-producing) city and one of the five key trade ports in China, had suffered enormously from the regime’s predominant sectoral bias in favor of heavy industry and its emphasis on ‘self-sufficiency.’ Particularly during the Great Leap Forward and the Cultural Revolution periods, great losses were incurred on Qingdao which was heavily specialized in textile-oriented light industries. During the 1958–62 period, for instance, Qingdao’s gross value of industrial output (GVIO) and gross value of agricultural output (GVAO) marked a negative growth of 3.7 percent and 9 percent per annum, respectively. During the period of 1966–76, too, the city’s growth in GVIO and GVAO remained largely stagnant compared to earlier periods.¹⁰ Consequently, the role of Qingdao as an agent of development within Shandong was inevitably limited.

Dalian’s situation was not very different. Although Dalian’s industrial structure was more geared toward heavy industry—machinery and shipbuilding industries in particular—than Qingdao, the Great Leap and the ‘Third Front’ construction during the Cultural Revolution decade seems to have had a very adverse impact on Dalian’s economic development.¹¹ As the GVIO and GVAO data for 1978 in [Table 4.1](#) indicate, Dalian did

Table 4.1 Economic development in Qingdao and Dalian: a comparison^a

Year	GVAO ^b (RMB100 million)	GVI0 ^b (RMB100 million)	Exports (US\$ million)	Foreign capital utilized ^d (US\$ million)
1978	12.1/10.3	56.6/63.5	—/—	— /—
1985	30.0/10.0	111.4/124.2	224 ^c /78	— /151
1990	58.0/46.9	357.2/300.2	335/1,173	78/478
1995	192.3/136.3	941.3/1,240.3	2,451/2,530	866/914

Sources: *Qingdao Municipal Statistical Bureau*, *Qingdao tongji nianjian 1996* (Statistical Yearbook of Qingdao 1996), Beijing, Zhongguo tongji chubanshe, 1996, pp. 28, 223, 226; *Qingdao tongji nianjian 1991* (for 1990 figures), pp. 15–6; and *Dalian Municipal Statistical Bureau*, *Dalianshi shehui jingji tongji nianjian 1996* (Socio-economic Statistical Yearbook of Dalian 1996), Beijing, Zhongguo tongji chubanshe, 1996, pp. 3–4.

Notes

a Figures on the right are the data on Dalian; and those on the left on Qingdao.

b GVAO and GVI0 figures are in current prices.

c These data on Qingdao are for 1988 when Qingdao was first allowed to export on its own.

d These data refer to 'actually utilized foreign capital' (*shiji liyong waizi*).

relatively poorly in agriculture but fared better than Qingdao in industrial production by a small margin. During the post-Mao reform era, according to Table 4.1, Qingdao has always maintained its edge over Dalian in terms of agricultural production. This may have had a lot to do with Shandong's traditional emphasis on agriculture as opposed to Liaoning's heavy stress on industrial development. In industrial production (as indicated by GVI0), Dalian has done better than Qingdao, with the gap narrowed in the late 1980s but widened rather considerably during the 1990s. In the 1980s, Dalian had far surpassed Qingdao in both categories of exports and actually utilized foreign capital. During the 1990s, however, the gap in these areas has been narrowed very rapidly.

From a national perspective, Qingdao and Dalian are two very successful cases in the reform era. Table 4.2 provides comparative indicators for the pace of economic growth in Qingdao, Dalian and nine other cities in the post-Mao era. While both Qingdao and Dalian lagged behind such large cities as Chongqing, Shenyang, Chengdu and Wuhan in the initial stage of reform, by 1988 their GVAIO exceeded that of Chongqing and Chengdu, despite their much smaller population. By 1991, Qingdao's GVAIO surpassed that of Wuhan and Shenyang, while Dalian beat Wuhan. On the other hand, if compared with Guangzhou, Ningbo and Shenzhen in particular, Qingdao and Dalian's pace of growth was not as fast as their southern counterparts. While Guangzhou, Ningbo and Shenzhen increased their GVAIO for 1996 over that of 1978 by 27 times, 56 times, and 7,275 times, respectively, the comparable figures for Qingdao and Dalian were about 20 times each. It seems apparent that variations in the rate of growth exist not only between coastal cities and their inland counterparts, but also between northern and southern coastal cities.

Neither Qingdao nor Dalian is a front-runner but both are very successful cases. Among thirty-five provincial capitals (including Beijing, Shanghai and Tianjin but excluding

Table 4.2 Qingdao's development in comparative perspective, 1978–96 (GVAIO in RMB 100 million at current prices)

City	1978	1985	1988	1991	1996	1996/1978
Qingdao	68.3	141.1	296.0	483.4	1,349.1	19.8
Dalian	73.8	132.7	271.8	405.4	1,458.6	19.8
Chongqing	82.9	173.9	241.1	465.8	1,235.0	14.9
Chengdu	57.8	141.9	251.0	380.5	1,122.7	19.4
Wuhan	77.5	183.2	299.8	374.4	1,112.5	14.4
Shenyang	89.6	194.1	324.8	434.4	1,146.7	12.8
Guangzhou	83.4	195.9	378.8	581.9	2,211.5	26.5
Harbin	51.9	103.2	172.3	241.7	969.0	18.7
Ningbo	33.3	133.5	256.1	417.5	1,876.1	56.3
Nanjing	67.3	137.1	244.7	390.6	1,321.0	19.6
Shenzhen	0.2	30.1	111.2	274.6	1,455.0	7,275.0

Sources: Figures for 1978, 1985 and 1988 are from State Statistical Bureau, *Zhongguo chengshi sishinian* (China: The Forty Years of Urban Development), Beijing, Zhongguo tongji xinxi zixun fuwu zhongxin, 1990, pp. 214–15; figures for 1991 are from Xiamen Statistical Bureau, *Yantai kaifang chengshi, jingji tequ, jihua danlie shi tongji ziliao huibian 1991* (Statistical Compilations for Coastal Open Cities, Special Economic Zones, and Central Economic Cities 1991), Xiamen, 1992, p. 8; and the 1996 figures are from *Zhongguo tongji nianjian 1997* (Statistical Yearbook of China 1997), Beijing, Zhongguo tongji chubanshe, 1997, p. 344.

Lhasa) and ‘central economic cities,’ Qingdao and Dalian ranked eleventh and eighth in per capita GVAIO for 1996. And among thirty special economic zones, ‘coastal open cities,’ and ‘key-point cities,’ Qingdao and Dalian ranked eighth and seventh in export volumes, and eleventh and tenth in actually utilized foreign capital for 1995.¹² Thanks to their regional importance and intraprovincial status, Qingdao and Dalian have performed as the ‘dragon heads’ and corridors of development for Shandong and Liaoning, respectively. We now turn to the historical and natural endowments of the two case cities.

Like many other large cities in coastal China, Qingdao and Dalian had been subject to colonial rule for many years. Qingdao had first been controlled by Germany during 1897–1914 and then taken over by Japan which occupied the city until 1945, with an interregnum of the Kuomintang rule during 1922–38.¹³ While both Germany and Japan regarded Qingdao as one of their key bases in China, Germany seems to have assigned more economic value to the city than Japan, which regarded it as one of its many forward military bases in China. Consequently, the Germans contributed significantly more to the building of the city’s industrial and infrastructure foundation, particularly by constructing harbors, railways (most notably the Jiaoqi Railway), and roads, as well as by experimenting with the ideas of free port and duty-free zone.¹⁴

Dalian was leased to Russia in 1898, which developed it as a commercial port and the neighboring Lushun as a naval base. By 1905 when Dalian was taken over by Japan following Russia’s defeat in the Russo-Japanese War, Russia had built the Manchurian Railway linking Luda with Harbin, which was later connected to the Trans-Siberian Railway. In 1906, Japan declared Dalian a free port and by 1917 the city handled nearly

70 percent of all exports from northeast China, making the city the second largest port in China. After 1931, the Japanese started to invest in heavy industry such as special steel, cement, machinery, shipbuilding and ship repair. By 1939, 96 percent of industrial capital committed to the city originated from Japan.¹⁵

It seems that, despite the historical legacies and natural endowments shared by the two cities, namely, their colonial experiences and coastal location with major international ports, Qingdao and Dalian have over the years cultivated rather distinct cultural traits. Having experienced a colonial rule for an extended period of time, we would expect both Qingdao and Dalian to have developed a sort of ‘cosmopolitan’ mind-set. In the case of Dalian, its cosmopolitanism had remained largely latent during the Maoist period, only to resurface in the reform era. Its memories of and experiences with free and open ports may also have put Dalian in a highly advantageous position in making the best use of the new policy of ‘opening’ to the outside world. In contrast, Qingdao does not seem to have cultivated or retained a comparable level of cosmopolitan entrepreneurship. It remained a very conservative city during much of the 1980s.¹⁶ Historical and natural endowments seem to be but one component of the recipe for the success of these two cities. We now turn to the factor of preferential policies granted by Beijing as a more direct source of incentives for growth.

Beijing’s provision of preferential policies for Qingdao and Dalian

It has almost become a cliché that special policies matter in promoting growth. The accelerated pace of development in Shenzhen and Xiamen has in large part been a result of their designation as special economic zones in 1979. Perhaps the same can be said of Shanghai for its remarkable success in the Pudong Development Zone. Such highly exclusive geographically-targeted policies came with preferential treatment, which included various tax incentives, favorable fiscal arrangements, a variety of zoning prerogatives, and an expanded scope for local discretion in economic management. The success of Qingdao and Dalian is also strongly supportive of the centrality of preferential policies in promoting local economic development.

Dalian and Qingdao rarely failed to obtain their share of key preferential policies granted by Beijing. As [Table 4.3](#) well illustrates, with the notable exception of the special economic zones designation bestowed on only four cities in Guangdong and Fujian in 1979 and later on Hainan in 1988, Qingdao and Dalian managed to receive a wide range of preferential policies given to only a select group of cities. The impact of these preferential policies was enormous as they provided the recipient cities with both economic incentives and administrative discretion to be different and innovative in pursuit of local economic development. For instance, Qingdao’s overall pace of development during 1978–84 was very slow because the city had to be content with the old rigid policy environment dictated by state plans and provincial control, and largely devoid of outside contact. A crucial breakthrough was made in April 1984 when the State Council designated Qingdao, along with thirteen other coastal cities (including Dalian), as a ‘coastal open city’ (*yanhai kaifang chengshi*; hereafter COC) empowered to implement a

Table 4.3 Major privileges granted to Dalian and Qingdao

<i>Preferential designation</i>	<i>Dalian</i>	<i>Qingdao</i>
Key economic cities (1981)	Yes	Yes
Coastal open cities (1984)	Yes	Yes
Economic and technological development zones (1984)	Yes	Yes
Comprehensive reform experimental cities	Yes	Yes
	(7/1984)	(10/1986)
Central economic cities	Yes	Yes
	(7/1984)	(10/1986)
Bonded zones (1992)	Yes	Yes
State tourism and leisure zones (1992)	Yes	Yes
New and hi-tech industrial development zones (1992)	Yes	Yes
Experimental sites for the tax-sharing reform (1992)	Yes	Yes
Establishment of foreign-invested banks	Yes	Yes
	(1992)	(1993)
Opening of retail markets to foreign investment (1992)	Yes	Yes

variety of preferential policies to promote foreign trade and investment.¹⁷ After the COC designation, foreign investment committed in Qingdao in 1984 amounted to US\$ 17.4 million in contractual terms, of which US\$12.1 million was actually utilized for a total of twenty-two projects. The impact of the COC designation is clearly illustrated by the fact that the amount of the actually utilized foreign capital for 1984 alone far surpassed Qingdao's accumulated total—US\$8.9 million—for the five-year period 1979–83.¹⁸ In the case of Dalian, too, positive effects of the COC designation were such that the amount of foreign investment Dalian attracted during 1985–6 accounted for over 70 percent of all foreign investment committed in the city during 1979–86.¹⁹

If the COC designation created for Qingdao and Dalian a radically different environment for foreign economic relations, the 'central economic cities' (*jihua danlie chengshi*: hereafter CECs) policy delegated to these cities a wide range of economic decision-making power formerly reserved only for the provincial-level authorities. While formally still subject to provincial direction in administrative and organizational terms, the CEC designation enabled Dalian and Qingdao to deal directly with Beijing in making economic policy decisions. In determining their shares of revenues, expenditures, and investments, CECs negotiated directly with Beijing, no longer having to seek provincial-level approval. In foreign trade, too, Qingdao and Dalian no longer needed provincial licenses for exports. Further, the CEC municipal authorities were permitted to approve foreign investment projects up to US\$10 million initially and up to US\$30 million after 1988. In negotiating for large investment projects, too, CEC officials applied directly to Beijing, bypassing their respective provincial capitals.²⁰

The emergence of CECs enjoying a provincial-level status in economic management fairly independently of their respective provincial authorities meant weakened provincial power, not to mention losing some important portions of the revenues from these cities. Given that, how did the Liaoning and Shandong provincial governments react to such a

radical proposal?²¹ In the case of Dalian, the central government had originally planned to designate the city as the first CEC in September 1983. Yet, allegedly due to the opposition from Liaoning, the actual designation was delayed until July 1984.²² Unlike the COC designation for which Qingdao had made little effort of its own, the municipal government seems to have worked very hard to attain the CEC status. Not only were the privileges associated with the CEC designation highly attractive, but also once Dalian became a CEC, Qingdao as Dalian's arch-rival seriously researched its applicability and subsequently lobbied for its own designation. Key lobbying efforts were allegedly made by Guo Songnian (Qingdao's party secretary) during Zhao Ziyang's visit to Qingdao in 1986. However, Qingdao's efforts were initially blocked by Shandong and, according to one version, it was Li Chang'an (Shandong's governor) who did not support Qingdao's entry to the privileged list of CECs.²³

Both Liaoning and Shandong eventually conceded, probably under Beijing's pressure as well as with the expectation that the provinces would in the long run benefit from these CECs, which as 'agents of development' would diffuse 'developmental ideologies' intra-provincially and expand economic activities for the provinces as a whole.²⁴ As a matter of fact, the central government took concrete measures to minimize the adverse impact on the provinces. The financial losses incurred on Shandong by Qingdao's designation as a CEC were partially mitigated by two measures. First, Shandong's loss of revenues from Qingdao (which had amounted to as much as one third of Shandong's total revenue incomes) was compensated in part by Beijing's permission for the province to adopt the more favorable system of 'fixed-sum remittance' (*dinge shangjiao*) in 1987. Liaoning, however, was not so lucky as Beijing compelled the province to continue with the 'overall revenue sharing' (*zonghe fencheng*) system in 1985–7 with its retention rate set at 51.1 percent. In 1988, however, Liaoning was permitted to adopt the 'contracted income increase' (*shouru dizeng baogan*) system with its retention rate set at 58.25 percent and its contracted rate of increase set at 3.5 percent per annum.²⁵ Second, even after the CEC designation, Qingdao was still obliged to remit to Shandong 5 percent of 'shared revenues' (*gongxiang shouru*) as well as 25 percent of the 'road maintenance fees' (*yanglufei*) which amounted to about RMB300 million a year. Dalian, on the other hand, remitted 25 percent of shared revenues to Liaoning in addition to the remittance of RMB500 to 600 million of 'road maintenance fees.'²⁶

The CEC designation was also accompanied by the delegation of property rights over some key enterprises formerly owned by ministerial or provincial authorities.²⁷ In the case of Dalian, several centrally-owned enterprises—Dalian Locomotive Co., Dalian Chemical Co. and so on—were decentralized to the city's control. Qingdao, however, faced some difficulties due to the unwillingness of the provincial units which wished to retain control over these enterprises. For instance, the Qingdao Steel Mill Corporation, with over 30,000 workers and fixed assets worth RMB1.5 billion, was not devolved to Qingdao until 1991, owing to the staunch opposition from the Provincial Metallurgical Corporation.²⁸ In terms of intra-provincial regional planning, the provincial authorities have also tended to lend more support to Yantai and Weihai instead of Qingdao which, prior to the CEC designation, had been the focus of provincial support. For instance, the first South Korea-China ferry route was granted to Weihai in 1989 despite Qingdao's

lobbying efforts. In 1993, when Qingdao finally obtained its own ferry route to South Korea's Inchon, the privilege had to be shared with Yantai.²⁹

Over the years, Qingdao and Dalian also progressively obtained favorable arrangements in their budgetary relationships with their respective province and later with Beijing. In the early years of reform, Qingdao's revenue-sharing arrangement with Shandong had been very unfavorable. During 1980–4, Qingdao's revenue retention rate—11.7 percent and 12.7 percent in 1984—remained the lowest among large sub-provincial cities, while those of Chongqing, Harbin, Shenyang and Wuhan were set at 37.5, 38.1, 36.9 and 20 percent, respectively. After the COC designation, Qingdao's situation began to change for the better with its retention rate rising to 17.95 percent in 1986 and 21.6 percent in 1987. Although Qingdao retained 16 percent during 1988–91, it regained control over cigarette taxes after 1988 and, thanks to the CEC designation, it was also empowered to make its own expenditure decisions. The designation of Qingdao as an 'experimental site' for the tax-sharing reform in 1992 turned its fiscal condition around as it allowed the city to retain half of the product, value-added, and business taxes. The ratio of Qingdao's actual remittances over its total revenues fell from 77.6 percent in 1986 to 55.7 percent in 1993. Qingdao's budgetary revenues also grew by 59 percent between 1993 and 1995.³⁰

Dalian's fiscal position also improved over the years, although it had started out with a much higher retention rate (34.14 percent) than Qingdao in 1985.³¹ In 1988, as for Qingdao, Dalian was also permitted to adopt the 'overall revenue sharing with marginal remittances' (*zonghe fencheng jia zengzhang fencheng*) system, again, with a higher retention rate of 27.7 percent than that of Qingdao.³² In 1992, as for Qingdao, Dalian was also designated as an 'experimental site' for the tax-sharing reform. After implementing the tax-sharing reform, Dalian's financial situation improved considerably as its local revenue incomes grew by 30 percent in 1994 compared to 1993.³³

While COC and CEC designations provided Qingdao and Dalian with expanded administrative and decisional authority on a wide range of issue areas, there were also more narrowly defined preferential policies granted by Beijing. The first of these privileges concerned the establishment in 1984 of Huangdao Economic and Technological Development Zone (*jingji jishu kaifaqu*: hereafter ETDZ) in Qingdao and Maqiaozi ETDZ in Dalian. Initially, the State Council allowed only eleven COCs to set up ETDZs endowed with highly preferential policies to attract foreign-invested projects.³⁴ While Qingdao's ETDZ was not very successful for various reasons to be discussed in the next section, Dalian's Maqiaozi ETDZ was a great success accounting for 59 percent of all foreign capital actually utilized by Dalian during 1984–94.³⁵

In November 1992, the State Council approved the establishment of 'bonded zones' (*baoshuiqu*)—so far the most exclusive and preferential arrangement of all target policies—in Qingdao's Huangdao ETDZ and Dalian's Dayao Bay.³⁶ Also in 1992, the State Science and Technology Commission permitted Qingdao and Dalian to set up 'hi-tech science parks' (*gaokeyuan*). And, in the same year, the State Tourism Bureau designated Qingdao's Laoshan District and Dalian's Jinshi Beach as 'state-approved tourism and leisure zones' (*guojia luyou dujiaqu*), of which there are eleven in China.³⁷

In 1992, Dalian was permitted to establish foreign-invested banks and, as of 1995, Dalian had a total of nine foreign banks, among which six were Japanese. In 1993, the People's Bank of China (PBOC) authorized three foreign banks to set up branches in Qingdao to facilitate easier business transactions. This was a significant preferential policy since neither Jinan, Shandong's capital, nor Yantai was able to share such privileges. As of 1995, Qingdao and Dalian were two of the sixteen cities authorized to have foreign-invested banks, and PBOC allowed Qingdao to establish a joint-venture bank between the China Industrial and Commercial Bank and a South Korean bank as its main partner in 1995.³⁸ The same sixteen cities were also cleared to set up their own urban co-operative banks. Dalian, for instance, has been planning to set up Dalian Cooperative Bank which is empowered to set its own interest rate for corporate borrowings.³⁹

In 1993, the State Council and the Ministry of Foreign Trade and Economic Cooperation endorsed a large-scale project for foreign-invested department stores in Qingdao which utilized Malaysian funds. Dalian, too, was allowed to open a Japan-invested department store. In 1992, Dalian and Qingdao also joined a select group of cities approved by Beijing to open retail markets to foreign investment.⁴⁰ In the case of Qingdao, in 1993 the Central Military Commission approved the Municipality's plan to convert its airport to the only airport and, furthermore, the State Bureau of Civil Aviation allowed the airport to become an international one by opening direct air routes to Japan (Osaka) and Korea (Seoul). Since then, Qingdao has focused its efforts on airport expansion.⁴¹ In contrast, Beijing designated the Dalian airport as an international airport in July 1984 and supported its expansion in August. By 1986, Dalian's Zhoushuizi airport was expanded successfully to receive Boeing 747s. Dalian has international air routes to four cities in Japan and to Seoul.⁴² In 1991, the State Planning Commission endorsed Qingdao's plan to build a subway system relying mostly on foreign investment, while Dalian failed to get Beijing's approval.⁴³ Finally, as early as 1986, the Ministry of Foreign Trade and Economic Cooperation endorsed Dalian's plan to hold a regional trade fair called *Lianjiaohui*, and the same privilege was extended to Qingdao (called *Qingjiaohui*).⁴⁴

Were these various preferential policies and arrangements responsible for the successes of Qingdao and Dalian? The answer must be a positive in that they constituted a necessary, though not sufficient, condition for laying down the foundation for growth and investment.⁴⁵ Then, given that Qingdao and Dalian shared such similar sets of preferential policies from Beijing, why was Dalian able to develop relatively faster than Qingdao during the 1980s, particularly in the area of foreign economic relations? The differential timing in Beijing's provision of preferential policies might have been a crucial factor. Beijing allowed Dalian a head start on at least five occasions: (1) the provision of the CEC status;⁴⁶ (2) the designation of 'comprehensive reform experimental cities'; (3) the designation 'international airport'; (4) the permission to establish foreign-invested banks; and (5) the granting of authority to organize regional trade fairs. Dalian's attainment of these preferential policies was faster than Qingdao by two to seven years. Dalian's intra-regional status might have been an important factor in Beijing's earlier provision of special policies for it. That is, Dalian is the 'dragon head,' window, and corridor for the entire northeast provinces and Inner Mongolia with its international port, roads and railway s connecting Manchuria. On the other hand, Qingdao caters mainly for Shandong as it has

many neighboring competitors such as Tianjin, Qinhuangdao, Yantai and Weihai. Dalian's 'inland potentials' (*neidi qianli*) must thus have significantly affected Beijing and Liaoning in supporting its reform effort.⁴⁷

If we look closely at the wide range of special policies bestowed on Qingdao and Dalian, except for the establishment of the ETDZs in 1984 and the CEC designations, all other major preferential arrangements were granted in the 1990s. Even the total area of the Huangdao ETDZ was radically expanded in 1993 from 15 to 152 square kilometers under the authority of the State Council's approval. The same applies to Dalian: its Maqiaozi ETDZ was also expanded from 3 to 24 square kilometers in 1992.⁴⁸ What then may account for the developmental processes during the interlude between 1984 and 1992? It seems that local leadership dynamics may have been another important source of variation between the two cities. Dalian, with a local 'entrepreneurial pusher', was able to make a head start in the 1980s in comparison with Qingdao which had to wait for a strongman dispatched from the center. We now turn to these local leadership dynamics.

Leadership stability, entrepreneurial 'pushers' and development strategies

In pushing for local economic development, entrepreneurial leaders are indispensable in making the best use of natural endowments and preferential policies as well as in exploring new possibilities and boundaries of action.⁴⁹ Obviously, in China where local officials still have to play to the 'official line' of the center, conservatism and bureaucratic careerism continue to prevail as the essential guide to local policy behavior. It seems that, overall, Dalian's leaders were more 'open-minded' and reformist than their Qingdao counterparts during much of the 1980s. Such a contrast may perhaps be explained by at least three factors. First, the historical legacies of Dalian as an international free port and its status as the 'gateway to Manchuria' may have placed Dalian in a much more advantageous position than Qingdao. With a much larger hinterland base, Dalian was granted several preferential policies much earlier than Qingdao, thus making a head start in mapping out its reform strategies.⁵⁰ Second, several interviewees suggested that Dalian had been more successfully shielded from serious political campaigns during the Maoist period than Qingdao, thus managing to maintain a residue of cosmopolitan entrepreneurship intact. Third, Qingdao's relations with Shandong were much more bumpy than Dalian's relations with Liaoning and, therefore, Qingdao's leaders had to be very careful not to deviate from Shandong's guidelines and offend the provincial authorities in charge of their personnel appointments.⁵¹

All of the interviewees in Qingdao and Jinan concurred that during the 1980s Shandong's pace of reform was considerably restrained and they attributed this mainly to the 'conservative' views held by Shandong people and its leadership in particular. They all seemed to think of ideological conservatism as major impediments to Shandong's implementation of innovative reformist schemes.⁵² Throughout the 1980s, the situation in Qingdao was little different from the rest of the province. An official provincial history describes Qingdao's situation in the early and mid-1980s as follows:

Table 4.4 Post-Mao leaders in Dalian and Qingdao, 1978–96

<i>Dalian's party secretaries</i>	<i>Qingdao's party secretaries</i>	<i>Dalian's mayors</i>	<i>Qingdao's mayors</i>
Li Huang	Liu Zhongqian	Cui Ronghan	Liu Zhongqian
Hu Yimin	Li Zhiwen	Wei Fuhai	Zheng Gan
Bi Xizhen	Zhou zhenxing	Bo Xilai	Li Bingzheng
Cao Bochun	Wang Jinwu		Zang Kun
Yu Xuexiang	Liu Peng		Guo Songnian
	Guo Songnian		Yu Zhengsheng
	Yu Zhengsheng		Qin Jiahao

Sources: Author's interviews; Malcolm Lamb, *Directory of Officials and Organizations in China*, Armonk, M.E.Sharpe, 1994; and *Zhongguo gongchandang Liaoningsheng Dalianshi zuzhishi ziliao 1926–1987*, Dalian, Dalian chubanshe, 1991.

During the Cultural Revolution, Qingdao had been one of the places most seriously damaged by ideological conflicts and factional struggles. Therefore, in this period 1978–84, Qingdao's economic reform was enormously affected by the political efforts to redress the 'leftist mistakes' of the past. In fact, the problems have not yet been fully resolved. Under these circumstances, the pace of development in Qingdao remained very slow.⁵³

Such political efforts to redress the 'leftist mistakes' of the past inevitably generated frequent leadership changes. Table 4.4 provides an interesting comparison between Qingdao and Dalian in this regard. The respective number of municipal party secretaries and mayors for the period 1978–96 suggests that Dalian has enjoyed a much higher level of leadership stability with five party secretaries and three mayors as opposed to Qingdao's seven each. On the basis of these data, we may speculate that Dalian with its higher leadership stability was able to pursue a more coherent developmental policy than Qingdao. Conversely, we may also argue that Dalian's leaders were perhaps more effective in delivering the 'fruits of reform' than their Qingdao counterparts who had to resign more frequently for their policy failures.

With ideological problems and political scores remaining to be settled, Qingdao's municipal leaders were inevitably conservative, discouraging anything radical. The location decision for the Huangdao ETDZ in 1984 merits attention in this respect. The ETDZ could have been located in the eastern part of the city with better transportation linkages and infrastructure support. But the cautious leadership (then under Liu Peng and Zang Kun) had preferred the controversial ETDZ to be located as far away as possible from the city proper. Eventually, remote Huangdao county was chosen. The overall condition of the Huangdao ETDZ proved poorer than those of Dalian, Tianjin, and even Yantai, resulting in only very limited foreign investment in the zone.⁵⁴ While some interviewees assessed certain contributions by Liu Peng positively in initiating programs of agricultural development (e.g., diversified production) and by Guo Songnian in

obtaining the CEC designation, most interviewees in Qingdao and Jinan underscored the critical role performed by Yu Zhengsheng as an 'entrepreneurial pusher' in Qingdao's development.

Yu Zhengsheng provided a watershed in Qingdao's political history; he was the first 'central official' (*jingguan*) from Beijing to rule the city, as well as the first Qingdao official to join the Central Committee. Yu is representative of young-generation technocratic elites with strong family backgrounds. Yu's father is Huang Jing (his real name is Yu Qiwei), the first post-1949 mayor of Tianjin as well as the former husband of Jiang Qing. Huang later served as the Minister of the First Machinery Industry and director of the State Science and Technology Commission before his death in 1958. Yu's mother, Fan Qin, was a former deputy mayor of Beijing and later deputy chairman of the Beijing Municipal People's Political Consultative Conference. Yu's wife, Zhang Zhikai, is a daughter of Zhang Zhenhuan, formerly a deputy director of the Armament Department of the General Staff of the PLA and deputy director of the Scientific and Technological Commission for National Defense (*guofang kexue jishu weiyuanhui*;) as well as chairman of the Commission's Science and Technology Committee.⁵⁵ Yu, therefore, is sufficiently qualified to be a 'revolutionary' (*geminghua*) cadre thanks to his influential family background.

Yu was born in Shaoxing, Zhejiang, in 1945.⁵⁶ In 1963, Yu entered the prestigious Harbin Military Engineering Institute where he majored in computer engineering. In 1968, Yu was sent down to Zhangjiakou where he worked as a factory worker during much of the Cultural Revolution decade. After his mother was rehabilitated in 1975, Yu was assigned back to Beijing to work at the Ministry of Electronics Industry. In 1984, Yu became a deputy chief of the Ministry's Planning Department with distinction as a general engineer (*zonggongchengshi*).⁵⁷ Thus, Yu also meets the 'specialization' (*zhuankehua*) and 'knowledgeable' (*zhishihua*) criteria.⁵⁸

With a short interlude as a deputy chairman of Deng Pufang's China Welfare Fund for the Handicapped (*zhongguo canzhiren fuli jijinhui*)⁵⁹ Yu began his local career in November 1985 as a deputy mayor of Yantai, one of the fourteen COCs. In April 1987, he became the mayor and deputy party secretary of Yantai. In Yantai, Yu successfully managed commercializing urban housing in the city, a practice which was later promoted as a national model.⁶⁰ Yu also attracted more than forty foreign-invested projects within a year when such an accomplishment was by no means common, especially in northern China in 1987. His performance in Yantai was allegedly very positively assessed by the central leadership which in March 1989 appointed Yu as a deputy-mayor of Qingdao.⁶¹ In March 1990, Yu became the mayor, the bureaucratic rank of which was practically that of a deputy-governor (*fushengji*) due to the city's CEC status. In February 1992, Yu became the secretary of the Qingdao Municipal Party Committee. Concurrently serving as party secretary and mayor, Yu became the indisputable leader of the municipality.⁶²

In 1992, for the first time as a Qingdao official, Yu joined the Fourteenth Central Committee of the CCP as an alternate member. Other than Qingdao, only two other COCs had their leaders as full (Tianjin) or alternate (Guangzhou) members of the Central Committee. Yu was one of the five Central Committee members from Shandong and also a member of the Shandong Provincial Party Standing Committee. Interestingly, as a Zhejiang native, Yu was the only non-Shandong native among these top leaders at the

provincial level. Yu's rapid promotion at both national and provincial levels may be attributed in part to his family backgrounds.⁶³ On the other hand, sufficient evidence is available to suggest that such a perspective alone may not deliver the whole story. It seems that Yu's own talents and efforts were combined with his family background and other informal networks to produce innovative reform programs in Qingdao.⁶⁴ Now, we turn to his strategies of reform and opening.

Upon his assumption of the concurrent party secretary position in 1992,⁶⁵ Yu set up a 'leadership small group for opening,' which was put in charge of devising long-term strategies to 'really open' the city, beyond empty rhetoric. One core objective was to improve the city's overall environment for foreign investment.⁶⁶ First, Yu moved the entire municipal government complex to the under-developed eastern part of the city. This radical measure was aimed at: (1) developing the backward eastern part of the Qingdao city proper; (2) locating widely scattered government and business units in one large building to facilitate administrative efficiency; and (3) allowing the development of tourism and real estate investment in the western part by selling its government land and buildings to overseas developers. Accompanying these improvements were plans for new housing, shopping districts and renovation of beach areas for the purpose of boosting local tourism industries.⁶⁷

One of Yu's most talked about accomplishments concerns the airport project. The dominant rationale was that in order for Qingdao to attract foreign investment and trade, it had to have a more open and freely accessible international airport.⁶⁸ For this purpose, the Qingdao airport had to be converted from a military to a solely civilian airport. However, policy recommendations made by Shandong and Qingdao were initially rejected by the State Council and the military. Facing staunch opposition from the Central Military Commission (CMC), Yu is alleged to have frequently flown to Beijing to persuade the military. Eventually, Yu managed to attain the approval of the CMC as well as the State Council to make it a civilian airport.⁶⁹ From late 1991 Yu also made efforts to open direct air routes to Japan and South Korea in order to improve the infrastructure environment for foreign investment and trade. Since Qingdao was a CEC, Yu contacted the State Council and its Bureau of Civil Aviation Administration directly for over two years. In early 1994, the State Council—more specifically deputy premier Zou Jiahua in charge of planning—approved direct air routes to Osaka and Seoul. Furthermore, a plan for expanding the airport has been implemented. Since the Qingdao airport has been unable to receive large aircraft like the B-747, expansion is an inevitable measure for which more than RMB1.1 billion (including foreign funds amounting to US\$30 million) would be required and, therefore, central approval is an absolute prerequisite.⁷⁰

In addition to the airport project, Yu successfully managed to obtain central approval for the ten-fold expansion of the Huangdao ETDZ's land area and for the establishment of a highly preferential 'bonded zone' inside the ETDZ, a hi-tech industrial development zone in the Laoshan district, and a state-endorsed tourism and leisure zone.⁷¹ A large-scale subway project was also approved by the central authorities under Yu's command. Another noteworthy contribution is the establishment of Qingdao University, which was the result of a merger of several small colleges and junior colleges in accordance with Yu's

stress on the education and training of academic specialists and professional researchers for Qingdao's reforms.⁷²

Yu also introduced new organizations and reinforced old institutions. First, soon after Yu became the party secretary in 1992, he proposed to set up a new administrative unit called 'major projects office' (*zhongda xiangmu bangongshi*: hereafter MPO). The MPO was established in April 1993 staffed mainly by officials formerly with the municipal planning commission. Designated as a bureau-level unit placed directly under the municipal government's administrative office, and organized into three divisions (administration, industrial projects, and infrastructure projects), the MPO was put in charge of: (1) planning long-term large-scale projects; (2) facilitating coordination among relevant administrative units in Beijing, Jinan and Qingdao; (3) providing information and liaison services for the designated projects; and (4) soliciting prospective foreign investors. Major projects, according to an official from the MPO, refer to the projects involving more than US\$30 million—thus automatically requiring central approval—in the form of joint or foreign wholly-owned investment. The specific projects destined to receive priority from the MPO were determined by Yu, and MPO officials met Yu at least twice a week for close consultation. Projects on the airport expansion, subway construction, and large state enterprise renovation (such as a US\$60 million project to renovate the Qingdao Steel Mill Corporation) were handled by the MPO. Being a CEC, Qingdao's MPO officials went to Beijing to obtain central support and negotiate with relevant units of the State Council.⁷³ By representing the municipal government as a whole—rather than a single functional *xitong*—to Beijing, the MPO is assessed as having successfully realized several large-scale projects for Qingdao.

An old organization which has been reinforced is the 'foreign investors' complaint center' (*waishang tousu zhongxin*).⁷⁴ Another is the Qingdao Municipal office in Beijing. After Qingdao became a CEC in 1987, Qingdao established its Beijing office under the approval of the Administrative Office of the State Council. Consisting of Secretariat, Information Department, Economic Liaison Department, a guest house and a trading company, Qingdao's Beijing Office carries out the following functions: (1) to consolidate Qingdao's relationship with the State Council and its subsidiary units; (2) collect information on political, economic and science-technology affairs and relay it to Qingdao;⁷⁵ (3) to implement 'horizontal economic cooperation' (*hengxiang jingji xiezuo*) with other regional and functional organizations to attract capital, technology and human resources; and (4) to strengthen Qingdao's 'influence' in the center and enhance the city's reputation.⁷⁶ Qingdao's Beijing office, staffed by about seventy people (thirty administrative personnel) in 1996, was led by the director who used to be a deputy secretary-general (*fu mishuzhang*) of the municipal government and was empowered to act on behalf of Yu in dealing with the State Council and its ministries to coordinate central-Qingdao relations and to obtain central support and approval for the city's key projects.

Dalian's situation was rather different from that of Qingdao. As pointed out earlier, Dalian has been better known for its cosmopolitan atmosphere and business instinct. As one of the few cities relatively less affected by the traumatic campaigns during the Cultural Revolution (and even during the Tiananmen Incident), Dalian has managed to maintain relatively stable leadership arrangements.⁷⁷ Fewer leadership changes meant more

opportunities to pursue coherent development strategies. Furthermore, in stark contrast to Qingdao where locally-cultivated leaders took conservative approaches to reform until Yu Zhengsheng took over, Dalian had local ‘entrepreneurial pushers’ at a much earlier stage of the reform. Two local pushers merit our attention—Bi Xizhen (party secretary during 1985–92) and Wei Fuhai (mayor during 1983–92). Little is known about Bi Xizhen except that, as a native of Dalian, his career was spent mostly in the Dalian region (including Luda) and spanned such key functional areas as organization, planning and light industry. Allegedly, Bi was behind many long-term plans to make Dalian one of the fastest developing cities, including that of ‘Hong Kong of the North’ (*beifang xianggang*).⁷⁸

Particularly noteworthy is Wei Fuhai who, as mayor, ruled Dalian for nine years from 1983 to 1992. As a Liaoning native, Wei worked his way up from a chemical engineer to the secretary of Luda and to Dalian’s mayor.⁷⁹ As the beginning of his tenure as Dalian’s mayor closely corresponded with Dalian’s ‘opening’ (it was designated a COC in early 1984), the city’s key development strategies were presumably carved out by Wei himself. The most important of Wei’s contributions is considered to have been his efforts to transform Dalian’s environment for foreign economic relations. In 1985, Wei managed to merge the city’s Foreign Trade Bureau with the Commission on Foreign Economic Relations to unify Dalian’s bureaucratic channels for foreign economic relations.⁸⁰ As early as 1986, Wei established and personally chaired the ‘export coordination small group’ designed to prevent excessive competition for exports among Dalian’s firms. In 1987 (i.e. about four years earlier than Qingdao), Wei set up the ‘leadership small group for improving investment environments’ (*gaishan touzi huanjing lingdao xiaozu*).⁸¹ Wei also made serious efforts to expand business linkages both domestically and internationally. During his tenure, Wei opened air routes to Tokyo in 1987, making it the first international air link in the entire northeast region. Wei also attracted branches and liaison offices of foreign banks beginning with Standard Chartered Bank in 1986.⁸²

Wei is also known to have played a crucial role in initiating what is now known as Dalian’s ‘four major activities’ (*sida huodong*). The establishment of *Lianjiaohui* (Dalian Trade Fair) in 1987 was attributed in part to Wei’s liaison with the North-east Regional Planning Office of the State Council. The initiation of the Dalian International Marathon Competition in 1987, the Dalian International Fashion Festival in 1988, and the Dalian Rose Festival in 1989 were all conceived under Wei’s rule. Additionally, Wei was also behind the scheme for setting up a ‘tax-free storage’ (*baoshui chuanku*) in 1989, which positioned Dalian well for its attainment of a ‘bonded zone’ in 1992.⁸³

Many interviewees in Dalian characterized Wei as a ‘pragmatist’ (*shiganzi*) who dared to push for potentially controversial policies that would benefit Dalian regardless of their political or ideological implications. While some interviewees opined that his policy orientation was conservative, such a retrospective evaluation may not stand up, given that Wei was promoted to a vice-president for the China International Trust and Investment Corporation (CITIC) in 1993. Probably his major disadvantage, particularly compared with Bo Xilai who succeeded him, resided in the fact that, as a locally-cultivated official, Wei had limited authority and ability to bargain forcefully with Liaoning and Beijing.⁸⁴

Bo Xilai was born in Shanxi in 1949 as the fourth child of Bo Yibo, one of the most powerful octogenarians in China.⁸⁵ Graduating from Beijing University and the Chinese

Academy of Social Sciences, Bo had worked briefly at the Administrative Office of the Central Party Committee as well as the Research Office of the Central Party Secretariat. In 1984, Bo was assigned to Jin County, in the vicinity of Dalian, as its deputy party secretary.⁸⁶ Subsequently, Bo became the party secretary of Dalian's Maqiaozi ETDZ. In 1989, he was promoted to an executive deputy mayorship of Dalian. In 1992, he became acting mayor and later formally mayor in 1993. Given his long experience with the Dalian region, Bo must have been well attuned to local conditions and needs. And thanks mainly to his family background and informal connections in China and overseas, many had high expectations of Bo when he was appointed acting mayor of the city in 1992.⁸⁷

Bo was instrumental in establishing the Dalian Industrial Park in 1991, to be developed jointly by Dalian and Japan, and allowing Japanese firms to use its land for up to fifty years. Allegedly, it was also Bo who came up with the scheme for developing fifteen (later reduced to thirteen) 'small zones for economic development' (*jingji kaifa xiaoqu*) in 1992. This measure was aimed at promoting investment in the city's urban and suburban districts along the ShenyangDalian Railway, which had stagnated due to Dalian's priority investment in the ETDZ (for instance, foreign investment committed in the Maqiaozi ETDZ constituted 83.3 percent of all foreign investment agreed upon for Dalian in 1991). This scheme for developing small zones proved very successful as they attracted a total of US\$154 million within two years.⁸⁸

Bo was innovative in starting the now very famous promotional magazine *Window to Northeast China* (*dongbei zhi chuang*).⁸⁹ He has been considered the 'face' of Dalian, both domestically and internationally. Domestically, his connections (including his father's) have proven to be very valuable assets in Dalian's successful negotiations with Beijing and Shenyang over key policies and major projects. And, externally, large foreign corporations have considered Bo as a reliable partner and guarantor in making big business deals. Bo was particularly capable of attracting foreign investment and organizing numerous business delegations abroad.⁹⁰ In 1993–6, four years in a row, Dalian attracted foreign investments worth more than US\$20 billion in contractual terms, accounting for one third of Liaoning's total. Among the sixteen 'deputy provincial' level cities, Dalian ranked second only to Shenzhen.

Overall, Bo's contribution to Dalian's development is assessed very positively but he is not given the whole credit. Despite his innovative ideas and efforts, Bo was preceded by the equally influential local entrepreneur, Wei Fuhai. In stark contrast, Qingdao's Yu Zhengsheng commands a unique position in that he was the unprecedented author of the city's reform and success. It may be speculated that this contrasting assessment may have affected Yu's successful entry into the Fifteenth Central Committee in 1997 as a full member as well as his landing the position of Minister of Construction in 1998, while Bo has so far failed to make his debut on the central stage.⁹¹

The transformation of 'soft environments' and the expansion of external linkages

The remarkable economic success of many coastal cities has depended heavily on foreign economic relations, through which they acquired development capital, advanced

Table 4.5 Changing ownership composition in GVIO in Qingdao and Dalian

	1978	1990	1995
Qingdao	79:21:0	56:43:1	35:29:36
Dalian	—	—	26:38:36

Sources: *Qingdao tongji nianjian 1996*, p. 81; and *Dalian shehui jingji tongji nianjian 1996*, p. 146.

Notes

The order of data presented is the share (percentage) of state-owned, collective, and 'other' (mostly foreign-invested) enterprises in each city's GVIO. 'Other' enterprises refer mostly to foreign-invested enterprises as, in 1995, 1,027 out of 1,172 'other' enterprises in Qingdao were foreign-invested firms.

technologies, and management know-how. The cases of Qingdao and Dalian were no exception to this. Most of the preferential policies bestowed upon these cities were designed to support their dealings with foreign businesses, and municipal leaders also devoted much effort to improving local environments for foreign investment. Increasingly, Qingdao and Dalian have been approximating the 'Pearl River model' (*zhujiang moshi*) with the declining role of the state-owned sector and the rise of the foreign-invested realm (see Table 4.5). Yet, there was a significant difference in that, while Dalian had Japan to support its development from the outset, Qingdao started out with no major foreign partner. This comparative advantage permitted Dalian a head start, which far surpassed Qingdao in both exports and foreign investment during the 1980s.

If Guangdong has relied heavily on Hong Kong and Fujian's development has depended largely upon Taiwanese capital, Liaoning has benefited considerably from its links with Japan.⁹² Naturally, Dalian has been a principal beneficiary of Liaoning's relations with Japan. In fact, Japan's links with Dalian go a long way back to the beginning of this century. As early as 1916, Japanese capital accounted for 92 percent of Dalian's total industrial investment, which rose to 96 percent in 1939.⁹³ On the initiation of the reform in the late 1970s, Japanese businesses made a strong comeback. During 1979–83, even before its designation as a COC, one-third of foreign technologies and equipment (valued at US\$256 million) purchased by Dalian came from Japan. As early as 1984, all but one of nineteen foreign business representative offices in Dalian were set up by Japanese firms and Liaoning's two overseas ventures were also located in Japan. Of the nine foreign banks established in Dalian, six were Japanese in 1995.⁹⁴

Japan's strong presence in Dalian is further highlighted in Table 4.6. While Hong Kong's investment has constituted the lion's share (30 percent in 1996)—as it has in most regions in China—it seems that mainland officials have been somewhat ambivalent about Hong Kong investments largely because Hong Kong-invested ventures have generally concentrated on non-productive sectors (i.e., entailing little technology transfer or enterprise renovation) such as real estate and service industries.⁹⁵ On the other hand, Japan's investment, which accounted for 29.8 percent of Dalian's accumulated foreign investment for 1984–96, has involved mostly long-term and substantive investments in industrial development. Naturally, Dalian has given priority to investment from Japan.⁹⁶

Table 4.6 Foreign investment in Dalian by country

Rank	1985	1989	1992	1994*	1996	Accumulated total (1984–96)
1	Hong Kong	Hong Kong	Hong Kong	Japan	Hong Kong	Hong Kong
2	Japan	Japan	Japan	Hong Kong	Japan	Japan
3	Australia	USA	France	USA	USA	USA
4	USA	Taiwan	USA	Singapore	Taiwan	S. Korea
5	Singapore	S. Korea	Taiwan	S. Korea	S. Korea	Taiwan

Sources: Dalian Municipal Statistical Bureau, *Dalian shehui jingji tongji nianjian*, Beijing, Zhongguo tongji chubanshe, 1986 issue, p. 189; 1990 issue, p. 170; 1993 issue, p. 306; 1995 issue, p. 301; and the 1996 ranks and the accumulated total are from interviews in Dalian in 1997.

While South Korea has been rapidly catching up, its total investment in Dalian constitutes less than a third of the Japanese investment.⁹⁷

Unlike Dalian where the Japanese presence has a long history from the colonial era, Germany has not developed any substantial business interests in its former colony, Qingdao. As a matter of fact, Qingdao had been left without any substantial foreign partner (except Hong Kong) for almost a decade since 1978. A dramatic turn-around in Seoul-Beijing relations during the late 1980s provided Qingdao with a critical linkage with South Korea. Toward the end of 1987, the State Council held a secret meeting where a crucial decision was made to designate Shandong as a key-point province to promote non-governmental economic relations with South Korea.⁹⁸ Since then, Shandong has absorbed the lion's share of South Korean investment in China. By 1996, 28.3 percent (812/2,874) of South Korea-invested ventures in China (more than one out of every four direct investment projects from South Korea) went into Shandong. Naturally, Qingdao, as Shandong's development corridor, became the principal beneficiary. Table 4.7 illustrates the crucial importance of South Korean capital to Qingdao. In 1990–2, even before diplomatic normalization, South Korea was already Qingdao's second largest investor only after Hong Kong.⁹⁹ As of 1992, South Korea accounted for 18 percent of the total foreign direct investment committed to Qingdao, and the figure rose to 27 percent in 1996. Although Hong Kong's investment also constituted a major share (30%)—as it did for Dalian as well as many other cities in China—interviewees in Qingdao evaluated investments from South Korea more positively than those from Hong Kong.¹⁰⁰

As of 1993, the total number of South Korea-invested firms in Qingdao was 238, accounting for 80 percent of South Korea-invested enterprises in Shandong. In 1995, the total number of South Korea-invested firms in Qingdao rose to 658, which again increased in 1996 to 920. In 1996, South Korean investment accounted for 34.7 percent of foreign investment utilized by Qingdao that year.¹⁰¹ What made Qingdao so attractive to South Korean investors, other than the geographical proximity and various preferential policies it has offered? While the privileged status of Qingdao as a COC and CEC undoubtedly contributed to its success, Qingdao's determined approach to South Korean businesses provides another crucial explanation. As early as 1990, Qingdao made it clear that its

Table 4.7 Foreign investment in Qingdao by country

Rank	1990	1992	1994	1995	1996	Accumulated total (1984–97)
1	Hong Kong	Hong Kong	Hong Kong	S. Korea	S. Korea	Hong Kong
2	S. Korea	S. Korea	S. Korea	Hong Kong	Hong Kong	S. Korea
3	USA	Japan	Singapore	Japan	Japan	Japan
4	FRG	Taiwan	Taiwan	USA	Singapore	Taiwan
5	Singapore	Macau	USA	Singapore	USA	USA

Sources: *Qingdao tongji nianjian*, 1991 issue, p. 269; 1993 issue, p. 278; 1995 issue, p. 228; the 1995 ranks are from *Qingdao ribao*, 17 January 1996 and interviews in Qingdao in 1996; and *Qingdao tongji nianjian 1997*, p. 229 and interviews in Qingdao in 1998 for the ranking of the accumulated total.

priority was to be assigned to South Korea.¹⁰² The most important factor has been a series of systematic efforts on the part of the municipal authorities (particularly under Yu Zhengsheng's direction) to transform Qingdao's 'soft environment' for foreign economic relations.¹⁰³

A Qingdao official who had been deeply involved in the city's opening to South Korea since the late 1980s shed important light in this respect.¹⁰⁴ According to him, the key lay in Qingdao's efforts to transform its 'soft environment' (*ruan huanjing*), as opposed to the 'hard environment' associated with industrial structure, technological base and infrastructure.¹⁰⁵ More specifically, he listed two dimensions of the soft environment: investment (*touzi*) and services (*fuwu*). Major improvements in the former included: (1) overseas investors were not obliged to construct factories and associated residential facilities, but instead they might choose to rent factories and houses with the rents fixed for as long as ten years; (2) overseas investors were not asked to make cash deposits to initiate their projects and they were required to pay only for the acquisition of production facilities; (3) foreign-invested firms were allowed to utilize trading companies under CCPIT for marketing their products; and (4) the average time required for the approval of a new foreign-invested project was significantly reduced from six months to two to three months for cooperative and joint ventures and to as fast as twenty days for foreign wholly-owned projects.¹⁰⁶

Service-related measures are aimed at alleviating the pervasive concern among foreign investors that 'once the contract is signed, the Chinese side doesn't really care.' As a matter of fact, there are currently many schemes for post-contract services for foreign-invested firms including the 'system of joint administration' (*lianhe bangongzhi*) of Tianjin, the 'working committee for foreign investment' (*waishang touzi gongzuo weiyuanhui*) of Shanghai, and so on. The same interviewee characterized most of these schemes as passive and reactive, that is, they got involved only after the firms had already encountered serious problems. On the other hand, he described Qingdao's system as proactive. First, relevant units, whether the 'administrative office for foreign investment' (*waizi bangongshi*) on the

government side or the quasi-governmental CCPIT (mainly catering for South Korean projects), were involved throughout the entire process from pre-contract consultation to post-production services. Second, these units also forewarned foreign investors of the problems that were very likely to occur in most firms at certain stages. Third, once problems of an administrative nature did arise, these units took full charge in resolving them as soon as possible on behalf of the firms.¹⁰⁷

One novelty in this regard is the ‘foreign investors’ complaint center’ (*waishang tousu zhongxin*). Established in 1990 under the Foreign Economic Relations and Trade Commission, this unit was transferred in July 1992 to become subject to the administrative office of the municipal government, reporting directly to the mayor.¹⁰⁸ Its main functions included: (1) soliciting suggestions from foreign investors on a regular basis; (2) solving various bureaucratic problems on behalf of the foreign investors who have already committed investments in the city; and (3) mediating disputes between foreign investors and their Chinese counterparts. According to a source, thanks to the center’s affiliation with the municipal government’s administrative office, various bureaucratic problems and disputes were usually resolved within ten days (most frequently within two to three days).¹⁰⁹

The sharp increase in the total number of South Korea-invested firms in Qingdao over the years—three in 1989, forty-two in 1991, 658 in 1995, and 1,137 in 1997—is indicative of the effectiveness of these measures for improving the city’s soft environment.¹¹⁰ Additionally, several other strategies employed by Qingdao also merit attention. First, given the prevalent problems generally associated with joint-equity ventures (i.e. conflicts and disputes between Chinese and foreign partners), South Korean investors were strongly encouraged to set up foreign wholly-owned firms. As of 1993, 159 firms—67 percent of all South Korea-invested projects in Qingdao—opted for this type of investment, far exceeding the share (26.5 percent) of foreign wholly-owned ventures in the total number of Qingdao’s foreign-invested firms. The figure went up to 70 percent in 1994.¹¹¹ Second, the Qingdao authorities also adopted the strategy of locating foreign-invested firms in suburban and rural districts. As of 1993, 193 South Korea-invested enterprises (75 percent) in Qingdao were established in its suburban and rural districts. This strategy had three advantages: (1) as most of South Korean firms in Qingdao were labor-intensive, the location of these enterprises in suburban and rural districts facilitated a relatively easier supply of labor; (2) even in undesirable situations involving lay-offs, the issue of unemployment would be less sensitive, as most of these workers might find it easier to go back to farming; and (3) these foreign-invested firms would provide a variety of opportunities for rural areas to absorb foreign capital, technologies and management know-how.¹¹²

Dalian was hardly different in its efforts to improve the ‘soft environment’ In fact, Dalian’s efforts in this vein started much earlier, during the mid-1980s, although the priority was then placed primarily on the Maqiaozi ETDZ. In 1985, the ‘Project Development and Service Center’ (*xiangmu tuijin fuwu zhongxin*) was established: (1) to improve overall investment conditions; (2) to simplify various administrative procedures; (3) to implement feasibility studies for prospective investors; (4) to negotiate, sign and act upon contracts; and (5) to resolve complaints and disputes.¹¹³ As a result, the Maqiaozi

ETDZ has become Dalian's most important channel of foreign investment and technology transfer. The share of foreign capital committed in the Maqiaozi ETDZ in Dalian's year-end total rose from 12 percent in 1985 to 61 percent in 1989, 46 percent in 1992 and 31 percent in 1994.¹¹⁴

For the city of Dalian as a whole, the first work conference on managing foreign-invested firms was convened in June 1987 where city government officials solicited opinions from foreign investors. In February 1988, another similar meeting was held and twenty out of forty problems raised by foreign investors were resolved on the spot with the remaining to be dealt with as soon as possible. In 1989, Wei Fuhai, mayor, personally met with foreign investors and promised them to resolve all forty-seven problems raised by them within one month. Such meetings were later institutionalized to solicit opinion, from foreign investors on a regular basis. Additionally, a 'foreign investment management center' (*waishang touzi guanli zhongxin*) was set up directly under a deputy mayor in charge of foreign economic relations, which operated hotlines to cope with the problems involving land, electricity and telecommunications.¹¹⁵

Dalian has shared a lot with Qingdao in encouraging foreign investors to establish foreign wholly-owned ventures. Particularly with regard to Japanese investors (as Qingdao did for South Korean investors), Dalian recommended foreign wholly-owned ventures, so that as of 1991, twenty-four (56 percent) out of forty-three foreign wholly-owned firms in Dalian were Japanese firms. The share of foreign wholly-owned firms was much higher in the Maqiaozi ETDZ than the city as a whole, where, in 1991, 34.5 percent of foreign-invested ventures were wholly-owned. Additionally, the Dalian authorities also adopted a strategy of locating foreign-invested firms in suburban and rural districts. By designating thirteen 'small zones for economic development' in its suburban and rural districts, Dalian managed to attract a total of 103 projects with foreign investment of US\$154 million.¹¹⁶

Another crucial dimension of attracting foreign investment concerns the strategy of renovating and upgrading old state enterprises. As of 1993, US\$480 million were invested in 359 projects involving state enterprises in Qingdao. In 1995, a total of 1,250 state enterprises took in foreign investment for the purposes of plant renovation and technological upgrading. The Qingdao case seemed a remarkable success in this regard. According to Wang Zengrong, Qingdao's deputy mayor, only about 16 percent of Qingdao's state enterprises were losing money in 1994, as opposed to 45 percent for Shandong and 50 to 65 percent for the country as a whole.¹¹⁷ In the case of Dalian, too, over 1,300 state enterprises were 'married' (*jiajie*) to foreign investors for plant renovation and technological upgrading, although the pace of progress seemed slower due to its heavy industry oriented structure. Still, Dalian's record was impressive as only 20 percent of its enterprises were operating in the red, while Liaoning's figure was 43 percent in 1995.¹¹⁸

Dalian and Qingdao's efforts to expand their linkages with the outside world were manifested in various ways. For instance, the Qingdao authorities increased the number of foreign trade corporations with their own approval authority from twenty-two in 1988 to eighty-nine in 1994. The comparable figure for Dalian also rose from eleven in 1985 to eighty in 1994. Qingdao set up four overseas offices in Seoul, Osaka, Singapore and Hong

Kong. Interestingly, unlike the one in Singapore approved by the Ministry of Foreign Trade and Economic Cooperation, the remaining three were established at Qingdao's own initiative without Beijing's prior approval. Dalian established four overseas offices in Tokyo, Kita Kyushu, Hong Kong and the United States. The number of representative offices established in Dalian by foreign firms also increased dramatically from forty-six in 1986 to 1,288 in 1994.¹¹⁹

The promotion of external linkages also has a domestic dimension of mutual learning and the cultivation of horizontal cooperative linkages. Much of Qingdao's strategy of developing an 'outward-oriented' economy has been adapted from the experiences of other successful cities. Qingdao officials openly acknowledged that they initially took Shenzhen as their model and later adopted Dalian and Shanghai (and Pudong in particular) as key examples of emulation. Similarly, Dalian officials have called for the emulation of Hong Kong, Shenzhen and Qingdao.¹²⁰ Much of the learning was acquired through the fast-emerging networks of meetings and conferences among various cities and regions. Qingdao has been an active member of both the mayoral conference for Economic Cooperation in the Pan-Bohai Region and the Yellow-River Economic Cooperative Zone, through which it expanded its domestic linkages (*neilian*). Dalian, too, played a key role in the mayoral conference for Economic Cooperation in the Pan-Bohai Region, the mayoral conference in the five northeast cities, and the Economic and Technological Cooperative Council of Five Coastal Cities in Liaoning. Additionally, both cities have been members of annual meetings organized among fourteen COCs and sixteen CECs. Overall, Dalian seems to have maintained the upper hand since it has been the only gateway to and from the three northeast provinces and Inner Mongolia. Qingdao, which has mostly relied on Shandong and in part on Shanxi, has actively sought to expand its domestic links (*neilian*) to inland regions along the Yellow River. As of 1993, the number of representative offices established in Qingdao by other regional governments amounted to 350. The comparable figure for Dalian was about 200 in 1994. The number of representative offices established in other regions by Dalian's firms reached over 200 in 1996.¹²¹

Recipes for local economic development in coastal cities: similarities and variations

This chapter has compared the developmental experiences of Qingdao and Dalian as successful cases among the coastal cities. Overall, the findings suggest that the cases of Dalian and Qingdao share much in common concerning their potentials, processes and strategies for economic development.¹²² Undoubtedly, their natural endowments and historical heritage—coastal location, international sea ports, colonial legacies, and free-port experience—provided both cities with a considerable edge in preparing for the new climate of reform and opening. Added to these were a wide array of exclusive target policies granted by Beijing, without which neither of the two could have overcome various ideological and institutional constraints inherited from the Maoist period. Furthermore, the presence of entrepreneurial leaders, who devised and executed innovative development strategies, further contributed to the accelerated growth in the two cities.

While the similarities identified from the two cases render general support for the centrality of the three sets of factors—historical and natural endowments, preferential policies, and entrepreneurial local leaders capable of cultivating extensive international linkages—Qingdao and Dalian also differed quite considerably with regard to their respective pace of growth in different sectors at different time-points. If Dalian maintained a relatively stable and consistent pace of growth throughout the reform era, Qingdao was certainly a successful late-comer which did very well in telescoping the process of outward-oriented development in the 1990s. The variations in the pace of growth between the two cities may be explained by several factors which might have sequentially interacted among themselves. First, Dalian's larger port facility and more extensive hinterland linkages (covering the entire northeast region and Inner Mongolia) enabled it to obtain Beijing's preferential policies much earlier than Qingdao. Second, in addition to the center-provided preferential policies, the more cosmopolitan and open-minded atmosphere allowed Dalian to break out of the old ideological and institutional constraints much faster than Qingdao. Third, such flexible environments made Dalian's local leaders into entrepreneurial reformers, daring and willing to try out new things for a change, while Qingdao's leaders largely remained conservative and lukewarm about the reform until Yu Zhengsheng took charge. Fourth, close linkages with Japan from the beginning of the reform were blessings for Dalian, while Qingdao had to wait for almost a decade until it got connected with South Korea.

Qingdao's remarkable success in telescoping the growth process offers a couple of interesting observations. First, while natural endowments and preferential policies do certainly matter, they may not necessarily promote rapid growth everywhere. Perhaps, Qingdao's slow pace of development in the 1980s might have been rooted in the same problems that many coastal laggards have encountered. Second, given the central role Yu Zhengsheng performed in Qingdao, leadership really counts. Particularly when stagnation was due to the absence of an entrepreneurial pusher, the assignment of a powerful 'central official' may be an effective solution for accelerating the pace of local economic development. Third, the heightened importance of international linkages—in this case the absence of a capable and committed foreign partner—provides a rather gloomy picture concerning the prospect of telescoped development in many inland regions that are either landlocked or have neighbors with very little capacity to help them in any meaningful way.

Acknowledgment

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Notes

- 1 For discussions as to why sub-provincial cities merit scholarly attention in understanding post-Mao Chinese reform, see my introduction to this volume and 'Studies of Central-Provincial Relations in the People's Republic of China: A Mid-Term Appraisal,' *The China Quarterly*, 1995, no. 142, pp. 506–8.
- 2 See Andrew G. Walder, 'Local Governments as Industrial Firms: An Organizational Analysis of China's Transitional Economy,' *American Journal of Sociology*, 1995, vol. 101, no. 2, pp. 263–301; Liu Chunquan and Wang Junhan, 'Fahui chengshi de lingdao zuoyong zaixian huanghe liuyu de huihuang' (Revive the Glory of the Yellow River Region by Activating the Leading Role of Cities) in *Shandong jingji* (Shandong's Economy), 1994, no. 6, pp. 28–31; and Yue-man Yeung and David K. Y. Chu, *Development Corridor in Fujian: Fuzhou to Zhangzhou*, Hong Kong Institute of Asia-Pacific Studies, occasional paper no. 42, March 1995.
- 3 For an overview, see Barry Naughton, 'Cities in the Chinese Economic System: Changing Roles and Conditions for Autonomy,' in Deborah S. Davis, Richard Kraus, Barry Naughton and Elizabeth J. Perry (eds) *Urban Spaces in Contemporary China: The Potential for Autonomy and Community in Post-Mao China*, New York, Cambridge University Press, 1995, pp. 61–89; and Yue-man Yeung and Xu-wei Hu (eds) *China's Coastal Cities: Catalysts for Modernization*, Honolulu, University of Hawaii Press, 1992. In geographical terms, other than the Special Economic Zones, Wuhan is probably the only exception that has received much scholarly attention in recent years. See Paul E. Schroeder, 'Territorial Actors as Competitors for Power: The Case of Hubei and Wuhan,' in Kenneth G. Lieberthal and David M. Lampton (eds) *Bureaucracy, Politics and Decision Making in Post-Mao China*, Berkeley, University of California Press, 1992, pp. 283–307; Dorothy J. Solinger, 'China's New Economic Policies and the Local Industrial Political Process: The Case of Wuhan,' *Comparative Politics*, 1986, vol. 18, no. 4, pp. 379–99; *idem*. 'City, Province and Region: The Case of Wuhan,' in *China's Transition from Socialism: Statist Legacies and Market Reforms 1980–1990*, Armonk, M.E. Sharpe, 1993, pp. 172–204; and *idem*. 'Despite Decentralization: Disadvantages, Dependence and Ongoing Central Power in the Inland—the Case of Wuhan,' *The China Quarterly*, 1996, no. 145, pp. 1–34. County-level studies include Marc Blecher and Vivienne Shue, *Tethered Deer: Government and Economy in a Chinese County*, Stanford, Stanford University Press, 1996 and Andrew G. Walder (ed.) *Zouping in Transition: The Process of Reform in Rural North China*, Cambridge MA, Harvard University Press, 1998.
- 4 See George Crane, *The Political Economy of China's Special Economic Zones*, Armonk, M.E. Sharpe, 1990; David S.G. Goodman and Feng Chongyi, 'Guangdong: Greater Hong Kong and the New Regionalist Future,' in David S.G. Goodman and Gerald Segal (eds) *China Deconstructs: Politics, Trade and Regionalism*, London, Routledge, 1994, pp. 185–6; and Jae Ho Chung, 'The Political Economy of Development and Inequality in Shandong,' in David S.G. Goodman (ed.) *China's Provinces in Reform: Class, Community and Political Culture*, London, Routledge, 1997, pp. 132–6.
- 5 The disadvantages of lacking these privileges in the case of inland cities are well illustrated in Dorothy J. Solinger, 'Despite Decentralization,' pp. 16–32; and Chung, 'The Political Economy of Development and Inequality in Shandong,' pp. 138–42.
- 6 For a comparative study focusing on the role of provincial leadership in eight provinces, see Peter Cheung, Jae Ho Chung and Zhimin Lin (eds) *Provincial Strategies of Economic Reform in Post-Mao China: Leadership, Politics and Implementation*, Armonk, M.E. Sharpe, 1998.

- 7 For the significance of international linkages, see David Zweig, 'Developmental Communities on China's Coast: The Impact of Trade, Investment, and Transnational Alliances,' *Comparative Politics*, 1995, vol. 27, no. 3, pp. 253–74; Zhang Huai, *Zhongguo waixiangxing jingji chenggong zhi lu* (The Path to Success in China's Outward-Oriented Economy), Beijing, Beijing Normal University Press, 1994; and Jae Ho Chung, 'Shandong's Strategies of Reform in Foreign Economic Relations: Preferential Policies, Entrepreneurial Leadership and External Linkages,' in Cheung, Chung and Lin (eds), *Provincial Strategies of Economic Reform in Post-Mao China*, pp. 278–88.
- 8 For detailed discussions of these factors, see my introduction chapter in this volume.
- 9 For Qingdao's fast growth noted in Hong Kong as well as the Western media, see 'Heady Times for Qingdao,' *China Business Review Special in South China Morning Post*, 30 May 1993; and Dexter Roberts, 'From Mao Central to Capitalist Hotbed,' *Business Week*, 9 October 1995, pp. 60–1. For Dalian's performance, see 'City Focus: Dalian,' *South China Morning Post: China Business Review*, 25 October 1992 and another special edition in *South China Morning Post: China Business Review*, 10 August 1995.
- 10 The ratio between light and heavy industries, in terms of their total output values, was 86 to 14 in 1950, which went down to 71 to 29 in 1957 and further down to 58 to 42 in 1960. The ratio in 1978 was 60 to 40. See Research Office of the Shandong Provincial Party Committee, *Shandong shengqing* (Facts and Figures of Shandong Province), Jinan, Shandong renmin chubanshe, 1989, pp. 472–4, 485.
- 11 By 1934, nearly 70 percent of 1,835 factories in Dalian were involved in heavy industry and such a predominantly heavy industry oriented structure remained unchanged in the People's Republic. For an overview of Dalian's economy during the Maoist era, see Yue Qifeng (ed.) *Liaoning jingji shidian* (Compendia on Liaoning's Economy), Shenyang, Renmin chubanshe, 1992, pp. 468–70.
- 12 *Zhongguo tongji nianjian* 1997 (Statistical Yearbook of China 1997), Beijing, Zhongguo tongji chubanshe, 1997, p. 344; and *Yanhai kaifang chengshi jingji tequ zhongdian chengshi tongjiziliao huibian* (Statistical Compilation on Coastal Open Cities, Special Economic Zones, and Key-Point Cities), July 1996, pp. 131, 137.
- 13 As early as 1928, Qingdao was already one of the six centrally administered municipalities in China, along with Beijing, Nanjing, Shanghai, Tianjin and Xian. See Wu Peilun, *Dangdai zhongguo zhengfu gailun* (Overview of Contemporary China's Government), Beijing, Gaige chubanshe, 1993, p. 181.
- 14 See Qingdao Municipal Office for Historical Research, *Qingdao nianjian 1992* (Qingdao Yearbook 1992), Qingdao, Zhongguo baike quanshu chubanshe, 1993, p. 43. Interviewees in Qingdao, too, unanimously assessed the earlier German contribution more positively than that of the Japanese, although to what extent the usual anti-Japanese sentiments among the Chinese account for this assessment remains uncertain.
- 15 David Lai, Xian-yao Zhao, and Xi-xin Liang, 'Dalian: Its Industrial Development and Urban Growth,' in Yue-man Yeung and Xu-wei Hu (eds) *China's Coastal Cities: Catalysts for Modernization*, Honolulu, University of Hawaii Press, 1992, pp. 26–32; and Shen Yi, 'Jindai Dalian yu zhongwai chengshi bijiao yanjiu' (A Comparative Study of Dalian and Foreign Cities in Modern Times) in *Liaoning daxue xuebao* (Liaoning University Journal), 1993, no. 5, p. 44.
- 16 This cultural observation is almost impossible to substantiate in any empirical way. Yet, interviews with officials in the two cities often provided indirect confirmation on such differences. Dalian's long-held edge over Qingdao in exports and foreign investment, despite the same sets of preferential policies given to both, may in part support such

- observations. Published materials on Qingdao used for this study made no reference at all to such cultural traits, unlike those on Dalian, Wenzhou, the Pearl River Delta, and the Sunan region. For the prevalent conservative attitudes in Shandong in general, see Xin Xiangyin (ed.) *Shuodao Shandongren* (Speaking of the Shandong People), Beijing, Zhongguo shehui chubanshe, 1995, pp. 50–1.
- 17 Four principal prerogatives accompanied the COC designation: (1) the exemption of duties on imports of advanced technologies and equipment for plant renovation (50 percent taxes were levied beginning in 1994); (2) the granting of authority to establish ‘development zones’ (*kaifaqu*) where enterprises were allowed ‘two-year tax exemption and three-year tax reduction’ (*liangnian sanjian*) as well as a 15 percent enterprise tax rate (as opposed to the usual 33 to 55 percent) after the initial five years; (3) the provision of approval authority for foreign-invested projects worth up to US\$5 million in the early years and later to US\$30 million; and (4) the authority to approve both in- and out-bound international business delegations without going through the provincial authorities. See ‘Zhonggong zhongyang guowuyuan guanyu pizhuan yanhai bufen chengshi zuotanhui jiyao de tongzhi’ (Circular on the Dissemination by the Party Center and the State Council of the ‘Summary of the Discussion Meeting Attended by Some Coastal Cities’, 4 May 1984) in the Special Zones Office of the State Council, *Zhongguo duiwai kaifang zhinan* (Guide to China’s Opening to the Outside), Kunming, Yunnan renmin chubanshe, 1993, pp. 153–9. For the evolution of preferential tax policies for coastal open cities, see Zheng Yanbiao (ed.) *Zhongguo yanhai kaifang chengshi liyong waizi falu wenti* (Legal Issues Pertaining to the Use by China’s Coastal Open Cities of Foreign Capital), Shanghai, Shanghai shehui kexueyuan chubanshe, 1994, pp. 102–4.
 - 18 Investment figures are from interviews in Qingdao in 1994 and these figures include joint-equity and cooperative ventures, assembling and processing, and foreign loans.
 - 19 Yang Zhaolin, ‘Dalian zai gaige kaifang zhong qianjin’ (Dalian Progresses in the Midst of Reform and Opening) in *Xinguancha* (New Observation), 1987, no. 1, p. 8.
 - 20 While Dalian had constituted the first experimental site for the CEC policy, Chongqing was the first to be approved as such in February 1983. In 1984, Wuhan, Shenyang, Dalian, Guangzhou, Xi’an, and Harbin joined the privileged list. Qingdao became a CEC in 1987. For the chronology of the CEC policy, see Jae Ho Chung, ‘Central-Provincial Relations,’ Lo Chi Kin, Suzanne Pepper and Tsui Kai Yuen (eds) *China Review 1995*, Hong Kong, Chinese University Press, 1995, pp. 3.22–4. For the privileges that come with the CEC designation, see *Zhongguo gaige kaifang shidian* (Compendia of China’s Reform and Opening), Guangzhou, Guangdong renmin chubanshe, 1993, pp. 133–40.
 - 21 As a matter of fact, tension and conflict characterized the relationship between provincial authorities and CECs. See Schroeder, ‘Territorial Actors as Competitors for Power,’ pp. 293–304; and Solinger, ‘City, Province, and Region’ and ‘The Place of the Central City in China’s Economic Reform,’ in *China’s Transition from Socialism*, pp. 172–81 and 216–18, respectively.
 - 22 The earlier plan was supported by Zhang Jingfu and the State Planning Commission. See *Dalian nianjian 1987–89* (Dalian Yearbook 1987–89), Dalian, Dalian chubanshe, 1990, p. 13.
 - 23 Interviews in Hong Kong in 1994 and in Qingdao in 1994.
 - 24 The same reasoning applied to Hubei’s initial acceptance of Wuhan’s CEC proposal. See Paul E. Schroeder, ‘Territorial Actors as Competitors for Power,’ p. 292.
 - 25 See *Dangdai zhongguo caizheng* (Contemporary China’s Finance), Beijing, Zhongguo shehuikexue chubanshe, 1988, vol. 1, p. 376; Ramgopol Agarwala, *China: Reforming*

- Intergovernmental Fiscal Relations*, Washington, DC, The World Bank, 1992, p. 68; and Guo Yanzhong, 'Fenshui zhi zhuanji' (Special Edition on the Tax-Sharing Reform) in *Jingji yanjiu cankao* (Reference Materials for Economic Research), 1994, no. 401, p. 38.
- 26 Interviews in Jinan in 1994, in Qingdao in 1996 and in Dalian in 1997.
 - 27 For such a package measure, see *Zhongguo gaige kaifang shidian*, pp. 137–8; and for the case of Wuhan which received fifty-six enterprises from Beijing and Hubei, see Solinger, 'Despite Decentralization,' pp. 19–20.
 - 28 Several other enterprises which had been planned to be handed over to Qingdao but retained by the provincial or ministerial units include Qingdao Shipping Corporation and Qingdao Engine Plant under the Shandong authorities, Sifang Locomotive Company under the Ministry of Railways, Qingdao Textile Machinery Plant under the Ministry of Textile Industry, and Beihai Shipbuilding Company under the Ministry of Communication and Transport. Interviews in Qingdao in 1994.
 - 29 The information on the ferry route was provided by interviews in Jinan in 1994.
 - 30 See interviews in Qingdao in 1996; *Qingdao tongji nianjian 1995*, p. 235; Qingdao Municipal Archives Office (ed.) *Qingdao shizhi: caizheng shuiwu shenjizhi* (Qingdao Historical Gazetteer: Volume on Finance, Taxation and Auditing), Beijing, Zhongguo dabaikeshu chubanshe, 1996, pp. 13–15; and Christopher Heady, 'Municipal Public Finance,' in Christine P.W. Wong (ed.) *Financing Local Government in the People's Republic of China*, Hong Kong, Oxford University Press, 1997, p. 155.
 - 31 Due to its CEC status, Dalian remitted 40.86 percent to Beijing and the remaining 25 percent to Liaoning.
 - 32 While Dalian's retention rate was reduced from 34.14 percent to 27.74 percent in 1988, but thirteen taxes were redesignated as local taxes for the city to collect and dispense. See *Dangdai zhongguo caizheng*, vol. 1, p. 377; and *Dalian nianjian 1987–89*, pp. 413, 503.
 - 33 Agarwala, *China: Reforming Intergovernmental Fiscal Relations*, p. 89; Wang Huiquan (ed.) *Dalian wushinian* (Dalian in the Last Fifty Years), Dalian, Dalian chubanshe, 1995, pp. 110, 334–5.
 - 34 There were two special tax incentives for ETDZs: (1) the standard tax rate for foreign-invested firms in ETDZs was set at 15 percent rather than the usual 33 percent; and (2) real estate taxes for foreign-invested firms in ETDZs were exempted for the first three years. Moreover, the zone's approval authority for foreign-invested projects was US\$30 million, the same ceiling as that for Liaoning and Shandong. Additionally, after Deng Xiaoping's 'southern tour' in 1992, the bureaucratic rank of the director of the development zone's management committee (*kaifaqu guanli weiyuanhui*) was elevated to a 'deputy-mayor' level. Information from *Qingdao nianjian 1992* (Qingdao Yearbook 1992), Qingdao, Qingdao chubanshe, 1992, pp. 47, 49; Wang Shengde, 'Tan Qingdao jingji jishu kaifaqu baoshuiqu he gaixin jishu chanye kaifa shiyanqu de kaifa moshi he xiangguan zhengce,' in *Yanhai jingmao* (Coastal Economy and Trade), 1993, no. 5, p. 34; and interviews in Qingdao in 1994 and 1996.
 - 35 See *Dalian nianjian 1995*, pp. 188, 213. The Beijing government, too, has regarded Dalian's ETDZ as the most advanced model. See, for instance, Special Zones Office of the State Council, 'Dalian kaifaqu shinian jianshe de chengjiu ji jingyan' (Accomplishments and Experiences of Dalian's Development Zone in the Last Ten Years), *Jingji yanjiu cankao*, 1994, no. 586, pp. 25–42.
 - 36 Unlike ETDZs whose number grew from eleven in 1984 to thirty-two in 1995, the number of bonded zones is frozen at thirteen. For 'bonded zones,' see *Zhongguo duiwai kaifang diqu touzi huanjing he zhengce* (The Investment Environment and Policies of China's Opened

- Areas) Kunming, Yunnan remmin chubanshe, 1993, pp. 170–83; and Xu Yaping, ‘Zhongguo baoshuiqu de jianli yu fazhan’ (The Establishment and Development of Bonded Zones in China) in *Jingji yanjiu cankao*, 1994, no. 424, pp. 42–50.
- 37 Unlike the ETDZs specialized more in exports, the ‘hi-tech science parks’ are devoted more to manufacturing industries—like electronics, machinery, and biochemical products—more for domestic sales and technological renovation. The ‘state tourism and leisure zone’ is empowered to offer a lower tax rate of 24 percent for tourism enterprises located within the zone and to approve projects on golf clubs and foreign-invested department stores, as well as foreign-invested taxi companies. Interviews in Qingdao in 1994 and in Dalian in 1997. For ‘state tourism and leisure zones,’ see Pang Shaofeng, ‘Luyou wenhua yu guojia luyou dujiaqu’ (Tourism Culture and State Tourism and Leisure Zones) in *Yanhai jingmao*, 1993, no. 6, pp. 48–50. For Qingdao’s high-tech technological and industrial development zone, see *Qingdao nianjian* 1992, pp. 66–9 and *Qingdao ribao*, 17 December 1994.
- 38 Interviews in Qingdao in 1996 and in Dalian in 1997.
- 39 See *South China Morning Post*, 10 August 1995 and *China Daily*, 10 January 1996.
- 40 Other than the SEZs, Beijing, Shanghai and Tianjin, only Guangzhou was permitted to share this privilege. See *China Daily*, 12 January 1996.
- 41 Information from the interviews in Qingdao in 1994 and 1996.
- 42 See Wang Huiquan (ed.) *Dalian wushinian*, pp. 278–80.
- 43 In the case of Qingdao, feasibility studies were conducted in the late 1980s and the project was approved by the central government in 1991 with the total amount of RMB2.46 billion. Interview in Qingdao in 1994. In the case of Dalian, despite the report that the first phase of 13.9 kilometers got the go-ahead from Beijing in 1995, interviews revealed that it did not get Beijing’s official approval. For the faulty report, see ‘City Focus: Dalian,’ *South China Morning Post*, 10 August 1995.
- 44 Given the role of the Canton Fair, this privilege was not insignificant. See *Dalian nianjian* 1987–89, p. 206.
- 45 For an intra-provincial comparison supportive of this argument, see Chung, ‘The Political Economy of Development and Inequality in Shandong.’ Numerous Chinese materials also stress the centrality of selective regional target policies. See, for instance, Sang Baichuan, *Quyu kaifang zhanlue lun: qingxie zhengce yu quanfangwei kaifang* (Strategies of Regional Opening: Preferential Policies and Omni-Directional Opening), Beijing, Zhongguo qingnian chubanshe, 1996.
- 46 A differential timing in the provision of the CEC status seems particularly important as this privilege allowed the designated cities provincial-level authority in economic management. Particularly in the case of Qingdao, its CEC status was granted two years later than Dalian’s and its provincial-level authority in foreign economic relations three years later. Consequently, Dalian was able to approve large-scale foreign investment and conduct its own imports and exports three years ahead of Qingdao.
- 47 *Dangdai zhongguo de Liaoning* (Contemporary China’s Liaoning), Beijing, Dangdai zhongguo chubanshe, 1994, vol. 2, pp. 471–2; and Xing Lianming (ed.) *Huan Bohai jingjiquan: Dalian juan* (The Pan-Bohai Economic Circle: Volume on Dalian), Dalian, Dalian ligong daxue chubanshe, 1996, pp. 137–9.
- 48 Wang Shengde, ‘An Pudong moshi jianshe Huangdao xinjingjiqu’ (Establish the New Huangdao Economic Zone Following the Pudong Model) in *Yanhai jingmao*, 1993, no. 7, pp. 11–12; and *South China Morning Post*, 10 August 1995.

- 49 Very few studies on sub-provincial units deal with this dimension as if it were not important or relevant. It seems that leadership is as crucial a variable at this level, and below, as at the national and provincial levels.
- 50 One additional explanation may be that the size of Dalian port was much larger than Qingdao—the second largest in China and the largest in terms of its handling of exports.
- 51 Shandong was more reluctant to grant privileges to Qingdao than Liaoning was to Dalian mainly because Liaoning, a province in a bad shape itself, urgently needed Dalian's good performance as the agent of development for the province as a whole. Relatively better-off Shandong, on the other hand, had an ambiguous position toward Qingdao especially after the latter's designation as a CEC in 1987. Besides, Shandong had to support other large international ports such as Yantai and Weihai which were in fierce competition with Tianjin and Dalian, while Liaoning had only Dalian to support as the gateway to Manchuria.
- 52 For Shandong's ideological conservatism, see Chung, 'Shandong's Strategies of Reform in Foreign Economic Relations,' pp. 255, 259, 262–4. For Shandong's own account of the pervasive 'leftist' influence in the province during the 1980s, see Research Office of the Shandong Provincial Party Committee, *Shandong sishinian* (Last Forty Years in Shandong), Jinan, Shandong renmin chubanshe, 1989, p. 140.
- 53 *Shandong sishinian*, p. 478.
- 54 The Huangdao ETDZ did not have sufficient port facilities until 1992 when the construction of the Qianwan Harbor was completed. As of 1992, the Huangdao ETDZ's foreign exchange earnings were still less than a half of those of the Yantai ETDZ. See Shandong Provincial Statistical Bureau, *Shandong tongji nianjian 1993* (Statistical Yearbook of Shandong), Beijing, Zhongguo tongji chubanshe, 1993, p. 489. On the other hand, Dalian's Maqiaozi ETDZ is assessed to be the most efficient and successful of all in China.
- 55 For Zhang's biographical profile, see Wolfgang Bartke, *Who's Who in the People's Republic of China*, 3rd edn, München, Saur, 1991, vol. 2, p. 829; and *Zhongguo gongchandang renming dacidian 1921–1991* (Who's Who in the Chinese Communist Party, 1921–1991), Beijing, Zhongguo guoji guangbo chubanshe, 1991, p. 436.
- 56 Yu was 44 when he was first assigned to Qingdao after having served as mayor of Yantai for a little more than three years. This qualifies him to have been a 'young-generation' (*nianqinghua*) cadre.
- 57 Some suggest that Yu's affiliation with the Ministry of Electronics Industry might have facilitated his links with Jiang Zemin who was then one of the Ministry's leading officials. See *South China Morning Post*, 30 May 1993.
- 58 For Yu's biographical background, see He Pin and Gao Xin, *Zhonggong taizidang* (Princelings in Communist China), Hong Kong, Mingjing Publishing House, 1992, pp. 243–6; *Zhongguo renming dacidian* (Who's Who in China: Current Leaders), Beijing, Waiwen chubanshe, 1994, p. 819; and *Qingdao nianjian 1995* (Qingdao Yearbook 1995), Qingdao, Shandong youyi chubanshe, 1995, p. 309.
- 59 Some argue that this was the credential and authority Yu brought with him to Qingdao. In fact, one suggested that this particular connection might perhaps have been related to Deng Nan who had long working experience in the science and technology field where both the father and father-in-law of Yu worked for an extended period of time.
- 60 This housing project is noted in *China: Implementation Options for Housing Reform*, Washington, D.C., The World Bank, 1992, p. 49.
- 61 For Hong Kong media's coverage of Yu's accomplishments in Yantai, see 'Yantai shizhang Yu Zhengsheng' (Yantai's Mayor, Yu Zhengsheng) in *Guangjiaojing yuekan* (Magnifying Glasses Monthly), September 1988, pp. 82–3.

- 62 For the chronology, see *Qingdao nianjian 1995*, p. 309. Formally, Yu became a ‘centrally appointed official’ in 1990 as mayors and party (deputy) secretaries of the CECs were put on the ‘Job Title List of Cadres Managed Centrally by the CCP’ See John P. Burns, ‘Strengthening Central CCP Control of Leadership Selection: The 1990 Nomenklatura,’ *The China Quarterly*, 1994, no. 138, pp. 479–80.
- 63 Compared to the nationwide data on mayors for 1986, Yu seems more exceptional than typical, as he is a non-Shandong native without extensive local work experience before assuming the mayoral position. As of 1986, almost 60 percent of all China’s mayors were natives and another 13 percent were from the neighboring provinces, although larger cities tended to have higher proportions of outsiders. See Cheng Li and David Bachman, ‘Localism, Elitism, and Immobilism: Elite Formation and Social Change in Post-Mao China,’ *World Politics*, vol. 42, no. 1 (October 1989), pp. 71, 78–9, 81. For the importance of family backgrounds in the politics of recruitment, see Jae Ho Chung, ‘The Politics of Prerogatives in Socialism: The Case of *Taizidang* in China,’ *Studies in Comparative Communism*, vol. 24, no. 1 (March 1991), pp. 58–76.
- 64 An interviewee offered a telling insight. According to him, there are hundreds, if not thousands, of ‘princelings’ who all look for good opportunities to prove themselves. Yet, not all of them have succeeded. That is, even among the princelings, there is fierce competition. He suggested that a good example is a competitive relationship between Yu Zhengsheng of Qingdao and Bo Xilai of Dalian. He further argued that, given the handicap Yu has—his brother, Yu Qiansheng formerly with the Ministry of Public Security, had defected to America in 1986—Yu could not have made it without extraordinary efforts and accomplishments of his own.
- 65 Yu’s role during 1989–91 remains veiled as he was the third- and second-ranking official, while Guo Songnian as the party secretary must have had the final say on all crucial issues. Yu’s role became more clearly identifiable after he replaced Guo in 1992. Some suggested that Yu’s active duty as the ‘mapper’ of Qingdao’s reform began in 1990.
- 66 Yu’s stress on opening was contingent upon Qingdao’s relatively poor performance in foreign economic relations, indicated earlier in [Table 4.1](#).
- 67 While the idea of moving the government complex to the eastern area had been floated since the late 1970s, no leadership dared to act upon it. Shanghai’s Pudong Development scheme is alleged to have worked as a catalyst for the decision. Interviews in Qingdao in 1994.
- 68 It should be noted, again, that by 1986 Dalian already had an international airport large enough to receive B-747s.
- 69 The idea of converting the Qingdao airport into a civilian one originated in the late 1970s. What merits our attention is the fact that Yu actually brought the idea to fruition, supposedly using his central government and military connections (recall his family background). Interview in Qingdao in 1996.
- 70 Interviews in Qingdao in 1994.
- 71 For a Western coverage of Yu’s role in setting up these zones, see *Business Week*, 9 October 1995, p. 61.
- 72 The Ocean University (*haiyang daxue*), traditionally the best university in Qingdao, is a state-run university under the directorship of the Shandong State Education Commission.
- 73 Interviews with officials from MPO in Qingdao in 1994. According to an interviewee, the idea of MPO originated from Shanghai where Zhu Rongji first established a unit called MPO. This idea was soon adopted by Nanjing and later by Qingdao. One key difference, however, is that Qingdao’s MPO gets involved only in the process of initiating the project. Once the contract is signed, the main responsibility goes to the functional departments of

- the municipal government. On the other hand, Shanghai's MPO (*zhongdian gongcheng bangongshi*) gets involved only in the post-contract phase. Interview in Qingdao in 1996.
- 74 Details on this organization are provided in a later section.
 - 75 An interviewee suggested that the information on Beijing's feasibility study of 'bonded zones' was first collected by this office which immediately relayed it to the municipal government for consideration. Interview at the Municipal Government Administrative Office in 1994.
 - 76 These four functions are listed in *Qingdao nianjian 1992*, pp. 70–1. Items (1) and (4) are particularly interesting since they make it no secret that the city wants to sustain a good working relationship with the central government and the State Council and to exert influence over the center's policy.
 - 77 *South China Morning Post*, 25 October 1992.
 - 78 For Bi's biographical profile, see *Zhongguo renming dacidian*, p. 21. Bi is currently vice-chairman of the Liaoning Provincial People's Congress. Bi's idea of making Dalian into a 'northern Hong Kong' was adopted as the city's formal goal in December 1992, that is after his transfer to Shenyang. See *Dalian nianjian 1994*, p. 29.
 - 79 For biographical information on Wei Fuhai, see *Zhongguo gongchandang renming dacidian 1921–1991*, p. 813.
 - 80 The merger must have been a very difficult process that required a considerable amount of political will and courage. In Qingdao, the merger was achieved only in 1988. For the difficulties associated with the merger in Shandong, see Jae Ho Chung, 'Shandong's Strategies of Reform in Foreign Economic Relations,' p. 279.
 - 81 For Wei's view on this, see *Dalian ribao*, 18 March 1988.
 - 82 See *Dalian nianjian 1987–89*, pp. 52, 55.
 - 83 See *Dalian wushinian*, pp. 133–7; and *Dalian nianjian 1990*, p. 5.
 - 84 For a negative assessment of Wei's accomplishments in Dalian, see *South China Morning Post*, 25 October 1992. Information on Wei's promotion is from interviews in Dalian in 1997.
 - 85 For biographical information on Bo, see *Zhongguo renming dacidian*, p. 22; and He Pin and Gao Xin, *Zhonggong taizidang*, pp. 180–2.
 - 86 After his appointment, it was said that 'Bo was given a county to play with before he would move up the ladder.' I am indebted on this to Andrew Walder who did field work in Jin County in 1986. Jin County was merged into Dalian as Jinzhou District in 1986. See *Dalian nianjian 1987–89*, p. 204.
 - 87 Within eight years between 1984 and 1992, Bo was promoted from a county-level official to a deputy-governor status. Compared with Qingdao's Yu Zhengsheng, however, Bo did not have a central party position. For domestic and overseas expectations about Bo, see *South China Morning Post*, 25 October 1992 and *Ming Pao*, 21 March 1994. And for Bo's own retrospect of such pressure on himself, see *South China Morning Post*, 14 September 1994.
 - 88 See *Dalian nianjian 1992*, pp. 11, 86; *Dalian nianjian 1993*, p. 41; and *Dalian nianjian 1995*, p. 192. For the scheme of 'small zones for economic development,' see *Huan Bohai jingjiquan: Dalian juan* (The Pan-Bohai Economic Zone: The Dalian Volume), Dalian, Dalian ligong daxue chubanshe, 1996, pp. 97–9.
 - 89 See *Guangjiaojing yuekan* (Wide Angle Monthly), May 1994, p. 30.
 - 90 After Bo became mayor, the number of Dalian's business delegations rose dramatically from 300 in 1991 to 1,520 in 1992. See *Dalian nianjian 1992*, p. 112 and *Dalian nianjian 1993*, p. 126. For Bo's business delegations overseas, see *Ming Pao*, 21 March 1994; and *South China Morning Post*, 27 September 1994 and 27 June 1995.

- 91 For the center's (and Jiang Zemin's) assessment of Yu's accomplishments, see *South China Morning Post*, 21 March 1998.
- 92 Both Liaoning and Dalian previously sought to promote economic links with the Soviet Union in the late 1980s. As Table 4.6 indicates, such efforts produced a negligible result. In the case of Dalian, interestingly, its efforts to expand links with the Soviet Union were initially directed towards the reduction of its dependence on Japan. See Cui Riming, 'Liaoningsheng fazhan duisu jingmao chutan' (A Preliminary Analysis of Liaoning's Economic Relations with the Soviet Union), *Liaoning daxue xuebao* (Liaoning University Journal), 1989, no. 4, pp. 83–4; and Xu Libo, 'Daliangshi duisulian kaifang zhanlue yanjiu' (Study of Dalian's Strategy of Opening to the Soviet Union), *Caijing wenti yanjiu* (Studies of Financial and Economic Problems), 1989, no. 8, p. 46.
- 93 Shen Yi, 'Jindai Dalian yu zhongwai chengshi bijiao yanjiu' (A Comparative Study of Dalian and Foreign Cities in Modern Times), *Liaoning daxue xuebao* 1993, no. 5, p. 44.
- 94 Tolbert, 'Dalian and Shenyang Gain New Authority,' p. 22; and *South China Morning Post*, 10 August 1995.
- 95 For such perceptions in general, see Jude Howell, *China Opens Its Doors: The Politics of Economic Transition*, Boulder, Lynne Rienner, 1993, p. 25; and *South China Morning Post*, 25 October 1992.
- 96 For Dalian's priority for Japan's investment, see Nie Jin, 'Lun Dalian jingji fazhan zhanlue de zhidao sixiang' (On the Guiding Thought of Dalian's Economic Development Strategy) in *Caijing wenti yanjiu*, 1989, no. 12, p. 61. Dalian's focus on Japan is also well indicated by its opening of direct air routes to the four Japanese cities Tokyo (1986), Fukuoka (1991), Sendai (1994) and Osaka (1996).
- 97 Four South Korean projects were first initiated in Dalian in 1990. In its long-term development strategy for 1990–2010, Dalian officially also gave priority to South Korean investments. See *Dalian nianjian* 1993, p. 27. For Korea's interest in Dalian, see *Chosun Ilbo* (Chosun Daily), 30 June 1996.
- 98 For the designation of Shandong as a key-point province, see *South China Morning Post*, 25 October 1988.
- 99 For the visa-issuing privilege granted to Qingdao prior to the diplomatic normalization, see Qingdao Municipal Archives Office (ed.) *Qingdao shizhi: waishi qiaowuzhi* (Qingdao Historical Gazetteer: Volume on Foreign Affairs and Overseas Chinese), Beijing, Xinhua chubanshe, 1995, p. 19.
- 100 One interviewee specifically pointed out that many Hong Kong-invested projects very often failed to supply the agreed-upon capital because the investors were only interested in acquiring various privileges granted to foreign-invested firms, such as tax incentives. Two other characteristics generally associated with Hong Kong investments were that: (1) their dominant forms were 'cooperative' (*hezuo*) and 'joint equity' (*hezi*) ventures; and (2) their share in exports was lower than enterprises invested by other countries. The 1996 figure is from *Qingdao tongji nianjian* 1997, p. 229.
- 101 *Qingdao tongji nianjian* 1997, p. 229.
- 102 See He Lianhua, Han Yanwei, Wang Dongkai and Li Binglie, 'Qingdaoshi sanzhi qiyie fazhan de sikao' (Thoughts on the Development of Foreign-Invested Firms in Qingdao) in *Guoji jingji hezuo* (International Economic Cooperation), 1991, no. 9, p. 14.
- 103 Compared to Dalian, Tianjin, Shanghai and even Yantai, Qingdao had no outstanding comparative advantages. In terms of 'horizontal linkages,' Shanghai caters to Jiangsu, Zhejiang and Hubei along the Yangze River, Dalian is the only major international sea-port for the three northeast provinces and Inner Mongolia, and Tianjin serves most of the eastern

- provinces, while Qingdao mostly has depended on Shandong. Even most of the coal shipments from Shanxi go through Hebei's Qinhuangdao. More importantly, while Shanghai and Tianjin had direct air routes, and Dalian and Yantai had direct sea routes to South Korea, Qingdao had no direct sea or air links until 1993 and 1994, respectively.
- 104 The following paragraphs are based upon the interview in 1994 with Wang Yan, chairman of the Qingdao Sub-Council of the China Council for the Promotion of International Trade (CCPIT).
- 105 Qingdao's efforts in improving its 'hard environment' are well noted. By 1990, chronic problems with the stable supply of electricity and water for industrial production were basically resolved. Jiqing Super Highway linked Qingdao with Jinan and Dezhou, and the capacity of Qingdao's harbor was raised from 28 million tons in 1987 to 42 million tons in 1994. See Ma Yannong, 'Qingdao fazhan waixiangxing jingji de zhanlue shexiang' (Strategic Thinking about Qingdao's Development of 'Outward-Oriented Economy' in Qingdao) in *Shandong jihua jingji* (Shandong's Planned Economy), 1987, no. 4, pp. 20–2; and *Qingdao nianjian 1995*, p. 222.
- 106 The figure of twenty days is only for projects handled by CCPIT. Interview in Qingdao in 1996. Qingdao also simplified the inspection procedures for foreign trade considerably. Instead of carrying out inspections by boarding vessels, Qingdao opened an office to conduct inspections on land. See *South China Morning Post*, 5 May 1995. Such measures were also closely related to the city's wish to turn itself into a 'free port.' See Ling Gao, 'Bijian Qingdao ziyougangu' (Establish the Free-Port Zone in Qingdao) in *Yanhai jingmao*, 1993, no. 5, pp. 38–40.
- 107 Until very recently, the most complete line of services has been provided only for South Korean investors through the CCPIT system, which was originally developed during the period when Beijing had no diplomatic relations with Seoul. According to an interviewee, the CCPIT sub-council of Qingdao recently (May 1994) established the Department of Japan Affairs (*ribenchu*) after strong requests from Japanese firms wishing to receive the same services. For more details of the services provided by CCPIT, see 'Cong shiji chufa chuangu yitiao you Qingdao tese de liyong waizi xinluzi' (On the Basis of the Actual Situation, Create a New Path of Foreign Investment with Qingdao's Characteristics), *Qingdao zhengkan* (Political Readings of Qingdao), March 1994, pp. 59–63.
- 108 This administrative change was made by Yu Zhengsheng himself who also devised the widely publicized 'hotlines to the mayor' for foreign investors.
- 109 Interview in Qingdao in 1994, with the director of the 'foreign investors' complaint center.'
- 110 After Japanese investors were catered for by CCPIT in 1994, the number of Japanese projects in Qingdao also rose from thirteen in 1994 to forty-one in 1995. See *Qingdao ribao*, 17 January 1996.
- 111 For various problems related to joint-equity ventures, see Jonathan R. Woetzel, *China's Economic Opening to the Outside World: The Politics of Empowerment*, New York, Praeger, 1989, pp. 114–23. The number of South Korean wholly-owned ventures in Qingdao was calculated from the CCPIT list of South Korea-Invested Firms in Qingdao, and the percentage of foreign wholly-owned firms in Qingdao was calculated from *Qingdao tongji nianjian 1993*, pp. 277–8. The 1994 figure is from Yu (ed.) *Huanbohai jingjiquan*, p. 115. Considering that Qingdao's general policy was to encourage medium-sized to large ventures in electronics, machinery and chemical industries to adopt the foreign wholly-owned format, the city was clearly giving South Korean investment special treatment for the purpose of creating a 'long-term' relationship. For Qingdao's general policy in this regard,

- see He Lianhua *et al.*, Thoughts on the Development of Foreign-Invested Firms in Qingdao,' p. 14.
- 112 The percentage of South Korean enterprises located in suburban and rural districts was calculated from the aforementioned CCPIT list. The strategy of combining agriculture, processing and trade is another priority policy in Qingdao as well as in Shandong in general. See Gao Changli, 'Shandong nongcun gaige yu xianyu jingji fazhan' (Shandong's Rural Reform and Its County-Level Economic Development) in *Nongye jingji wenti* (Problems of Agricultural Economy), 1991, no. 8, p. 18; and *Dazhong ribao*, 25 December 1992.
- 113 See Yang Zhaolin, 'Dalian Progresses in the Middle of the Reform,' p. 8.
- 114 See *Dalianshi shehui jingji tongji nianjian 1986*, p. 190; 1990 issue, p. 171; 1993 issue, p. 307; and 1995 issue, p. 300.
- 115 Information from interviews in Dalian in 1997; *Dalian nianjian 1987–89*, pp. 211, 400; and *Dalian nianjian 1990*, p. 65.
- 116 *Dalian nianjian 1992*, pp. 85, 88; and *Dalian nianjian 1995*, p. 192.
- 117 Information based on interviews in Qingdao in 1994 and 1996; *South China Morning Post*, 18 November 1994; and *South China Morning Post International Weekly*, 18 May 1996.
- 118 See *South China Morning Post*, 27 June 1995; and Zhang Peixia and Li Shanghua (eds), *Chenggong de xuanze—Dalianshi yinzi jiajie de lilun yu shijian* (The Successful Choice: Theory and Practice of Dalian's Strategy of Utilizing Foreign Investment to Renovate State Enterprises), Dalian, Liaoning renmin chubanshe, 1995.
- 119 This paragraph is based on interviews in Qingdao in 1994 and 1996; and *Dalian nianjian 1987–89*, p. 55 and *Dalian nianjian 1995*, pp. 211, 215.
- 120 Interviews in Qingdao in 1994 and 1996, and in Dalian in 1997.
- 121 Information from Zhang Wanqing, *Quyue hezuo yu jingji gangluo* (Interregional Cooperation and Economic Linkages), Beijing, Jingji kexue chubanshe, 1987, pp. 185–92; *Zhongguo hengxiang jingji nianjian 1992* (The Yearbook of Chinese Horizontal Economy 1992), Beijing, Zhongguo shehui kexue chubanshe, 1993, pp. 275, 277; *Dalian wushinian*, p. 129; and interviews in Jinan in 1995, in Qingdao in 1996, and in Dalian in 1997.
- 122 It is possible that, as the recipes for success are spread for mutual learning, we will see an increasing degree of convergence among the coastal cities, and between coastal and inland cities.

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Development patterns and strategies of Xiamen and Fuzhou

Jude Howell

Introduction

The introduction of reforms and in particular the Open Policy have breathed fresh life into the economies of both Xiamen and Fuzhou. Situated in the eastern sea-board province of Fujian, Fuzhou in the north and Xiamen in the south, these two cities have long histories of overseas trade and migration. Their coastal location as well as their proximity to Taiwan, and indeed Hong Kong¹ have given them an important comparative advantage over inland cities in trade and attracting foreign direct investment. Furthermore, with their cultural and linguistic affinities with Taiwan and the diaspora of overseas Chinese spread throughout East and South East Asia they have had a head start in raising overseas capital for domestic development. In both cases geographical location, a history of overseas migration, and a subsequent network of familial ties overseas have facilitated their ability to take advantage of China's Open Policy.

Although both Xiamen and Fuzhou have prospered in the reform period, Xiamen has outperformed Fuzhou in terms of opening up to the international economy, particularly in the 1980s. It has been more adept at attracting and realizing foreign capital and achieving export earnings. It is argued in this chapter that the main reasons for this concern both central government policy towards Xiamen City, and in particular the creation of a special economic zone and the concomitant increased autonomy over economic affairs, as well as the ability of reform-minded local leaders to run with these policy advantages. Other related factors include the superior port facilities of Xiamen and the greater physical and political distance between Xiamen and the provincial centre. As a provincial capital Fuzhou city was always much nearer to the provincial hub of power, hence the risks of undertaking any experimental reforms or pursuing a fast rate of reform were that much higher. Hence in policy and political terms Xiamen has had the edge over Fuzhou.

By focusing on the two cities of Xiamen and Fuzhou we are thus able to highlight the factors which have contributed to the success of both whilst also drawing attention to the reasons for their differential performance. The chapter begins by providing a brief historical overview of the two cities as well as a broad-brush picture of their economic development in the reform period. In the second section we go on to consider the contribution of three sets of factors to the development of the two cities, namely, 'given' factors such as history and location, 'semi-given' factors such as central and

Statistical profiles of Xiamen and Fuzhou, 1996

<i>Indicator</i>	<i>Xiamen</i>	<i>Fuzhou</i>
Total population (1,000)	683.6	1,396.6
GDP (RMB million)	30,635.4	30,073.0
GDP as percentage of provincial GDP	11.8	11.5
Gross value of industrial output (RMB million)	34,727.22	33,628.38
Gross value of agricultural output (RMB million)	1,605.95	1,632.08
Total foreign trade (US\$ million)	6,645.09	n/a
Foreign trade as percentage of provincial total	39.6	n/a
Realized foreign capital (US\$ million)	n/a	n/a
Realized FDI (US\$ million)	1,350.17	n/a
Realized FDI as percentage of provincial total	33.0	n/a

provincial government policies towards sub-provincial cities and 'locally inspired' factors which have to be created, such as sectoral policy, sources of finance and Overseas Chinese connections. As well as identifying the similarities, we also consider the relative salience of these factors for each city. Finally we provide some concluding observations on the ingredients of development success as well as the future prospects for these two sites.

Background to Xiamen and Fuzhou

With its mountainous terrain and its limited area of fertile land Fujian has historically been a relatively poor province in China. To escape the hard and unrelenting toil of agricultural labour many Fukkienese abandoned their rural homesteads and ventured across the seas to make their fortunes, landing on the shores of neighbouring countries such as Malaysia or Indonesia or even further afield in America. Given the vast length of mountain range separating Fujian from inland provinces, the overseas route offered the only prospect of escaping poverty. Fujian has long enjoyed close connections with Taiwan. In the early Qing dynasty Taiwan fell under the Fujian independent government and thereafter remained as a tax-paying prefecture until it gained provincial status in 1887. These overseas links, as will be seen later in the chapter, have proved an important factor in the development of the two cities in the reform era.

Both Xiamen and Fuzhou have a long history of seafaring, which stretches as far back as the Qin dynasty.² Fuzhou's political and military predominance in the region also dates from this period. After the Hans secured control over Fuzhou around 220 AD, Fuzhou became a key port with a thriving shipbuilding industry in the region and was used as a starting-point for trade with the Ryukyu Islands and Taiwan. In its brief period of independence between 906 and 945, Fuzhou, as well as Quanzhou, became prosperous sea-ports. During the Song and Yuan dynasties Fuzhou took the lead in the regional development of agriculture and industry, whilst Quanzhou became the primary centre for overseas trade. In leading his armada as far afield as Africa the famous Chinese seafarer, Zheng He, relied on Fuzhou as a key ship-building base and for the recruitment of

sailors.³ By the fifteenth century Quanzhou's harbour was already beginning to silt up and it gradually lost its prominence in overseas trade to Xiamen, Zhangzhou and Fuzhou. As a result of attacks on the South East China coast, the Dutch occupation of Taiwan and the Ming resistance to Manchu rule, the Imperial court imposed a maritime prohibition between 1523 and 1743, thus marking a setback in the development of the regional economy and foreign trade of Fujian province.⁴ Increasing poverty led to out-migration to Taiwan and South East Asia. Following his final defeat by the Manchus in 1743 the Ming General fled with his followers to the Philippines. Xiamen began to take off as a major regional entrepot during the Ming and early Qing periods when, despite the ban on maritime trade, a hundred or so Chinese junks would set forth to South East Asia to trade tea, ceramics and sugar. With the lifting of the maritime prohibition a customs house was set up in Xiamen. As official policy decreed that all trade with Taiwan be handled through Xiamen, the importance of Xiamen's port grew further.

With the expansion of domestic trade in the late Imperial period sugar was transported north from ports such as Xiamen in return for fertilizer made from soyabeans. In the nineteenth century Fuzhou, like Shanghai and Guangzhou, was used for the export of silk and tea. With the advent of European traders in Asia from the seventeenth century onwards and imperial concern about the appearance of these foreign merchants on Chinese shores, European trade was restricted to the port of Guangzhou after 1759, thus weakening the importance of Xiamen and Fuzhou.

In the late Qing period foreign powers put pressure on the then weak government to open up more of the coastal strip. So under the Treaty of Nanjing of 1842 both Fuzhou and Xiamen became treaty ports, opening their doors to foreign trade. As in Guangzhou, the foreign communities in Fuzhou and Xiamen were concentrated in particular parts of the cities and segregated from the bulk of the population. Compared to Xiamen or Guangzhou, Fuzhou saw little foreign trade in the early days of the treaties.⁵ It was after the Triad rebellion of 1854 in Guangzhou that tea supplies were diverted for export via Fuzhou, thus marking the beginning of Fuzhou's European trade. By 1860 the tea trade accounted for 80 per cent of Fujian's total export value. The north Fujian port gained more prominence in 1866 when the Imperial Court, set on modernizing China's naval capabilities, approved the creation of a naval dockyard and maritime schools at Mawei. However, in May 1884 this took a severe battering by the French, who succeeded thereby in gaining Chinese recognition for its treaties with Annam in Indo-China. Following the Japanese invasion of Taiwan in 1873 Fujian came increasingly under the influence of Japan which used its ports to operate in South China.

In the late Qing period Xiamen became a key centre for the import of opium and the export of labour. During the 1840s and 1850s around 50,000 workers set off to toil in South East Asia and the Americas. Indeed opium provided the initial basis for manufacturing in Xiamen. Although Xiamen was brimming with trading houses, restaurants, banks and casinos in the final decade of the Qing dynasty, it could only claim a few small-scale factories producing soap, soya sauce and matches. Compared with Guangzhou and Shanghai, the role of Xiamen and Fuzhou in European foreign trade during the late Qing period was less significant. Moreover, neither became a major locus for an industrialization process based on foreign and/or domestic capital. Overseas

Chinese investment was, however, crucial to the infrastructural and manufacturing development of Xiamen during the first decades of the current century.⁶ By 1937 Xiamen had twenty-two factories, turning out items such as processed food and sugar-cane, ceramics and glass. Over 90 per cent of these had Overseas Chinese connections. Similarly Overseas Chinese contributed to the development of education in the region by funding Xiamen University, Jimei Middle School and over forty-five schools in Xiamen. By the mid-1930s Xiamen had become the major port and industrial and banking centre in the region. Following the Japanese invasion in 1938 the fortunes of both Xiamen and Fuzhou began to decline.

After 1949 both cities were able to benefit from the national fervour for reconstruction. Fuzhou had a history of ship-building, tea-processing and navigation and long experience of serving as a military, administrative and political centre for the region. The construction of a railway in 1955 served to link the port area of Mawei with the industrial part of the city. In the same year Xiamen was connected to the mainland via a long causeway. In 1957 the completion of the Ying-Xia railroad linked Xiamen to the national rail system. Between 1950 and 1957 the gross industrial output of Xiamen grew from RMB25 million to RMB80 million. However these initial attempts to develop the local economy were brought to an abrupt halt in the early 1960s when ties between the Soviet Union and China were severed. One of the factors underlying this dispute was Mao's plan to bomb the Taiwanese island of Jinmen, just off Xiamen. Fighting between the Guomindang and the Communists around the off-shore islands of Fujian had already broken out in 1954 and 1958. Fearful of an American invasion Mao made preparations for the securing of the capital and the coastal areas. In order to protect China's industrial capacity, Mao ordered the transfer of whole factories to inland regions, which came to form a 'Third line'. This left the coastal regions serving as a front-line of defence, with devastating consequences for the economic development of provinces such as Fujian. With Jinmen island belonging to Taiwan situated only a few kilometres away, Fujian in particular became a key military point in the defence of the nation. Given the perceived dangers of potential attack the central government invested little in the development of industry in the two cities of Xiamen and Fuzhou.

When the reformers consolidated their political power at the Third Plenum in December 1978 both cities had a legacy of old factories with outdated machinery, technology and surplus staff. In this respect both shared much in common with other cities in China. The emphasis on ideology and politics in the Cultural Revolution era, the restrictions on foreign trade and in particular on foreign investment, as well as the marginalized position of intellectuals, had combined to inhibit the process of technical renovation. Although China had enjoyed an average annual industrial growth rate of 10.4 per cent between 1965 and 1975, a high figure compared with other low-income countries, this apparent success masked serious structural problems in the economy. Hence Hua Guofeng's Ten-Year Plan, announced at the 5th National Party Congress in February 1978, sought to increase investment in industry by importing capital and technology on an ambitious scale.⁷ As Fujian province served as a front-line of defence against Taiwan, central government was reluctant to invest in its industry. Thus

Table 5.1 Gross value of industrial output in Fujian, Xiamen and Fuzhou, 1978–96 (RMB billion)

<i>Year</i>	<i>Fujian</i>	<i>Xiamen</i>	<i>Fuzhou</i>
1978	6.48	0.72	2.19
1982	8.76	1.05	1.76
1985	14.07	2.14	3.79
1990	54.21	8.59	14.12
1992	91.10	13.87	22.33
1994	197.30	24.92	43.15
1996	272.00	40.33	33.62

Sources: Howell, 1993, p. 164; *Fujian Statistical Yearbooks*, 1997, pp. 178, 349; 1995 issue, p. 396; 1993, pp. 210, 412–13; *Xiamen Statistical Yearbooks*, 1997, p. 436; 1995, pp. 352–3; 1980 prices used for 1980s and 1990 prices for 1990s; 1990 figures from *Coastal Open Cities, SEZs, Planned Unified Cities Statistical Compilation*, 1990 (internal), p. 8; Chen (1985), pp 55, 221. The Fuzhou figure for 1978 is estimated—according to *Fuzhou Wanbao*, 2 May 1992, p. 1, IOV in 1991 was RMB16.9 billion, 7.7 times that of 1978. For 1996 only the current price figure is available for Fuzhou. The equivalent figure for Xiamen is RMB34.72 billion.

technology levels in industry in Xiamen and Fuzhou were shaped not only by the above-mentioned general factors but also by their strategic position.

Although neither Xiamen nor Fuzhou have been key industrial centres in preor post-Liberation China, there was nevertheless an initial industrial base, which centred primarily on light rather than heavy industry. However their role in the national economy was still minimal. In 1978, for example, Fujian's gross industrial output value came to RMB6.48 billion (see Table 5.1), making up only 1.4 per cent of the national total. Of this, light industry accounted for RMB4 billion and heavy industry RMB2.48 billion.⁸

Xiamen's industrial output value came to RMB0.72 billion in 1979, 11 per cent of the provincial total. Compared to Fuzhou, which accounted for one third of Fujian's industrial output value on the eve of reform, Xiamen was overall a less significant industrial player. While Xiamen was the key location for light industry, Sanming in central Fujian and Fuzhou in the north were the main bases for heavy industry. Sanming was home to a medium-sized integrated iron and steel works, a petrochemical plant and a heavy machinery plant, whilst Fuzhou had machinery, metallurgical, chemical, food processing, paper-making and ship-building enterprises. Food canning, glass production, sugar processing, ship-building, tobacco processing, medicines and plastics were the main components of Xiamen's light industrial base. In 1958 an industrial district was set up in Xiamen but it never fully thrived. An ammonia fertilizer plant and oxygen plant constructed there were later abandoned. Xiamen continued to be the main thoroughfare for the passage of goods abroad, with more than half of exports going through its port at the end of the 1970s. Xiamen's Yuandang harbour had a capacity of 640,000 tons, almost twice that of Fuzhou's and was considered the best port between Guangzhou and Shanghai.

The lack of central investment and general development in Fujian had left it one of the ten poorest provinces in China by the mid-1970s.⁹ The tide began to turn in 1976 when

Table 5.2 GDP of Fujian, Xiamen and Fuzhou, 1978–96 (RMB billion)

<i>Year</i>	<i>Fujian</i>	<i>Xiamen</i>	<i>Fuzhou</i>
1978	6.2	0.64	n/a
1985	16.3	1.79	n/a
1988	22.4	3.48	8.02
1990	53.8	6.11	5.84
1992	74.19	9.25	13.78
1994	113.0	18.7	26.62
1996	148.44	18.29	19.29

Sources: *Fujian Statistical Yearbooks*, 1991, p. 439; 1993, p. 21; 1989, p. 504, current prices, 1997, p. 21 and p. 349; *Fuzhou Statistical Yearbooks*, 1991, p. 260; 1993, p. 318; and 1995, p. 288; *Xiamen Statistical Yearbook*, 1995, p. 14; (1970 prices are used as a basis for the 1970s, 1980 prices for the 1980s, and 1990 prices for the 1990s).

industrial output grew at 17 per cent annually between 1976 and 1979. It is in the reform period that both cities have been able to rediscover their economic potential, though the selection of Xiamen as a site for experimenting with reforms and opening up, as well as the enthusiasm of its leaders, have given it an important edge over Fuzhou. For a variety of reasons, which are explored in depth in the next section, Xiamen has outperformed Fuzhou since 1978 in terms of external economic relations, attracting foreign direct investment, expanding foreign trade and especially promoting exports. It has also managed to build up its industrial base from a lower starting-point than Fuzhou so that by 1996 its industrial output value exceeded that of the provincial capital.

As can be seen from Table 5.2 both Xiamen and Fuzhou have been significant players in Fujian's economic development, accounting respectively for 12 per cent and 13 per cent of provincial GDP in 1996. Their almost equal contribution to provincial GDP in 1996 contrasts to earlier years when Fuzhou's contribution was much larger. For example in 1988 Fuzhou accounted for 35 per cent of Fujian's GDP compared with 15 per cent for Xiamen, thus underlining the extent of Xiamen's growth.

As can be seen in Table 5.1 industrial output value in Fujian province has increased twenty-five fold between 1978 and 1994. Both Xiamen and Fuzhou experienced continuous industrial growth in the 1990s, with Xiamen quadrupling its industrial output value between 1990 and 1996 and Fuzhou more than doubling its output. The relative contributions of the two cities to industrial output value in Fujian have remained steady between 1978 and 1994, with Xiamen accounting for 12.6 per cent of the provincial total and Fuzhou 21.8 per cent. However 1996 figures point to a turnaround, with Xiamen accounting for 14.8 per cent of provincial industrial output value and Fuzhou only 12.35 per cent.¹⁰ In 1990 Xiamen had only 812 industrial enterprises compared with Fuzhou's 2,618. By 1996 Xiamen boasted as many industrial and production enterprises above county level as Fuzhou.¹¹ Together both cities accounted for over one-third of industrial output value in the province. Other important industrial centres are Quanzhou and Sanming, with 1,560 and 1,937 industrial enterprises respectively.¹²

Table 5.3 Total value of exports for Fujian, Xiamen and Fuzhou, 1979–96 (US\$ million)

<i>Year/place</i>	<i>Fujian</i>	<i>Xiamen</i>	<i>Fuzhou</i>
1978	246.5	148.0	n/a
1985	491.5	165.3	—
1986	578.5	165.3	13.2
1988	1,405.7	458.7	92.9
1990	2,238.1	781.5	233.6
1992	4,275.2	1,765.7	469.6
1993	5,825.5	2,355.3	939.9
1994	8,234.9	3,391.0	1,294.5
1995	9,308.0	3,479.0	1,567.0
1996	10,030.0	3,701.5	n/a

Sources: Howell, 1993, pp. 134–5; *Fujian Statistical Yearbooks*, 1997, p. 275; 1993, p. 340; *Xiamen Statistical Yearbooks*, 1997, p. 530; 1995, p. 16; *Fuzhou Statistical Yearbooks*, 1988, p. 303; 1992, p. 263, p. 286; 1994, p. 352; 1995, pp. 290, 361; 1996, p. 268; *Almanac of Foreign Economic Relations and Trade*, 1996/1997, pp. 382, 385, 387.

Note

Fuzhou Statistical Yearbook 1996/1997, p. 268, gives a figure of US\$2,920 for exports for Fuzhou in 1995. Here we take the Almanac's figures as this is the reference for 1995 figures for Fujian and Xiamen.

Given Xiamen's increasing importance since the late Ming dynasty as a port, it is not surprising that despite the setback of the pre-reform period, Xiamen still ranks as Fujian's major exporter. In 1979 Xiamen accounted for 60 per cent of all exports in Fujian (see Table 5.3). Exports remained at a stable level until 1985, though by 1985 Xiamen's exports accounted for only 33 per cent of the provincial total. Exports rose almost fivefold between 1985 and 1990 and well over fourfold in the subsequent five years. By 1996 the value of Xiamen's exports was twentyfive fold greater than in 1979, accounting for 37 per cent of all exports in the province. Although there has been a huge increase in exports from Xiamen, the decline in its overall contribution to the province reflects the growing use of other ports along the eastern coast for exports in the course of opening up.

While Xiamen still ranks as Fujian's top port, the value of Fuzhou's exports has also increased dramatically in the reform period. In the early years of reform between 1979 and 1985, Fuzhou's exports grew at an average annual rate of 9.4 per cent. Yet by 1985 exports amounted to only RMB285 million. Over the next five years the value of exports increased eighteen times from US\$13.23 million in 1986 to US\$233.60 million in 1990. Between 1990 and 1995 the value of exports increased almost sevenfold. Whereas in 1986 Fuzhou accounted for 2.2 per cent of all exports from the province, by 1995 this had risen to 17 per cent.

Both Xiamen and Fuzhou have accounted for the bulk of foreign capital in Fujian province (Table 5.4). In 1990 they attracted 72 per cent of all foreign capital in the province. This fell to 60 per cent in 1995, reflecting the gradual spread of foreign capital

Table 5.4 Agreed foreign capital in Fujian, Xiamen and Fuzhou, 1979–96, year-end totals (US\$ million)

<i>Year</i>	<i>Fujian</i>	<i>Xiamen</i>	<i>Fuzhou</i>
1979–83	62.0	37.1	n/a
1979–85	—	—	35.0
1985	439.1	265.2	n/a
1990	1,236.4	565.6	273.7
1992	6,360.0	1,799.8	1,207.8
1993	11,404.7	2,716.0	3,307.1
1994	7,231.6	2,135.3	2,205.9
1995	8,906.5	2,431.1	3,227.1
1996	6,670.4	1,650.5	n/a

Sources: Howell, 1993, pp. 152, 128; Fujian Statistical Yearbooks, 1993, p. 354; 1995, p. 295; 1997, p. 285; Xiamen Statistical Yearbooks, 1997, pp. 532, 585; 1995, p. 359; 1991, p. 290—note that the 1997 figure for Xiamen refers only to foreign direct investment; Fuzhou Statistical Yearbooks, 1991, p. 263; 1993, p. 321; 1994, p. 260; 1995, p. 290; 1996, p. 268; *Almanac of Foreign Economic Relations and Trade, 1996/1997*, pp. 386, 383; 1979–85 aggregate figure for Fuzhou, Chu and Zheng, 1992, p. 214.

to other parts of the province. Between 1979 and 1995 Xiamen was able to attract an increasing amount of foreign capital. Up till 1993 it proved much more successful in this than Fuzhou but from that year onwards Fuzhou began to take the lead, accounting for 29 per cent of the provincial total of agreed foreign capital compared with Xiamen's 21 per cent. In 1993 the total amount of agreed and realized foreign capital in Fuzhou approximated the total for the previous fourteen years for the city.¹³ In 1994 Fuzhou accounted for 36 per cent of total foreign capital in the province, higher again than Xiamen's 23 per cent. This turn-around reflects how Fuzhou began to catch up with Xiamen in the 1990s as its leaders began to capitalize on the wave of Taiwanese investment.

In terms of actually utilized foreign capital both cities accounted for 72 per cent of the provincial total in 1990, with Xiamen making up 45 per cent of this and Fuzhou 27 per cent. By 1995 this had fallen to 60 per cent, with Xiamen accounting for 32 per cent and Fuzhou 28 per cent. This decline in the relative contributions of the two cities to agreed and realized foreign capital reflects the gradual spread of foreign capital to other cities in the province. While in the early years of reform foreign capital was confined to the special economic zone (SEZ) and later the economic technological development zone (ETDZ), as the Open Policy was gradually extended, so foreign business ventures began to percolate beyond these original boundaries.

As can be seen from Tables 5.4 and 5.5, Xiamen has been better able to realize its foreign capital in the 1990s. In 1985 only 27 per cent of agreed foreign capital had actually materialized, compared with 38 per cent in 1990 and 64 per cent in 1995. Furthermore these rates exceeded both those of the province in 1990 and 1995, which were 25 per cent and 45 per cent respectively, and those of Fuzhou, which were 37 per cent and 35 per cent respectively.

In brief, coastal location, traditions of sea-faring and overseas connections have all favoured the development of Xiamen and Fuzhou. As Xiamen was given priority in

Table 5.5 Actually utilized foreign capital for Fujian, Xiamen and Fuzhou, 1979–96, year-end totals (US\$ million)

<i>Year</i>	<i>Fujian</i>	<i>Xiamen</i>	<i>Fuzhou</i>
1979	42.3	n/a	n/a
1985	177.1	86.2	n/a
1990	379.7	172.7	102.2
1992	1,465.6	628.1	284.7
1993	2,906.0	1,168.7	638.9
1994	3,764.2	1,618.2	918.4
1995	4,038.8	1,322.0	1,125.1
1996	4,213.4	1,350.2	n/a

Sources: Howell, 1993, p. 128; *Fujian Statistical Yearbooks*, 1983, p. 349; 1995, p p 299; 1997, p. 289; *Xiamen Statistical Yearbooks*, 1991, p. 290; 1997, p. 532—note that the 1996 Xiamen figure refers only to foreign direct investment; *Fuzhou Statistical Yearbooks*, 1990, p. 130; 1991, p. 263; 1993, p. 321; 1995, p. 290; 1996, p. 268.

opening up, it has outperformed Fuzhou in attracting foreign capital and developing export trade. Both cities have industrialized rapidly in the reform period, with Fuzhou continuing to be a more prominent industrial base in terms of output value than Xiamen, though 1996 figures suggest this trend may be about to be reversed. In the next section we explore some of the factors underpinning these differences in performance.

Recipes for development: comparative analysis of Xiamen and Fuzhou

In seeking to explain the differences in economic performance between Xiamen and Fuzhou at least three factors might be considered of relevance, namely, geographical location, central government policies towards the cities in question and the initiatives of the cities themselves. No single factor can, however, be isolated as causal. It is argued here that it is the conjuncture of the preferential treatment granted to Xiamen in its external economic relations, together with the entrepreneurial initiatives of local leaders, that account for the differential performance of the two cities. Without these central government policies early on Xiamen's city leaders could not easily have realized other advantages such as attracting investment by Overseas Chinese investors and other foreign companies; also without enthusiastic and visionary leadership central-government policy could not have been realized.

Given factors: history and location

Historically both Fuzhou and Xiamen were treaty ports, both had a history of outward migration and both suffered the consequences of serving as a front-line of defence in the three decades after Liberation. Currently over 6 million Overseas Chinese in more than ninety countries have their roots in Fujian province. Before Liberation the most popular

countries for emigration from Fujian were in South East Asia—the Philippines, Indonesia and Malaysia being particularly attractive destinations. Cultural and kinship ties between Taiwanese, some Overseas Chinese investors and residents of Fujian have been a positive advantage in attracting foreign capital.¹⁴ Between 1871 and 1949 Xiamen was the main locus of Overseas Chinese capital, accounting for 62.9 per cent of all Overseas Chinese investment in the province compared with just 4.9 per cent for Fuzhou. Overseas Chinese from the Philippines accounted for 25.5 per cent of all Overseas Chinese investment in Xiamen. The main Overseas Chinese areas in Fuzhou are Fuqing and Minqing districts. As southern Fujianese and Taiwanese can communicate directly in *minnanhua*, whilst northern Fujianese use standard Chinese in spoken language with their southern counterparts and Taiwanese, it has clearly been easier linguistically for Taiwanese business people to conduct their affairs with people in Xiamen. However, dialectal differences between North and South Fujian have not been a significant impediment to the forging of relations with Overseas Chinese and non-Chinese foreign investors in North Fujian nor a decisive factor favouring the development of one city over the other.

Both Xiamen and Fuzhou are situated on the coast and both face Taiwan, though Xiamen is nearest, with the Taiwanese Jinmen Island lying only a few kilometres from its shores. Neither has enjoyed ease of access to the interior of China because of the mountainous terrain which dominates the bulk of Fujian. Connections with the North have been more manageable from Fuzhou than Xiamen, whilst the latter is better located in relation to Guangzhou. Although the road and rail connections between Xiamen and Guangzhou are still not well developed, this point of access has placed Xiamen in a better position than Fuzhou for developing business links with Guangdong. It was only in October 1979 that a cargo service between Fuzhou's port and Hong Kong was restored. A rail journey from Guangzhou to Fuzhou took two days and one night in the early 1980s, traversing four provinces. Links between the North and South of Fujian have long hindered trade and communications within the province. The provincial network of roads by the late 1970s was barely adequate for heavy transport. Until the 1990s road and rail connections between the two cities were limited. The construction of a highway between Xiamen and Fuzhou has shortened the time of the journey, thus facilitating trade and communications. Given then that both cities are located on the coast with port facilities, albeit in need of expansion and modernization, the factor of location is not the key reason underpinning their differential performance during the reform period.

Semi-given factors

A key factor affecting the differential development of the two cities is their relative treatment by central government. From the early days of reform Xiamen has been granted preferential policies and privileges in relation to a whole range of economic matters such as foreign investment, foreign trade, retention of foreign exchange and payment of profits and taxes. These have given Xiamen a head start in the process of reform and opening up. The course of reforms has sometimes been pushed ahead by strong support from particular central leaders, whilst intra-leadership struggles over the reforms and Open Policy, and especially the special economic zones, have also served to slow down the

momentum of change. Central leaders' visions of the SEZs and EDTZs in coastal cities have fostered local development but also contributed to fluctuations in policy. At the same time Sino-Taiwan relations have been an important variable influencing central government policy towards Fujian and indirectly Taiwanese investors. The shape of Fujian's development has been strongly influenced not only by the granting of policies from above but also by the eagerness of local officials to make the most of such policies and privileges and to press for further autonomy. Fuzhou city leaders, like other city and county leaders in Fujian province, have sought throughout the reform period to achieve similar policy privileges to Xiamen, whilst Xiamen leaders, in entrepreneurial fashion, have sought to gain more privileges and decision-making power so as foster local economic development. In the first part of this section we trace the changes in central policy towards Fuzhou and Xiamen. We note the gradual extension of many of these policies to Fuzhou and other parts of Fujian, reflecting both pressure from sub-provincial levels as well as growing confidence amongst central and provincial leaders in the reforms and Open Policy. We also draw out the impact of intra-party divisions at central and provincial levels over reform and opening up, and in particular over the SEZs, on the development of the two cities.

Central policies

With the consolidation of Deng Xiaoping's position at the Third Plenum of the 11th Central Committee in December 1978 the way was paved for a radical overhaul of China's domestic economy and external economic relations. Deng's package of economic reforms included the decollectivization of agriculture, the expansion of foreign trade, the partial liberalization of prices, attempts to reform the state industrial sector, the introduction of foreign investment and in particular the establishment of SEZs. Rather than opening up the whole of China to the international economy, the reformers took a cautious approach and limited these experiments initially to Guangdong and Fujian. These two provinces were selected for a variety of reasons. Both were far enough away from the centre of power to ensure that if the reforms went severely wrong, then the national political and economic impact would be minimized. Both were natural coastal gateways to the international economy and thus enjoyed a geographical comparative advantage in trade. With their long history of outward migration, both Guangdong and Fujian provinces had substantial Overseas Chinese connections which provided potential sources of capital for investment. Whilst migrants from Fujian tended to concentrate in South East Asia, those from Guangdong settled throughout the world. From the political angle Guangdong lay opposite Hong Kong and Fujian faced Taiwan, both areas which the Party sought to reunify with the mainland. Thus the expansion of economic links with these two areas would not only provide opportunities for technology transfer and trade but also ease the political negotiations over reunification. It was for these reasons that in 1979 the central government granted Fujian and Guangdong provinces 'special policies and privileges' to open up to the international economy. In the case of Fujian this was precipitated by a shift in policy towards Taiwan. In December 1978 the Standing

Committee of the National People's Congress called for economic ties with Taiwan as well as a halt to the daily bombing of Quemoy island, which lay opposite Xiamen.¹⁵

A key feature of this new policy towards the capitalist world was the reformers' desire to attract foreign direct investment so as to acquire foreign technology, learn about new managerial practices and draw new sources of finance. Given that foreign direct investment had been virtually banned since Liberation¹⁶ and the Chinese government had been reluctant to borrow extensively abroad, these proposals did indeed mark a radical change in strategy. Again in a spirit of caution the reformers decided in 1979 to set up four SEZs to experiment with foreign direct investment. Three of these were located in Guangdong province¹⁷ and one in Xiamen City in Fujian province. These SEZs were to serve explicitly as 'windows for advanced technology and advanced managerial methods' and implicitly as 'windows for exemplifying the principle of "one country, two systems"'. The underlying political rationale for Xiamen SEZ can be observed in the following extract from the main provincial newspaper: 'Making the SEZ a success, will not only be beneficial to the promotion of the construction of our socialist modernization, but also has an important meaning for the reunification of Taiwan with the motherland.'¹⁸

Reluctant to grant any provincial capitals too much autonomy at such an early stage, the reformers selected only sub-provincial cities as sites for the zones. Hence Xiamen was favoured over Fuzhou.¹⁹ However, this is not to say that Fuzhou had not been in the running as a potential site for the zone. Up until the final decision to locate the SEZ in the Huli district of Xiamen, three potential sites had been proposed, namely, Langqi Island 30 kilometres from Fuzhou at the mouth of the Min River, Xinglin district, 25 kilometres from Xiamen and Huli district, a mere 4 kilometres from the centre of Xiamen. Initially only the first two options were under consideration. In December 1979 the provincial government announced these as the sites for the SEZ. However the potentially huge infrastructural costs of these two locations led to their abandonment. Conservative estimates put the cost of developing Langqi at US\$350 million. Given central government preference for sub-provincial cities as SEZs and the fact that construction of Dongdu harbour, only 2 kilometres from Huli, had already begun in 1976, the Xiamen option became the most viable. In May 1980 the State Council gave top priority to the development of the zone at Huli and final approval for this move came in October of that year.

In order to promote the development of the SEZs the central government granted special policies to Fujian province, giving it greater authority to make and implement provincial plans. For example, the provincial government was allowed to retain any export earnings above the value of trade the previous year. Thus in 1979 the province could retain all export earnings above US\$200 million. Fuzhou and Xiamen, as well as the seven prefectures, were permitted to retain 20 per cent of above-target foreign currency revenues.²⁰ Furthermore enterprises with a given output volume and percentage of exports also could retain some of their export earnings. Other policies aimed at enhancing foreign economic relations included the opening of twenty ports, including Fuzhou and Xiamen, to international shipping in January 1980, as well as large parts of the province to tourism.

Although central policies have been crucial to the development of Xiamen SEZ, the pace of change has also been accelerated and sometimes constrained by political struggles at the centre, particularly when these have taken the form of a critique of the zones. In these early years the national controversy over the SEZs cast a shadow over local efforts to construct and develop Xiamen SEZ, with consequences also for Fuzhou. Leftist opposition to the zones both at national and provincial levels took up the issue of smuggling and economic crime and used the discourse of imperialism to mount their attack. Despite the tensions within the provincial leadership the Provincial People's Congress issued a 'Statute on the Establishment of SEZs in Fujian' in March 1982,²¹ which was followed a month later by three sets of regulations concerning enterprise registration, land use and labour management.²² These regulations were similar to those issued earlier by Guangdong, the later official publication of these reflecting the slower momentum of change in Fujian. Following the victory of the reformers in the ongoing battle over the SEZs at the Twelfth Party Congress in 1982 local leaders could again move to accelerate the process of development in Xiamen SEZ. In October of that year State Councillor, Gu Mu, called for greater autonomy for Xiamen SEZ. In the same month two more ports were opened for exports, again underlining the importance of central government policy for the pace of opening.

Within this context of on-going controversy over the SEZs, Fuzhou leaders did not take any initiative to further the process of opening-up, adopting instead a wait-and-see approach to the moves of provincial and central leaders. Plans to develop Fuzhou had not been pushed aside. In March 1983 the Governor of Fujian, Hu Ping, proposed the development of two economic centres in Fujian, namely, Xiamen, along with the subcentres of Quanzhou, Zhangzhou and Longyan, and Fuzhou, along with Nanping and Sanming. This proposal reflected the pressures from within the north of the province for an extension of the Open Policy. However with the reimposition of central control over investment spending in mid-1983 Fujian province followed suit by cutting investment in capital construction projects. Priority was given to projects in Xiamen SEZ, thus again putting Xiamen at a policy and resource advantage over Fuzhou.²³ The catalytic role of Xiamen in the development of the Fujian economy was reinforced at a provincial government conference held in Xiamen SEZ in mid-September 1983.²⁴

Following Deng Xiaoping's visits to the SEZs in early 1984 two important changes in the Open Policy occurred which were to affect the development of the two cities. The first extended the Open Policy to fourteen coastal cities and Hainan Island and the second increased the area covered by Xiamen SEZ. At the State Council forum in April 1984 it was agreed that fourteen coastal cities, one of which was Fuzhou, would set up mini-SEZs called 'economic and technological development zones' (ETDZs), which would concentrate on the development of knowledge- and technology-intensive enterprises.²⁵ The emphasis of the Fuzhou ETDZ was to be on light industry, scientific and technological research, trade and tourism. The Louxing section of the zone was to promote electronics, ship-building, textiles and the food industry. The focus of the Qingzhou part of the zone was on precision machinery, fine chemicals, new building materials and port auxiliary facilities.

In order to achieve these objectives the Fuzhou municipal government devised four plans. First, it sought to deepen the navigation channels of the port, modernize existing wharves and construct eight new berths at Mawei. Second, it drew up a plan to concentrate foreign direct investment in an EDTZ at Mawei, with the aim here to develop export-processing industries. Third, the municipal government sought to improve rail links between Fuzhou and Zhejiang and roads between Fuzhou, Wenzhou, Xiamen and Gutian. Finally, aware of the impact of electricity shortages on production, the government planned to build a hydro-electric plant at Shuikou. In addition the Fuzhou municipal government drew up a package of preferential policies for foreign investors and began to set up customs bonded warehouses. Thus the central leadership's initiative to promote coastal cities gave the municipal government a golden opportunity to stride ahead with opening up and with its modernization plans. Moreover Fuzhou government leaders were quick to seize this opportunity to fashion a regulatory environment conducive to drawing foreign investment and so promote local development.

The fourteen coastal cities were granted certain privileges concerning the approval of foreign direct investment, taxation and foreign trade, which although less than those of the SEZs, were still more than in the inland areas. Although Shanghai and Tianjin were authorized to examine and approve all production projects with a capital of up to US\$30 million, which were for the technological updating of existing enterprises or the construction of new plants, the ceiling for Fuzhou was only US\$5 million. This compared with the provincial government's right to approve projects with investment under US\$10 million. Incentives to foreign investors were more favourable in the zone than in the city and Overseas Chinese investors were offered even more preferential treatment. For non-productive projects, however, all coastal cities could examine and approve these regardless of the amount of investment involved. Similarly all fourteen coastal cities modernizing their plants could enjoy exemption from tariffs, import duties and VAT on all imported equipment before 1990. They could also offer foreign investors various tax incentives such as a 15 per cent reduction in income tax for high-tech enterprises or favoured sectors such as energy and communications. Like the SEZs they were also to serve as 'windows' to the outside and as models of reform.

In December 1984 a State Council draft plan for the fourteen chosen cities was announced. The cities were divided into four categories according to whether they were to pursue comprehensive opening, or focus on trade, or develop their resource base or serve as a transportation nodes. Fuzhou was placed along with Wenzhou, Nantong, Yantai, Beihai and Zhanjiang in the third category.²⁶

Deng's second proposal called for the extension of Xiamen SEZ from the original small area of 2.5 square kilometres in Huli to cover the whole of the 131 square kilometres of the island, thus signalling central support for the development of the zone. Given previous tensions between provincial and central government leaders over the size of the zone in the early 1980s, and in particular provincial leaders' perception that the small size of Huli implied access to fewer resources than the much larger Shenzhen, this decision was especially welcomed.²⁷ Along with this Xiamen was also granted greater autonomy in its economic affairs. Although this had already been approved in September 1983, it was not implemented, partly because of the impact of the Spiritual Pollution Campaign, which

undermined confidence of lower-level cadres in the reforms, both in Xiamen and Fuzhou. As part of this general move towards greater opening, the provincial government decentralized decisions concerning foreign economic relations from provincial to municipal levels, reflecting genuine enthusiasm to speed up the pace of opening and encourage local development. Moreover at the end of the year the administration of 294 provincial-level enterprises was decentralized to key cities, such as Fuzhou and Xiamen, again increasing the degree of local economic autonomy.²⁸

Aware that Xiamen could not earn sufficient foreign exchange to finance provincial industrial growth, provincial planners began in 1983 to consider ways of enhancing economic growth within the province. Central leaders also had begun to explore ideas for extending the open policy to hinterland areas around the coastal cities. In January 1985 Gu Mu announced the extension of the Open Policy to three Golden Triangles, of which the South Fujian Delta was one.²⁹ This enabled other cities, counties and businesses in South Fujian to acquire greater autonomy in their use of foreign capital, technology, imports and exports. Zhangzhou, Quanzhou and Longyan Prefectures were permitted to set up their own trading companies.

The plans to develop a South Fujian Golden Triangle and an EDTZ in Fuzhou formed part of a broader provincial scheme, according to which Fuzhou would serve as the centre for heavy industry, chemicals and machinery and Xiamen as the locus for light industry. However, with both Xiamen and Fuzhou making their own investment plans, local leaders were able to ignore provincial guidelines. Thus in 1984 Fuzhou was already competing with Xiamen in electronics. The provincial government responded to this by changing its guidelines to encourage Fuzhou to develop its electronics industry.

During 1985 Xiamen continued to be permitted special policy privileges which were not extended to Fuzhou. In June 1985, for example, the State Council approved the right of Xiamen to borrow from abroad, issue bonds overseas and make spot transactions.³⁰ In this way the central government made it possible for Xiamen to raise funds overseas independently of central and provincial governments. Moreover it was an indication that the central government was conceiving a future role for Xiamen as a financial centre. In July 1985 Xiamen was permitted to adopt free-port policies, reflecting the continuing influence of Deng's ideas for the zone. These were to start in early 1987, which would give it the right to manage its own foreign trade and to conduct direct trade with Taiwan.

However, the burgeoning foreign trade deficit led in mid-1985 not only to attempts to recentralize foreign trade and foreign exchange management and cap the economic policy privileges of the SEZs but also to a temporary reduction in the number of open coastal cities from fourteen to four.³¹ As Fuzhou was one of the ten cities to be affected, it met a further setback in its quest to open up and modernize. With 70 per cent of provincial capital construction expenditure between 1980 and 1985 being devoted to Xiamen, and only 30 per cent to Fuzhou, Fuzhou could have used the central funds that would have come with coastal city status to develop its infrastructure more rapidly.³² This tightening of macro-economic policy served to slow down the pace of opening in Fujian, but particularly in Fuzhou which was still trying to get going. Xiamen was also hit by the renewed anti-zone sentiments of mid-1985. Like the other SEZs Xiamen was ordered by central government to reduce its spending plans from RMB1 billion to RMB800 million.

Following the foreign exchange crisis in mid-1985 and the concomitant critique of the SEZs there was again a shift in strategy for Xiamen. At a national SEZ work meeting held in January 1986 it was proposed that in the Seventh Five Year Plan the SEZs should progress from being primarily export-oriented to becoming a 'windows' for technology, management, knowledge and the Open Policy and look simultaneously outwards and inwards, like 'two fans'. Thus Zhao Ziyang's vision of the SEZs as sites through which to attract technological and knowledge-intensive industries had begun to gain a firmer foothold, also helped, ironically, by the critique of SEZs as 'parasitic' and 'non-productive'.

Following complaints from foreign investors concerning the investment environment in China in early 1986 the central government began to devise new incentives. Xiamen municipal government then set about investigating the concerns of foreign investors, such as the imposition of arbitrary fees, thus indicating its willingness to redress some of the obstacles to foreign investment and push along the process of opening up. It also gained some trade concessions, including exemption from import duties for machinery and raw materials used for export as well as tax exemption on exported finished products. After the central government announced the promulgation of twenty-two new regulations granting foreign investors more incentives, both Fuzhou and Xiamen municipal governments acted promptly to issue their own regulations on 'hiring and firing', RMB funds, raw materials supply, prices of domestically sold goods and the foreign exchange balance.³³ The victory of the reformers at the Thirteenth Party Congress in October 1987 gave a further boost to the Open Policy in Fujian Province, with a sharp increase in the number of foreign investment contracts signed.³⁴ Fujian, Guangdong and Hainan were designated experimental areas for overall reform.

Local academics and leaders were already expressing concern about the stifling effect of continuing central and provincial authority over the SEZ. An article in a local academic journal called for greater authority for the local Xiamen SEZ Office in managing the zone.³⁵ This reflected the growing frustration of an entrepreneurial local leadership eager to forge ahead with modernization and opening up, yet constrained by the weight of provincial and central procedures. This ongoing discussion about the powers of Xiamen SEZ lay behind the decision by the State Council in April 1988 to grant Xiamen the same powers as a province in economic management. Xiamen acquired the status of a 'separate plan item city' (*jihua danlie*),³⁶ whereby the Mayor of Xiamen enjoyed equal ranking with the vice-provincial governor. This was followed in the summer of that year by new national regulations encouraging Taiwanese investment. This central shift in policy enabled Xiamen to quickly follow suit and issue its own special preferential policies for foreign investors. It also gave the provincial government the go-ahead with the idea of setting up Taiwanese investment zones.

Following the visit by Zhao Ziyang to Fuzhou early in January 1988 Fuzhou city leaders stepped up their efforts to open up and attract foreign direct investment. In 1988 Fuzhou issued new regulations to attract foreign direct investment which exempted export-oriented enterprises built before 1990 from site use fees for ten years.³⁷ Other benefits included the right to retain 90 per cent of the foreign exchange earned before 1990 and exemption from import duties, product taxes on imported machinery, raw materials, fuel

and parts used for export goods. In the same year the State Council approved the extension of the South Fujian development zone from eleven to thirty counties and the opening of all coastal areas from Fuzhou to Zhangzhou.³⁸ In a similar effort to attract foreign investors so as to upgrade its existing state factories, city leaders invited foreign businesses to buy state-owned enterprises or purchase shares in them.³⁹

However the pace of opening up in Xiamen and Fuzhou was set back temporarily by the recentralization of control over foreign trade companies in October 1988. In Xiamen sixty-nine out of 230 companies had their right to import and export revoked. Even worse though was the State Council decision in October 1988 to abolish the preferential foreign exchange retention rates of the SEZs, which of course included Xiamen.⁴⁰ They were thus placed in the same position as other cities in China, allowed to retain only 80 per cent of foreign exchange earnings. This meant they lost a competitive edge over other potential investment sites as well as a source of foreign exchange to import goods and invest. There were even rumours that the central government was considering withdrawing Fujian's economic autonomy.

Political unrest and the rise of the democracy movement in early 1989 distracted central government attention from the perceived negative aspects of the SEZs. International condemnation of the government's response to the demonstration on 4 June 1989 served to strengthen central and local efforts to retain and attract new foreign investment. Plans to draw in more Taiwanese investment moved ahead despite the unrest in major urban cities. Both Xiamen and Fuzhou were to set up special zones for Taiwanese investment. In May 1989 the State Council approved the setting-up of two special Taiwanese investment zones in Haicang and Xinglin, which again would encourage more extensive opening up in Xiamen and firmer contacts with the Taiwanese business world. Fuzhou city established a science park to attract high-tech enterprises.⁴¹ In September 1990 Fujian provincial government announced plans to turn Langqi Island into a Taiwanese investment zone, fulfilling its ambitions to make this area special.⁴² All these initiatives pointed to the desire of the local leadership to continue with economic reform and to integrate with the global economy, despite events in the broader political context.

National leaders continued to push for Fujian to expand foreign trade and investment whilst provincial and municipal leaders were quick to use such rhetoric and visits to promote faster local development and greater opening up. For example, Peng Chong, Vice-Chair of the National People's Congress Standing Committee visited Fujian and gave enthusiastic support for greater opening. Both Qiao Shi and Wan Li also paid visits to Xiamen, Fuzhou and other key cities in Fujian that year, thus signalling central government support for more reform and expansion of external economic links. The idea of the free port came on to the agenda again in October 1991, pointing again to local leadership attempts to envisage new ways of fostering local development.⁴³ There was also a discussion about drawing a special zone administrative boundary and relaxing trade, financial and bonded business policies. The aim was to make Xiamen the most open coastal city and pave the way for direct contacts with Taiwan, reflecting again the desire to open up and the eagerness of local officials to establish more contact with the global economy.

Jiang Zemin's visit to Xiamen in 1991 on the tenth anniversary of the zone gave renewed impetus to the future of the zone. This was followed by a special meeting to promote economic and technical cooperation with Taiwan. Their enthusiasm to push ahead was bolstered by publicity given to Deng Xiaoping's trip to Shenzhen, Zhuhai, Gongbei and Shanghai in the New Year, when he revealed a determination to hasten the process of reform and opening up. Although Deng Xiaoping did not visit Xiamen, or indeed Fuzhou, this central affirmation of the urgency of opening up was an important incentive to provincial and municipal leaders in Fujian. In this context provincial and municipal leaders embarked in early 1992 on a further round of policy incentives. Chen Guangyi, provincial party secretary, announced plans to grant foreign trade enterprises greater autonomy, giving particular attention to the Fujian/Taiwan trade link. Foreign investors were encouraged to put their money into real estate, finance and commodity retail services. Plans were under way to open a special port for Taiwanese trade on Meizhou Island. At the same time inland mountain areas were granted rights to open up similar to those in the coastal cities.

During his southern tour Deng Xiaoping had urged Shenzhen to become the Fifth Little Tiger within twenty years, that is, emulate the achievements of Hong Kong, Singapore, Taiwan and South Korea. This metaphor was quickly appropriated by provincial and municipal leaders in Fujian to promote further opening. Both Xiamen and Fuzhou municipal leaders boldly announced plans to catch up with the neighbouring Asian Tigers. In this spirit both cities ushered in new reform measures. Xiamen set about hastening the implementation of its free trade zone policies. Sub-municipal governments took this opportunity to attract more Overseas Chinese investment by rapidly establishing investment zones. In 1992 municipal leaders in Fuzhou announced plans to develop a Minjiang Golden Triangle Economic Circle over the coming five years.⁴⁴ This echoed the South Fujian Golden Triangle concept which was put forward seven years earlier for Xiamen. Its focus would be on light industry and new technology. In June 1992 Fuzhou municipal leaders set up a special small group to work on Fuzhou's development strategy and sent relevant department leaders on an inspection tour to Guangdong, Hainan, Shanghai, Shandong and Jiangsu to study their successes.⁴⁵ In July 1992 the State Council approved the plan to establish the Fuqing Investment zone as well as smaller industrial districts. Fuqing thus became the largest such zone in China.⁴⁶ In November of the same year the State Council approved a duty-free zone (*baoshui qu*) in Fuzhou EDTZ, which claimed to offer the most preferential policies to foreign companies of all the thirteen duty-free zones in China.⁴⁷ By 1994 it accounted for one third of the value of trade of all such zones in the country.⁴⁸ By the end of the year Fuzhou municipality had introduced twenty-two new reform and open policy measures.⁴⁹

Although Xiamen had gained provincial powers in economic management in October 1988, which gave local leaders greater room for manoeuvre in planning local development, they still felt constrained by the fixed-sum remittance regime and the lack of legislative powers. Whilst some separate plan item cities enjoyed financial independence, Xiamen did not achieve this until 1994. Between 1985 and 1994 Xiamen was under a fixed-sum remittance regime, paying RMB 100 million to Fujian province. The following five years this increased to RMB490 million per year. From 1995 it has

been required to pay 10 per cent of the amount of 1994, that is RMB49 million, leaving a larger sum of revenue in the hands of the municipal government.⁵⁰ Once this sum has been paid, the municipal government can independently determine its expenditure.

Unable to issue their own laws it was difficult for Xiamen to respond rapidly to the needs of foreign investors on a range of issues such as labour management, contractual protection of investments and real estate. In early December 1991 an article appeared in the local daily calling for greater legal autonomy for Xiamen on a par with the province.⁵¹ Local leaders felt their entrepreneurial visions for the zone were increasingly frustrated by their subordinate position in the legal and administrative hierarchy. At the National People's Congresses in 1988 and 1993 local deputies had repeatedly requested greater legislative powers for Xiamen.⁵² However it was not until March 1994 that Xiamen gained legislative powers, making it only the second city in China to enjoy such a prerogative.⁵³

Although the National People's Congress had empowered Fujian in 1981 to formulate separate economic laws for the SEZ, local leaders in Xiamen felt the time needed to gain approval from the provincial capital for its regulations was an obstacle to promoting local economic development. These new legislative powers gave Xiamen greater scope for approving projects. From 1994 it could approve domestic projects worth over RMB100 million without having to first obtain State Council approval. Prior to this it also needed provincial approval for domestic projects over RMB50 million in heavy industry and RMB30 million in light industry, whilst projects over RMB100 million required State Council approval. This granting of legislative powers again placed Xiamen in a more favourable policy position than Fuzhou, and in particular loosening control of provincial government over its economic affairs.

The central decision to bestow Xiamen with these legal powers was not solely concerned with the development of the SEZ but was also closely linked to the reunification of Taiwan. By giving Xiamen legislative powers it was hoped that Xiamen could serve as an experimental legislative zone for relations with Taiwan just as Shenzhen has done with Hong Kong and Macau. Local leaders were also concerned that the time required to push local regulations up through the provincial People's Congress hindered the development of the three Taiwanese investment zones.

Thus central policies towards Xiamen SEZ, which have been informed both by central-level politics surrounding the SEZs as well as national policy towards Taiwan have played a significant role in the pace of its development. By granting Xiamen preferential policies through the setting up of SEZs the central government gave Xiamen a policy advantage over Fuzhou. As the benefits of opening up and reform became increasingly apparent in the 1980s, Fuzhou city leaders as well as other city and county leaders called for similar policy entitlements to Xiamen. However, whether or not Xiamen could reap the most benefit from these policy privileges also depended on other factors such as the quality of provincial and municipal leadership and their political perspectives on reform and opening up, the willingness to decentralize further some economic powers to county and district governments and enterprises as well as the state of relations with Taiwan.

Table 5.6 Fujian's political leaders, 1979–95

<i>Provincial governor</i>		<i>Party secretary</i>	
1979–83	Ma Xingyuan	1975–80	Liao Zhigao
1983–7	Hu Ping	1982–5	Xiang Nan
1988–91	Wang Zhaoguo	1986–93	Chen Guangyi
1991–4	Jia Qinglin	1994–	Jia Qinglin
1994–	Chen Mingyi		

Source: Lamb, 1994: *Who's Who in China Current Leaders*.

Provincial leadership

The pace of economic development in Xiamen and Fuzhou has been influenced not only by central government policies but also by the degree of support given by the provincial leadership for reform and the Open Policy. Up until mid-1981 Fujian provincial government was led by Ma Xingyuan, a member of the so-called Shanxi clique (see Table 5.6 for chronology of provincial governors and party secretaries). This referred to political cadres sent to Fujian in the late 1950s. Although it is difficult to determine exactly the policy preferences of these leaders, their discourse of welcoming the reforms and Open Policy but advocating caution and restraint suggests that they probably favoured a restoration of the status quo of the late 1950s and were hesitant about embarking upon a programme of too rapid change. The reorganization of the provincial leadership in 1983 strengthened the position of the reformers and pushed ahead the pace of policy implementation. Crucial here were the figures of Xiang Nan, a protégé of Hu Yaobang, and Hu Ping, originally from Zhejiang. Although Xiang Nan was a native of Fujian, he had already left the province as a child, returning only in the early 1980s.⁵⁴ Given that most of his working career had not been in the province, there is a need for caution in placing too much stress on his roots as a determining factor. More important seems to have been his readiness to move more quickly ahead with reforms and opening up than his predecessors.

At the Third Session of the Fifth Fujian People's Congress in April 1981 there was a heated discussion over the pace of implementation of Fujian's special policies and measures. While some deputies were satisfied with the speed of implementation, others sought a faster pace of change. This became possible when at the Eleventh Session of the Fifth Fujian People's Congress in October 1981 Hu Ping became provincial vice-governor and Xiang Nan provincial chief, thus weakening the predominance of the Shanxi clique. Hu Ping then set about speeding up the construction of the zone and advocating preferential policies which were deemed 'even more preferential' than in other areas.⁵⁵ In January 1983 Hu Ping rose in status to provincial governor, whereby he acquired the powers not only to reorganize the provincial government to his favour but also to push ahead the process of reform and opening up. In doing so he had also to deal with the legacy of cadres at provincial and subprovincial levels who owed their positions to the Cultural Revolution.

Following Deng Xiaoping's visit to the SEZs in 1984 supporters of opening up began to challenge leftist influence, especially when this became expressed in obstructing or

delaying negotiations with foreign investors. A Provincial Party and Government Work Group visited Xiamen at the end of March 1984 to examine a number of sectors relevant to opening up, such as planning, foreign economy, tourism, transport and finance. This resulted in new policies offering preferential treatment to foreign investors⁵⁶ and a series of new regulations concerning entry formalities, labour management, land use fees and intra-regional links. The Shanxi clique, which reportedly had factional ties at the central level, continued to exert its influence on policy affairs. Taking advantage of the economic crisis in mid-1985 as well as revelations of local economic corruption, the Shanxi clique, according to a Hong Kong source, launched an attack upon Xiang Nan and the Open Policy, claiming, *inter alia*, that the well-known Sino-Japanese joint venture Fujian-Hitachi, which was located in Fuzhou, was 'controlled by the Japanese imperial army.'⁵⁷ The pressure from the Shanxi clique led to the downfall of Xiang Nan in early 1986.⁵⁸ His replacement, Chen Guangyi, also a native of Fujian, was considered a moderate reformer. He had served as governor of Gansu province between 1983 and 1986 and was the son-in-law of Xi Zhongxun, an early and ardent supporter of the SEZ concept.⁵⁹ Although Hu Ping was still at the helm, this shake-up dampened enthusiasm for the policy. Chen was later superseded by Wang Zhaoguo who was transferred in 1991 to the Taiwan Affairs Office in Beijing. He was replaced by Jia Qinglin, who was concurrently provincial governor and party secretary. The party secretary, Chen Guangshi, visited Fuzhou in June 1992 and urged municipal leaders to speed up the development of Mawei zone and to implement rather than drag their feet over policies.⁶⁰ In this way provincial leaders reaffirmed their commitment to the reforms and Open Policy and accelerated and supported positive action on the part of municipal leaders. In 1994 Jia handed over the governorship of the province to Chen Mingyi, a native of Fuzhou. Thus the efforts of reformers in the provincial leadership have been an important variable in the development of the two cities.

After Xiamen became a separate plan item city in 1988 and its mayor enjoyed the same ranking as a vice-provincial governor, the municipal government was better positioned to pursue economic development without constant reference to the provincial government. Thus the approach of particular provincial leaders to reform and opening up became less decisive in determining the course of Xiamen's development.

Pressure from below

In both Xiamen and Fuzhou we can detect pressure from city and county-level governments to extend the preferential policies in opening up and also an increasing responsiveness on the part of provincial government to support such an initiative. When plans for the zone were first being discussed in 1979, there were at least four different proposals concerning where the boundaries of the zone should begin and end. The central government option of Huli was the smallest whilst the largest extended the scope of the zone to Xiamen municipality and Tongan County. As early as 1980 some enterprises in counties were demanding greater autonomy from the provincial and national trading companies, which would allow them to engage more freely in foreign trade. Similarly after Deng Xiaoping's call for greater reform in Xiamen in 1984 fifty-five plant directors

and managers added to these attempts to broaden the scope of the policy by issuing an appeal in the provincial newspaper for greater autonomy.⁶¹ Enthused by Deng's support and eager to also reap the benefits of this shift in central policy, the provincial government interpreted Deng's speech to apply not just to Xiamen but also to Fujian.⁶²

Following Gu Mu's call in October 1982 for greater autonomy for Xiamen pressure from areas outside Xiamen to enjoy the same privileges in foreign economic relations increased. Both Jinjiang and Longxi districts, for example, drew attention to their crucial role in the development of the zone, underlining their potential for tourism as well as their strong Overseas Chinese links.⁶³ Given that in 1982 they accounted for almost 70 per cent of export goods, their interest in benefiting from some of the special policies was understandable. In the autumn of 1984 leaders of Quanzhou city pressed the provincial government for preferential policies to open up. Both Quanzhou city and Jinjiang county, which enjoyed strong Overseas Chinese connections, were rapidly becoming home to numerous processing and assembly operations and clearly wanted greater authority to allow this potential to develop. Following the extension of the zone policy to the whole of Xiamen Island in the spring of 1984, outlying areas in Fujian province also began to encourage foreign investors to set up businesses, again underlying this pressure from below to expand the scope of the policy. Indeed the mayor of the north western mountain city of Sanming, Yang Weijie, announced numerous incentives to foreign investors, including offers of even cheaper labour than in the coastal areas.

With the opening of the South Fujian Golden Triangle in 1985 Quanzhou and Zhangzhou cities and nine counties were given the go-ahead to open up to foreign capital. In mid-1986 thirteen key industrial townships around Zhangzhou, Quanzhou and Xiamen were granted preferential policies given in the South Fujian Golden Triangle to attract foreign direct investment, thus pointing to the enthusiasm of local leaders to draw foreign investment into the locality.⁶⁴ Growing concern at national and provincial levels about the increasing regional disparities between coastal and inland areas and coastal and mountainous areas provided the climate within which the provincial government also extended some authority over foreign economic relations to less well-endowed mountainous areas. The relaxation of relations with Taiwan in 1990 also provided the opportunity for sub-municipal governments to push the pace of opening up. In June 1990 Jiao County initiated work on the new Fuxing Investment Zone. This was the first so-called 'people's investment zone' (*minban touziqu*) in the province. Over RMB300 million of local funds were used to construct the zone. In 1991 it began to take off, agreeing sixty-one new foreign investment projects that year.⁶⁵ By 1994 134 foreign investment projects involving a total investment of US\$380 million had been agreed.⁶⁶ Apart from this zone it had also established a high-tech science park and an industrial zone. In 1992 Minhou County and Shangjie Investment Zone began to improve road and communications infrastructure to attract foreign investment.⁶⁷ Mingqing county announced in September 1992 that it would offer ten of its own preferential policies to foreign investors, such as simplifying the procedures for approving joint ventures, exempting foreign enterprises from local income tax and exempting productive foreign enterprises from regulatory fees.⁶⁸ Eight of its townships had set up small industrial zones to attract Taiwanese and Hong Kong investment. A Hong Kong company had agreed to assist with the development of its

industrial zone. In June 1991 Anping county got approval to set up an overseas investment development district. The following month, Longhai county government established Jiaomei industrial development district, which proved successful in attracting Taiwanese investment.

Thus central and provincial government policies have been crucial in prioritizing the development of Xiamen SEZ from 1980 onwards and Fuzhou from 1984. At times the pace of development has been set back by tensions within the top party leadership which have fuelled opposition to the reforms at lower levels. Nevertheless there has been considerable support at local level for the opportunity to engage in trade and draw foreign investment, and it is this local enthusiasm and entrepreneurial drive which has been a principal dynamo in the rapid pace of change in both cities.

Locally-generated strategies and variations

While central and provincial policies towards Fuzhou and Xiamen have been important in guiding the pace and nature of development, the way the economy has evolved has also been informed by the municipal leadership. Of interest here are the different approaches of Xiamen and Fuzhou governments to reform and opening up, the quality of sectoral planning, and their ability to foster Overseas Chinese connections and mobilize funds for investment.

Relative enthusiasm for reform and opening up

A crucial difference between Xiamen and Fuzhou's leadership has been the greater enthusiasm in Xiamen for reform and the concomitant ability to capitalize on opportunities given by central and provincial government. Dissatisfied with the central government decision to limit the size of the new zone to 2.5 square kilometres, provincial and municipal leaders constantly sought ways of encouraging foreign investment and technology transfer beyond these limits. For example, in an effort to get the zone going in 1981 Xiang Nan announced preferential policies which would apply not only to joint ventures in Huli but also to the whole of the island, suggesting a desire to give the Open Policy as broad an interpretation as possible. Similarly, Lu Zifen, first party secretary of Xiamen, announced in April 1981 that foreign investors could rent land outside Xiamen Island and still enjoy the income tax incentive of 15 per cent.⁶⁹ In October of that year Xiang Nan announced that all joint ventures on Xiamen Island could enjoy the 15 per cent tax incentive and that it might be applied throughout the province so as to become competitive with Guangdong. In Xiamen, Xiang Zhen, deputy mayor, announced measures that would be far more favourable to investors than in Guangdong province. These included the application of these incentives not only within the SEZ but throughout the municipality, again pointing to a local-level initiative to capitalize on the new room for manoeuvre.

Although in the early 1980s opposition within the central government to reforms and opening up was also echoed in the corridors of bureaucratic power in Xiamen, this early resistance had been largely quelled by 1984. After Deng Xiaoping's visit to the SEZ in

Table 5.7 Mayors and party secretaries of Xiamen

<i>Mayors</i>		<i>Party secretaries</i>	
1980–3	Wu Xingfeng	1981–7	Li Zifen
1983–91	Zou Erjun	1983–7	Zou Erjun
1992–	Hong Yongshi	1987–90	Wang Jianshuang
		1990–	Shi Zhaobin

Source: Lamb, 1994, p. 1140.

early 1984 and his encouragement to expand the size of the zone, local leaders were reassured of central government commitment to the zone and pushed ahead with efforts to bring in foreign capital. Although the concurrent mayor and party secretary of Xiamen, Zou Erjun, was supportive of reform, the appointment of the younger Hong Yongshi in 1993 gave added impetus to the process of change (see Table 5.7 for list of leaders in Xiamen). Locally Hong Yongshi was considered to be a breath of fresh air who would take forward the development of Xiamen.⁷⁰ Thus those in favour of greater opening seized this moment to stride ahead with opening up.

In comparison, Fuzhou municipal leaders have been more restrained in capitalizing on opportunities presented by central and provincial government (see Table 5.8 for list of mayors and party secretaries in Fuzhou). This has been reflected in the slow pace of development of the ETDZ. A number of factors probably contributed to this. On the one hand there was probably some doubt about central government commitment to the zone, particularly following the decision to concentrate resources on only four coastal cities in 1985. This made local leaders cautious in pursuing too enthusiastically their plans to develop the zone. At the same time the reduction in central funds for the zone also made it more difficult for them to adhere to plans, as other sources of finance became increasingly important. On the other hand the development of the zone also implied that less funds would be available for renovating state-owned enterprises. Given that Fuzhou had a larger industrial base, with a bias towards heavy industry, when compared to Xiamen, it is likely that there was some resistance to preferential funding of the zones. The situation was compounded by a complicated administrative structure. Two separate administrative bodies were established for Fuzhou EDTZ and Mawei port development with the result that these were seen as two separate projects in competition with each other. So in August 1992 the municipal government decided to fuse these structures and create one administrative system with two components.⁷¹

The effects of conservatism, resistance and doubts about the reform process and opening up lingered for much longer in the case of Fuzhou than Xiamen. As a result it was only in the early 1990s that Fuzhou really began to take-off in a major way. Deng Xiaoping's southern tour gave a clear impetus to the local leaders. At the third members' meeting of the municipal government in July 1992 Xi Jinping, party secretary of Fuzhou, reported that the municipal government had introduced the most reform and open policy measures yet in the first half of that year.⁷² He also highlighted the problem of local cadres not being sufficiently open compared with other cities. In referring to bureaucratic

Table 5.8 Mayors and party secretaries of Fuzhou

<i>Mayor</i>		<i>Party secretary</i>	
1980–4	You Dexin	1979–84	Cai Liangcheng
1984	Yuan Qitong	1985–90	Yuan Qitong
1985–92	Hong Yongshi	1990–5	Xi Jinping
1992–5	Jin Nengchao	1996–	Zhao Xuemin
1996–	Weng Fulin		

Source: Lamb, p. 1118; *Who's Who in China: Current Leaders*, 1994, p. 266; Summary of World Broadcasts, FE/2576, 4 February 1996 and FE/2584, 4 December 1996.

resistance to enterprise reform and to decentralization measures he highlighted some of the interests within the local governmental structures which had inhibited a more enthusiastic approach to reform and opening. In response he called for greater reliance on macro-level management and more open and 'liberated' thinking on the part of local party and government staff. All this suggests that the quality of local cadres had been a significant factor inhibiting the pace of change in Fuzhou. Indeed such kind of criticism resonated with similar laments in Xiamen a decade earlier.

The more enthusiastic approach of municipal leaders in Fuzhou is reflected in the pace of policy change during the 1990s, especially after Deng Xiaoping's southern tour. Municipal leaders become much bolder in expressing their vision of development in Fuzhou. At a press session in April 1992 the Fuzhou delegation attending a provincial meeting on foreign economic relations expressed their intent to make Fuzhou the province's commercial and financial centre, information technology centre and Min-Taiwanese foreign trade exchange centre.⁷³ At this landmark meeting the municipal leadership announced fifteen intentions, which would push forward the process of opening up in Fuzhou. These included not only creating a more favourable investment and trade environment but also boosting further the various investment zones and in particular Fuxing Investment Zone and numerous industrial districts.⁷⁴ Furthermore the municipal government indicated it would expand further the limits of authority to approve joint ventures to districts and counties, improve government procedures and attitudes relating to foreign-invested enterprises and foster the development of the Mouth of the Min River Golden Triangle.⁷⁵ These fifteen intentions were followed up in May by fourteen clauses designed to improve the investment system. These included permitting the planning commissions of counties and districts to approve production projects up to RMB20 million, setting up investment development companies, urging central and provincial governments to provide funds for starting and expanding enterprises as well as setting up a Fuzhou Development Bank.⁷⁶

Sectoral planning

Whilst the commitment of the local leadership to reform and opening up has been an important factor affecting the pace of development, the process of sectoral planning has

been less influential. As stated earlier, differences within the central leadership have informed the plans of development for both Xiamen and Fuzhou. Central, provincial and municipal leaders and academics have all contributed to changes in the course of the SEZ with the result that the outcomes have been more haphazard than planned, with unintended consequences. In April 1981, for example, Ma Xingyuan announced at the Third Session of the Fifth Provincial People's Congress that Xiamen would be a comprehensive zone, specializing not only in export-processing but also in agriculture, aquatic breeding, tourism, construction and high-tech R & D.⁷⁷ However at a work conference on Guangdong and Fujian provinces held in July 1981 it was proposed that Xiamen SEZ focus on export-processing and tourism. Proposals were also afloat for Xiamen to become a free port like Hong Kong. At the end of the year the debate centred on the options of Xiamen prioritizing export-processing with some emphasis on tourism or on becoming a free-trade zone with tourism and trade assuming a dominant role. At stake here was the extent to which the development of Xiamen SEZ would put competitive pressure on supplies of raw materials to industries outside the zone, and notably to Fuzhou's and Sanming's ailing heavy industrial enterprises. In October 1984 the possible role of Xiamen SEZ and Fuzhou EDTZ as international financial centres came on to the agenda.⁷⁸ The vacillation in policy was again apparent in 1991 when Jia Qinglin, acting governor of Fujian, announced that both Xiamen and Fuzhou EDTZ would adopt free-port policies.⁷⁹

In an attempt to plan sectoral development the provincial government has devised five-year plans. A constant thread has been the need to focus on light industry, manufacturing and export-oriented production. For example at the Third Session of the Fifth Fujian Provincial People's Congress in March 1981, Hu Ping, as deputy director of the Provincial Planning Commission, stressed the importance of developing light industry, and in particular consumer and export commodities such as garments, canned foods and bicycles. According to this plan Fuzhou, Xiamen, Zhangzhou and Quanzhou were to become centres for food processing, textiles, consumer goods, electronic products such as TVs and cameras and microcomputers and software. But as pointed out earlier, both Fuzhou and Xiamen ended up competing with each other in electronics. As a result the provincial government included electronics development in Fuzhou in the next five-year plan, so that policy followed actual practice. At the Third Session of the Sixth Fujian Provincial People's Congress in 1985 it was proposed that Xiamen SEZ, Fuzhou and the South Fujian Delta Zone should become bases for technology transfer, enhanced international economic cooperation and international finance. However, although there have been efforts to provide sectoral guidance to the development of the provincial, municipal and zone economies as well as policies specifically targeted at favouring certain sectors, for the bulk of the reform period, it has been foreign investors who have been wagging the dog's tail. The resultant sectoral investment has tended to be more in assembly and processing, services and labour-intensive production, all of which have provided quick profits. Both cities have been less successful in attracting investment for high-tech production.

Fostering overseas connections

Overseas connections with Fujian province have played a crucial role in the development of Fujian province. By relying initially more on Overseas Chinese investment, the 'Chinese' face of foreign investment made the adoption of the Open Policy more acceptable to both national and local opponents who harboured 'anti-foreign' sentiments. At the same time it was much easier to draw on Overseas Chinese capital in the initial years of opening than to attract Western or Japanese investors who were much more concerned with the lack of a legal infrastructure, particularly as they tended more to form equity joint ventures rather than processing and assembly operations. In this way a buffer stock of foreign capital could be built up until the foreign investment climate proved sufficiently attractive to other sources of foreign investment. Both Fuzhou's and Xiamen's economies already benefited from the inflow of Overseas Chinese remittances. For example in 1985 Overseas Chinese remitted foreign currency amounting to US\$5.30 million to relatives in Fuzhou.⁸⁰ Also, by developing Fujian province through greater reliance on market forces and the international economy, the reformers hoped that this would give economic substance to the concept of 'one country, two systems' and so make the possibility of reunification more palatable to the Taiwanese government and people.

The provincial government has tried to capitalize on links with native Fujianese in Hong Kong by setting up a branch Huamin Corporation and establishing links with the Association of Fujian Fellow Provincials. Both Xiamen and Fuzhou municipal leaders have constantly targeted Overseas Chinese as sources of finance and investment. Emboldened by the central government initiatives in 1984 provincial leaders urged local county and district leaders to implement policies favourable to Overseas Chinese. In particular Xiang Nan told leaders in Fuqing county under Fuzhou to speed up the return of houses to Overseas Chinese, which would strengthen the confidence of this target group of investors in the reforms.⁸¹ In early 1985 the State Council granted approval to Fuzhou to set up a company in Hong Kong to encourage trade and investment in Fuzhou.⁸² Already in 1985 Fuxing county under Fuzhou was using Overseas Chinese connections to fuel the rapid emergence of township and village enterprises (TVEs).⁸³ By September 1985 over 210 TVEs, either wholly owned or jointly owned by Overseas Chinese, had been set up with a total investment of RMB13 million.

However, the national goal of political unification with Taiwan and Hong Kong has not always sat comfortably with aspirations for the introduction of high-tech foreign investment. The bulk of foreign investment in Fujian province has been, and continues to be, of Hong Kong and Taiwanese origin. Between 1979 and 1996 Hong Kong accounted for 55 per cent of total foreign direct investment in Fujian, US\$ 10,400 million out of a total of US\$ 18,797 million. In 1996 Hong Kong alone accounted for 56 per cent of foreign direct investment that year (see [Table 5.9](#)). Official figures are likely to underestimate the amount of Taiwanese capital invested in Xiamen and other parts of Fujian, as Taiwanese investors, faced with restrictions from their government up until 1988, have often used a front company in Hong Kong to operate in China. In 1995 Taiwan accounted for 20 per cent of all foreign direct investment in Fujian province. Although the 1997 Fujian Statistical Yearbook does not provide figures for Taiwanese

Table 5.9 National source of foreign direct investment in Fujian, 1996 (US\$ million)

<i>Country</i>	<i>Total FDI</i>	<i>Percentage share</i>
Hong Kong	2,280.2	55.9
Singapore	158.7	3.8
USA	95.6	2.3
Japan	83.3	2.0
Macau	68.7	1.6
Malaysia	57.9	1.4
Indonesia	15.0	0.3
Philippines	14.8	0.3
UK	13.3	0.3
Australia	2.5	0.06
Others	1,285.0	32.0
Total	4,078.8	100.0

Source: *Fujian Statistical Yearbook*, 1997, p. 290.

investment in the province, it is likely that much of the almost one-third of foreign investment not attributed to any nation comes from Taiwan.

In Xiamen (see Table 5.10) 81 per cent of all foreign direct investment in 1996 came from Hong Kong and Taiwan. In 1996 Taiwan accounted for 22.6 per cent of total foreign direct investment in Xiamen. In Fuzhou Taiwanese investors made up 25 per cent of direct investment in 1994.⁸⁴

Relations between China and Taiwan have been crucial to the economic development of both Xiamen and Fuzhou. Local leaders as well as Taiwanese entrepreneurs have responded enthusiastically to any relaxation of restrictions on foreign trade and investment. When the Ministry of Foreign Trade withdrew all customs duties on trade to and from Taiwan in early 1979, indirect Taiwanese exports to China increased threefold.⁸⁵ By establishing special administrative structures to handle Taiwanese trade and investment the provincial government has also tried to ease the bureaucratic process to encourage these links. For example the Huafu Corporation, which was set up in 1979 to facilitate opening up, created a separate department to manage Taiwanese trade.

Taiwanese investment began to take off from 1988 when travel restrictions to the mainland were eased. In the early 1990s there was a steady growth in Taiwanese investment so that Taiwanese companies began to form a significant proportion of total foreign investment. In 1992 the bulk of foreign investment came from Taiwan as investors sought to take advantage of low labour costs on the mainland and their native ties in Fujian. In February 1990 the Taiwanese Ministry of Economic Affairs relaxed curbs on visits by business people to the mainland, whilst the Chinese authorities decentralized the visa application process for Taiwanese visitors. In April of the same year Taiwan announced that it would end the 'period of mobilization for suppression of communist rebellion', indicating for the first time a willingness to coexist peacefully with the mainland.⁸⁶ A year later the inflow of Taiwanese capital looked to meet another

Table 5.10 National source of foreign direct investment in Xiamen SEZ, 1996 (US\$ million)

<i>Country</i>	<i>Total FDI</i>	<i>Percentage share</i>
Hong Kong	975	59.0
Taiwan	373	22.6
Malaysia	72	4.3
Singapore	69	4.2
USA	45	2.7
Japan	42	2.5
Holland	18	1.0
UK	16	0.9
Others	112	1.08
Total	1,650	100.0

Source: *Xiamen Statistical Yearbook*, 1997, p. 532.

temporary setback when the Taiwanese government began to encourage Taiwanese businesses to disinvest in the mainland.

The Taiwanese government has been increasingly concerned about the consequences for the economy of wholesale industrial relocation to China. It has thus tried to limit investment in the mainland to low-tech, labour intensive industries. By May 1992 the Taiwanese government was again giving an encouraging message to investment in the mainland. By making tentative proposals to ease restrictions on indirect remittances between China and Taiwan, the Taiwanese Ministry of Finance implicitly supported economic *rapprochement* between the two areas. Later in September the Taiwanese government hinted at direct shipping links on a trial basis in the near future. The following month the Taiwanese Economic Ministry lifted the ban on state enterprises exporting to the mainland. Despite China's sabre-rattling in the Taiwan Straits during the Taiwanese elections Taiwanese investment has continued to pour into China. These vacillations in Sino-Taiwanese relations have been a significant constraint on the ability of municipal leaders in Fuzhou and Xiamen to fully capitalize on their historical and ethnic ties for local economic development. Moreover, given Taiwanese government fears that relocation would undermine its own economic base, it is unlikely that Taiwanese investors can provide Xiamen and Fuzhou with the high-tech, capital-intensive industry it is seeking.

Both the provincial and municipal governments have taken specific measures to encourage Taiwanese investment and trade. For example in 1985 Xiamen offered tax incentives to Taiwan which compared favourably with those offered to other foreign investors.⁸⁷ With the relaxation of relations in 1988 Xiamen officials not only issued new regulations to encourage Taiwanese investment but also opened three Taiwanese investment zones in Haicang, Xinglin and Jimei. By 1989 Taiwanese projects made up over 75 per cent of all foreign investment projects and 87 per cent of realized foreign capital. Xiamen officials at a National People's Congress meeting in 1991 expressed their intent to increase links with Taiwan and accelerate the construction of the Taiwanese

investment zones as well as the industrial parks of Caihu and Xiao Dongshan.⁸⁸ In the same year Fujian provincial government opened ten land development zones covering an area of 13 square kilometres, with plans afoot to open a further ten. Real estate has proved an attractive bait to Taiwanese investors.

Family ties have helped the inflow of Taiwanese investment, penetrating deep into rural areas. Foreign enterprises in Tongan county, for example, contributed half of its output value in 1991. The rapidly proliferating TVEs have also been quick to foster Taiwanese connections. With the turnaround in Taiwanese government policy in 1991 towards assisting businesses to disinvest in the mainland, Xiamen local government renewed its efforts to attract more investment. By replacing the Foreign Investment Commission with the Foreign Administration Bureau in August 1991 it was hoped that the investment process could be simplified and become more attractive to investors. Following the success of the Fourteenth Party Congress provincial and municipal officials embarked upon a further expansion of the Open Policy and planned to provide more incentives to Taiwanese investors, such as low-interest loans.⁸⁹

Fuzhou municipal government has also taken numerous initiatives to encourage Taiwanese investment. For example, in May 1989 it gained State Council approval for two Taiwanese investment zones in Mawei EDTZ. Again in May 1992 at a meeting on foreign economic relations work Fuzhou government leaders emphasized the need to attract Taiwanese investors.⁹⁰ The development of Langqi Island was also aimed at fostering Taiwanese investment.⁹¹ In 1991 Taiwanese investment accounted for 76 per cent of all new foreign investment in Fuzhou EDTZ.⁹² By December 1994 these were home to 97 Taiwanese enterprises, with pledged Taiwanese investment of US\$522 million.⁹³ In June 1992 the municipal government organized a fourth conference for Taiwanese compatriots to encourage their investment in the city.⁹⁴ By mid-1994 the municipal government had spent over RMB 100 million in matching funds for the infrastructural development of the two Taiwanese zones.⁹⁵

While central and local governments have for diverse reasons been keen to attract Taiwanese investment, the type of investment introduced has not always accorded with local development goals. Taiwanese and Hong Kong joint ventures and wholly-owned enterprises have tended to be small in scale, labour rather than capital intensive, using low rather than high technology and until the mid-1980s mainly non-productive.⁹⁶ Despite plans to prioritize the development of the electronics sector in the 1985–2000 period, the rush of Taiwanese investors since 1988 has undermined this scheme, with only 5 per cent of projects and 1.4 per cent of total capital devoted to this sector. Xiamen government leaders then reoriented their efforts towards the petrochemical sector, though these have not always been successful. Xiamen leaders placed much hope in the promises of Wang Yongqing, a well-known Taiwanese business person, to invest US\$10 million in a large plastics project in Haicang, to the extent that they even deterred other investors. However, Wang succumbed to pressure from the Taiwanese government to refrain from investment. Since 1991 Taiwanese investors have increasingly turned their attention to real estate, accounting for two-thirds of all property development in Xiamen and one-third in Fuzhou in 1994.⁹⁷ In Fuzhou 61 per cent of all Taiwanese investment is in

industry and Taiwanese investors accounted for 35 per cent in the tertiary sector, a lower percentage than for Xiamen.

Seeking funds

Although these sources of foreign investment have not always satisfied the sectoral goals of local, provincial and central leaders, in the absence of any significant funds from the central government they have been vital to the development of the zone. From the inception of the zones policy Deng Xiaoping has emphasized that the zones should rely on 'special policies' rather than central funding. Given that prior to the reforms there had been relatively little investment in Fujian, the development of local infrastructure posed a formidable challenge. Moreover with priority going to Xiamen SEZ, the pace of development of Fuzhou could not but proceed more slowly. Although the provincial government received a foreign exchange allocation of US\$20 million from the central government in 1979, this was clearly not going to be sufficient for the task of infrastructural development and expansion of trade. The retrenchment in early 1981 led to major cut-backs in capital spending in Fujian⁹⁸, with consequences for the construction of the SEZ.⁹⁹ In 1983 Fujian began to receive a state allocation of \$200 million per year, over which the province enjoyed some autonomy.¹⁰⁰ In the Sixth Five-Year Plan period (1980–5), Fujian's budgetary revenue actually declined from RMB 1,533 million in 1980 to RMB 1,237 million in 1983, only picking up again in 1984, though expenditure continued to exceed revenue. Moreover budgetary allocations have become less significant in funding capital construction investment. As can be seen in Table 5.11, in 1992 self-generated funds comprised almost half of all investment in capital construction whilst foreign capital exceeded the provincial budget for this item. This compares with 1978 when the budget allocation accounted for 73 per cent of total investment in capital construction, against 7.3 per cent in 1992.

A similar tendency can be noted in the case of Xiamen. Xiamen's average budgetary revenue between 1978 and 1988 came to RMB328 million, increasing at an annual average rate of 15 per cent. Taxes made up the bulk of this revenue, accounting for 74 per cent of total revenue in 1978 and 84 per cent in 1988, the remainder coming from enterprises. However extra-budgetary revenue has become increasingly important as a source of finance to Xiamen. Whilst in 1978 this came to RMB9.56 million, by 1988 it had increased 42.6 times to RMB416 million.¹⁰¹

In order to finance the industrial and infrastructural development of the province, local authorities have relied increasingly on foreign capital in the form of direct investment and loans. In the period between 1979 and 1985 foreign loans were a crucial source of capital for the province (see Table 5.12). In 1979 they formed 90 per cent of actually utilized foreign capital. Thereafter foreign direct investment proved more important, exceeding the amount of foreign loans in every year up until 1985 except for 1983. By 1994 foreign loans accounted for only 3.19 per cent of total foreign capital utilized in Fujian.

Foreign loans were spread amongst a range of banks. By 1986 over forty international banks such as the Tokyo Bank, the Standard Chartered Bank and the Banque Indosuez had loan agreements with the Fujian Investment and Enterprise Corporation. The Kuwaiti

Table 5.11 Investment in capital construction by source of funds, 1978–92 (RMB million)

<i>Year</i>	<i>Total</i>	<i>Budget allocation</i>	<i>Domestic loans</i>	<i>Foreign capital</i>	<i>Self-raised funds</i>	<i>Others</i>
1978	699	511	—	—	—	—
1985	2,675	549	811	321	770	223
1990	3,817	723	726	408	1,594	364
1992	7,085	516	2,381	564	3,342	279

Source: *Fujian Statistical Yearbook*, 1993, p. 82.

Table 5.12 Actually utilized foreign capital in Fujian, 1979–96 (US\$ million)

<i>Year</i>	<i>Total</i>	<i>Foreign loans</i>	<i>FDI</i>	<i>Others</i>
1979	42.6	38.3	0.8	3.2
1985	177.1	58.5	117.8	7.8
1988	288.9	143.5	130.2	15.3
1990	379.7	58.5	290.0	31.1
1992	1,465.6	42.0	1,416.3	7.3
1994	3,764.2	51.0	3,712.0	1.7
1996	4,213.4	134.6	4,078.8	0.04

Source: *Fujian Statistical Yearbooks*, 1993, pp. 346, 349, 350; 1995, pp. 295, 299; 1997, p. 289.

government financed the construction of the Xiamen International Airport to the tune of US\$20 million, as well as the Shaxikou Hydropower Station.¹⁰² World Bank funding was crucial for the building of the Shuikou Hydropower Station in 1985.

Over the reform period we can observe a range of initiatives taken by the provincial and municipal governments to raise funds overseas. These initiatives were taken following central policy changes permitting greater financial autonomy. In 1979 the newly formed Huafu Corporation in Fujian had already arranged loans of US\$38 million with two American banks to purchase ships and to establish a feed mill proposed by the Carnation Company in Fuzhou.¹⁰³ In November 1981, Hu Ping, by then provincial vice-governor, announced the goal of drawing RMB1.4 billion in foreign investment over the coming five years, which would contribute one-quarter of the province's total budget.¹⁰⁴ In 1982 Fujian became the first and only province at the time authorized to float bonds abroad, raising ¥5 billion in Japan the next year.¹⁰⁵ In 1985 Fujian Enterprises Co. Ltd. raised ¥15 billion by two ten-year public bonds issued in Japan for the development of Xiamen Sensitive Materials Factory, Xiamen Aviation Company and the provincial oil refinery.¹⁰⁶ At the end of 1986 the Fujian Investment and Enterprise Corporation planned to issue a US \$50 million commercial paper in Singapore to finance a photographic film manufacturing project, an airline and other investment projects.¹⁰⁷ The following year the central government requested Fujian province to raise more than RMB400 million by issuing

negotiable securities. In mid-1987 Fujian Investment Enterprises Corporation issued ¥10 billion bonds in Tokyo to fund key provincial projects and technology transfer.¹⁰⁸

Not only has the provincial government sought a variety of ways to raise funds but Xiamen and Fuzhou municipal governments too have responded to central government calls to seek funding. In June 1985 the State Council approved the right of Xiamen SEZ to borrow from abroad, issue overseas bonds and make spot transactions, making Fujian the first province in China to issue bonds overseas and indeed the first zone to have a joint venture bank.¹⁰⁹

Compared to Xiamen, Fuzhou has been more restricted in its ability to raise funds. In June 1992 the municipal government drew attention to the problem of funding, pointing out that after paying taxes to higher levels and local subsidies, the city was left with only 'several' million yuan. Thus it needed to seek funding from abroad, using in particular its Overseas Chinese connections.¹¹⁰ In November 1992 the provincial government granted permission for the joint venture Xiamen International Bank to set up a branch in Fuzhou, a move which would facilitate foreign exchange loans and investment.¹¹¹ The State Council also appointed Fuzhou an experimental site for a shareholding system.¹¹²

Fujian's borrowing overseas contributed, however, to a growing debt, which doubled between 1984 and 1985 and again between 1985 and 1986. By the end of 1986 85 per cent of these debts were financed by commercial loans, unlike two years previously.¹¹³ Moreover only 13.9 per cent were actually used for infrastructural development whilst 78.9 per cent were used for importing raw and other materials needed by enterprises.¹¹⁴ As the threat of a Pudong Development Zone in Shanghai began to gain reality in 1990, leaders from Xiamen and Fuzhou headed for Hong Kong to mobilize foreign capital in anticipation of the Shanghai mayor's visit in June.¹¹⁵ Hence, the ability of the local leaders to draw in foreign capital has been crucial to the economic performance of both cities.

As well as seeking foreign loans Xiamen and Fuzhou municipal leaders have also sought direct investment to develop industry and trade. The significance of foreign direct investment to the industrial development of the province, Xiamen and Fuzhou can be seen in its increasing contribution to industrial output value. Whilst in 1981 foreign-invested enterprises accounted for only 0.6 per cent of provincial industrial output value, by 1995 this had risen to 44.9 per cent (see [Table 5.13](#)).

A similar tale can be told for Xiamen (see [Table 5.14](#)). In 1983 foreign-invested enterprises contributed only 1.2 per cent of Xiamen's total industrial output value but by 1994 this had risen to over half and by 1996 to almost 75 per cent. By 1996 foreign-invested enterprises accounted for over a third of Xiamen's workforce and almost half of its exports.¹¹⁶

In Fuzhou foreign-invested enterprises accounted for one third of industrial output value in 1991. In the first half of 1992 this rose to 69 per cent.¹¹⁷ At the end of 1995 they accounted for 58.7 per cent of the city's industrial output value, at RMB22 billion. At the same time the contribution of state-owned enterprises to industrial output value has fallen in the reform period. Whilst in 1978 state-owned enterprises in Fuzhou contributed 66 per cent of the city's industrial output value, this had fallen to 39 per cent in 1991.¹¹⁸

Table 5.13 Contribution of foreign-invested enterprises to Fujian's industrial output value (IOV), 1981–96 (RMB billion)

<i>Year</i>	<i>Fujian's IOV</i>	<i>FIEs IOV</i>	<i>FIEs IOV as percentage of Fujian's IOV</i>
1981	9.0	0.06	0.6
1985	17.3	0.8	4.5
1990	53.1	8.6	16.1
1992	91.1	22.0	24.1
1994	225.2	52.7	23.3
1995	162.4	72.9	44.9
1996	272.0	95.4	35.0

Source: *Fujian Statistical Yearbooks*, 1993, pp. 210, 359; 1995, pp. 7, 69; 1997, p. 180; *Almanac of Foreign Economic Relations and Trade*, 1996/1997, p. 383.

Table 5.14 Contribution of foreign-invested enterprises to Xiamen's industrial output value (IOV), 1983–96 (RMB million)

<i>Year</i>	<i>Xiamen City</i>	<i>FIEs (industrial)</i>	<i>FIEs IOV as percentage of Xiamen's IOV</i>
1983	1,202	14	1.2
1985	2,185	404	18.5
1988	4,500	1,946	43.0
1990	6,491	3,650	56.0
1994	28,621	16,156	56.0
1996	40,335	29,761	73.8

Sources: Howell, 1993, p. 164; *Xiamen Statistical Yearbooks*, 1995, p. 14; 1997, p. 436; *Almanac of Foreign Economic Relations and Trade*, 1996/1997, p. 386.

Foreign investment has also proved significant in enhancing the export performance of Fuzhou and Xiamen. From Tables 5.15–17 it can be seen that foreign-invested enterprises have accounted for an increasing share of total exports in the reform period.

Between 1988 and 1990 foreign-invested enterprises more than doubled their percentage contribution of exports to the province. By 1994 they accounted for over one half of all exports from Fujian, rising further in 1996 to over almost 60 per cent. Similarly in Xiamen foreign-invested enterprises accounted for a substantial part of exports from the zone, rising from 10 per cent in 1988 to almost 50 per cent in 1996 (see Table 5.16).

In Fuzhou the contribution of foreign-invested enterprises to the city's exports has grown phenomenally in the 1990s (see Table 5.17). In 1987 foreign-invested enterprises in Fuzhou accounted for almost 20 per cent of exports. By 1994 this had risen to over 80 per cent.

To attract such foreign investment provincial and municipal leaders have not only offered favourable policies but also actively sought to improve the infrastructure. The provincial government has prioritized the improvement and expansion of key ports, rail

Table 5.15 Contribution of foreign-invested enterprises to Fujian's exports, 1988–96 (US\$ million)

<i>Year</i>	<i>Fujian's exports</i>	<i>FIEs exports</i>	<i>FIEs exports as percentage of province</i>
1988	1,405	206	14.6
1990	2,238	795	35.5
1992	4,275	1,814	42.4
1994	8,235	4,152	50.4
1996	10,030	5,821	58.0

Source: *Fujian Statistical Yearbooks*, 1994, p. 291; 1997, p. 276; *Almanac of Foreign Economic Relations and Trade*, 1996/1997, p. 383.

Table 5.16 Contribution of foreign-invested enterprises to Xiamen's exports, 1988–96 (US\$ million)

<i>Year</i>	<i>Xiamen's exports</i>	<i>FIEs exports</i>	<i>FIEs exports as percentage of city</i>
1988	459	83	10.0
1990	781	236	30.1
1992	1,766	516	29.2
1994	3,391	1,317	38.8
1996	3,702	1,730	46.7

Source: *Fujian Statistical Yearbooks*, 1995, p. 291; 1997, p. 530; *Xiamen Statistical Yearbook*, 1986, p. 396; *Almanac of Foreign Economic Relations and Trade*, 1996/1997, p. 386.

and air transport as well as sources of energy. With policy emphasis given to Xiamen SEZ, more funding was directed to Xiamen than Fuzhou. Between 1980 and 1985 total provincial capital construction came to RMB2.5 billion, of which RMB1.78 billion was invested in Xiamen.

The provincial and municipal governments have focused their efforts on improving the port facilities of both Fuzhou and Xiamen. Faced with severe problems of silting in the Mawei port, by 1987 the provincial government had invested over US\$88.8 million in the dredging of the port, adding four new berths and developing the infrastructure of the zone.¹¹⁹ A twenty-year plan was drawn up to construct Dongdu Harbour in Xiamen which would have a cargo handling capacity of 12 million tons a year.¹²⁰ The provincial government invested in a fleet of 148 ocean-going liners and freighters.¹²¹ Other sub-provincial cities, such as Quanzhou, Xiuyu and Xiazhai, also set about improving their harbour infrastructure. Although both provincial and municipal governments have done much to improve the infrastructure of both cities, inadequate port facilities, as well as the lack of direct shipping links have continued to be a thorn in the side of Fujian province.

To attract foreign investment the province has also pushed ahead with the development of airport facilities, utilities and telecommunications systems. It has created an international airport at Xiamen with over sixteen international and domestic routes,¹²² whilst Fuzhou airport was expanded to cater for jumbo jets. The electrification of the railways connecting Fuzhou and Xiamen in the 1980s doubled the volume of rail freight

Table 5.17 Contribution of foreign-invested enterprises to Fuzhou's exports, 1986–94 (US\$ million)

<i>Year</i>	<i>Fuzhou's exports</i>	<i>FIEs exports</i>	<i>FIEs exports as percentage of city</i>
1986	13	3	19.5
1987	40	22	54.2
1990	234	187	80.0
1992	470	379	80.5
1994	1,294	1,066	82.3

Source: *Fuzhou Statistical Yearbooks*, 1988, p. 303; 1990, p. 347; 1992, p. 386; 1994, p. 352; 1995, p. 365.

that could be handled. In order to ensure sufficient electricity supplies the provincial government planned to build several hydroelectric and thermal power stations in the 1980s. The hydropower stations at Shuikou and Shaxikou would have a capacity of 1.4 million kilowatts and 300,000 kilowatts respectively. Also under construction and improvement are the Zhangping and Fuzhou thermal power stations and the Meizhou Wan and Xiamen thermal power stations. To ensure that key construction projects are prioritized the provincial government limited non-productive construction in urban areas. With the rapid increase in the volume of production in the 1980s and in order to attract foreign investors, both provincial and municipal governments have prioritized the electricity supply to foreign ventures. To overcome poor telecommunications which initially hampered the speed of negotiations and business, direct telephone links between Hong Kong and Xiamen were established in the autumn of 1983.

In brief whilst central government policies have provided the 'yeast' for the development of Xiamen SEZ and Fuzhou, initiatives by provincial, municipal and county leaders to develop infrastructure, foster Overseas Chinese connections and mobilize alternative sources of funding have proved crucial to the process of industrialization and the forging of external links in Fujian.

Conclusion

With their prime coastal location, long maritime traditions and substantial overseas links both Xiamen and Fuzhou were well placed to benefit from the new package of reforms and in particular the thrust towards the outside ushered in by Deng Xiaoping and his followers in 1978. Although Fuzhou had a larger and more established industrial base than Xiamen on the eve of reform, the nomination of Xiamen as a SEZ and the concomitant policy privileges granting it greater economic autonomy enabled it to catch up industrially with Fuzhou by the 1990s. However, central policy alone has not been the only factor influencing Xiamen's developmental trajectory. The entrepreneurialism of local officials has been crucial in ensuring that the benefits of central policies and privileges are realized and maximized and that opportunities to open up, acquire foreign capital and boost local

development are seized. Innovative measures to raise capital overseas through both loans and direct investment are but one manifestation of this entrepreneurial drive to develop. Moreover, there has been a strong tendency for municipal and county leaders in the province to interpret the centre's Open Policy much more broadly than was probably originally intended so as to foster local economic development. Whilst a combination of factors have clearly underpinned the development of Xiamen and Fuzhou, the importance of local initiatives cannot be overestimated.

Notes

- 1 Xiamen and Fuzhou are near to Hong Kong when compared to inland and more northern parts of China. Moreover, given the limitations on direct communication and trade between China and Taiwan, Hong Kong has become a crucial intermediate point between Fujian and Taiwan.
- 2 For a brief introduction to the history of Fujian see Chen Jilin, *Fujian jingji dili* (Economic Geography of Fujian), Fuzhou, Fujian keji chubanshe, 1985, ch. 2.
- 3 Zheng He started his journey from Suzhou.
- 4 When the Manchus defeated the Ming in 1644, a Ming General resisted the Manchu occupation retaining control of Xiamen, Fuzhou and Taiwan until 1683.
- 5 At the start of the reform period too, Xiamen and Guangzhou featured more prominently in trade than Fuzhou.
- 6 Overseas Chinese investment lay behind the construction of the Zhang-Xia railroad in 1905 and the Xiamen Light and Power Company in 1911.
- 7 One estimate put the amount of imported plant, equipment and technology required in the Plan at US\$70 billion.
- 8 See E. Terry, 'Decentralising Foreign Trade', *China Business Review*, 1980, p. 16.
- 9 Terry, 'Decentralising Foreign Trade', p. 21 refers to a CIA study covering the years 1957–78.
- 10 Even using current figures, Xiamen still comes out slightly higher than Fuzhou.
- 11 Xiamen had 2,213 such enterprises and Fuzhou 2,262. See *Fujian Statistical Yearbook 1997*, p. 349.
- 12 *Fujian Statistical Yearbook 1991*, p. 489.
- 13 *Fuzhou Wanbao* (Fuzhou Evening News), 7 April 1994, p. 1.
- 14 See Howell, *China Opens Its Doors*, Boulder, Lynne Rienner, 1993, p. 139.
- 15 See Terry, 'Decentralising Foreign Trade'.
- 16 It should be noted that despite the ideological objection to foreign investment, up until 1954 the Soviet Union operated four equity joint ventures in Xinjiang and Dalian. Moreover in the early 1960s Overseas Chinese Investment Corporations were set up in eleven provinces and districts to draw private investment into state enterprises.
- 17 The three zones opened in 1979 in Guangdong province were Shantou, Zhuhai and Shenzhen.
- 18 *Fujian Ribao* (Fujian Daily), 26 September 1982, p. 1.
- 19 The option of Shanghai was also considered but given the importance of Shanghai's contribution to the national budget there was strong central opposition to the possible dangers of losing this golden egg through policies that had not yet been tried out.
- 20 See Terry, 'Decentralising Foreign Trade', p. 11.

- 21 *Fujian Ribao*, 11 March 1982, p. 1.
- 22 *Fujian Luntan* (Fujian Forum), 20 June 1982.
- 23 Other priority areas were energy and transport projects, north Fujian's forests and education and scientific research. See Fuzhou, Fujian Provincial Service, 16 July 1983 in *FBIS*, 21 July 1983, p. 5.
- 24 See Almanac of Xiamen SEZ Editorial Board, 1986, p. 349.
- 25 The SEZs were supposed to be integrated economic development zones which would promote international economic cooperation and technology transfer whilst the EDTZs were to comprise mainly production enterprises and scientific research institutes, the focus thus being on the development of technology.
- 26 Shanghai, Tianjin and Guangzhou fell into the first category; Dalian, Qingdao and Ningbo into the second and Lianyungang and Qinhuangdao into the fourth. See *Fuzhou Wanbao*, 12 December 1984, p. 1.
- 27 See George Crane, *The Political Economy of China's Special Economic Zones*, Armonk, M.E.Sharpe, 1990, pp. 34–5 for a more detailed discussion of this.
- 28 See Xinhua, 31 December 1984, p. 28.
- 29 The other two were the Pearl River Delta and the Yangtze Delta.
- 30 See Victor C.Falkenheim, 'Fujian's Open-Door Experiment', *China Business Review*, 1986, p. 39.
- 31 See *South China Morning Post*, 17 July 1985 in *FBIS*, 17 July 1985, p. W1.
- 32 Between 1980 and 1985 Fujian's capital construction expenditure came to RMB25 billion, of which RMB1.7 billion went to Xiamen and RMB0.75 billion to Fuzhou.
- 33 *Fujian Ribao*, 15 October 1986, p. 1.
- 34 In the first eight months of 1988 Fujian experienced the highest increase in foreign investment in China, with the bulk of this coming from Taiwan.
- 35 *Fujian Jingji* (Fujian Economy), 1987, no. 10, pp. 21–3.
- 36 See Dorothy J.Solinger, *China's Transition from Socialism*, Armonk, M.E.Sharpe, 1992, pp. 205–22.
- 37 Beijing, Xinhua, January 1988.
- 38 Beijing, *Zhongguo Xinwenshe*, 28 January 1988 in *FBIS*, 18 February 1988, p. 26.
- 39 Fuzhou courts foreign investors, *Beijing Review*, 29 February–6 March 1988, p. 8.
- 40 Wen Wei Po, 15 October 1988 in Summary of World Broadcasts, FE/0286/B2/5.
- 41 *Fuzhou Wanbao*, 6 May 1992, p. 1.
- 42 *China Daily*, 23 August 1990.
- 43 For a detailed discussion of the free port idea and Xiamen SEZ, see Chen Yong Shan *et al.*, 1988, pp. 225–59.
- 44 *Fuzhou Wanbao*, 13 April 1992, pp. 1–2.
- 45 *Fuzhou Wanbao*, 17 June 1992, p. 1.
- 46 *Fuzhou Wanbao*, 18 June 1992, p. 1.
- 47 *Fuzhou Wanbao*, 28 December 1992, p. 1.
- 48 *Fuzhou Wanbao*, 6 June 1994, p. 1.
- 49 *Fuzhou Wanbao*, 3 November 1992, p. 1.
- 50 Interview, Professor Guo Zhemin, Xiamen University, 5 May 1994.
- 51 *Xiamen Ribao*, 7 December 1991.
- 52 See Summary of World Broadcasts, FE/1936 G/11, 3 March 1994.
- 53 Shenzhen gained this status in 1989.
- 54 Xiang Nan served as vice-minister in the Ministry of Agriculture between June 1979 and March 1981 whereafter he was transferred to Fujian.

- 55 Xinhua, Beijing, 15 October 1981 in *FBIS*, 16 October 1981, p. 5.
- 56 The Provincial Transport Bureau, for example, gave Xiamen SEZ preferential treatment in importing materials for the construction of the zone while the customs introduced more flexible policies, such as permitting imported goods to be inspected after delivery to the factory warehouse.
- 57 See *Cheng Ming* (Contend), December 1986, pp. 6–8, reproduced in *JPRS*, 4 December 1986, pp. K9–14.
- 58 Xiang Nan was a member of the Central Advisory Commission between October 1987 and October 1992.
- 59 We have to be careful, however, not to extrapolate that on the basis of this relationship Chen held the same views as his father-in-law.
- 60 *Fuzhou Wanbao*, 11 June 1992, p. 1.
- 61 *Fujian Ribao*, 23 April 1984, p. 1 in *FBIS*, 4 May 1984, O1–02.
- 62 *Fujian Ribao*, 19 February 1984, p. 1.
- 63 *Xiamen Ribao*, 12 March 1983, p. 3.
- 64 *Fujian Ribao*, 9 August 1986, p. 1.
- 65 *Fuzhou Wanbao*, 26 February 1992, p. 1.
- 66 *Fuzhou Wanbao*, 7 October 1994, p. 1.
- 67 *Fuzhou Wanbao*, 17 October 1992, p. 1 and 8 September 1992, p. 1.
- 68 *Fuzhou Wanbao*, 20 September 1992, p. 1 and 27 September 1992, p. 1.
- 69 Beijing, Xinhua, 7 April 1981, in *FBIS*, 8 April 1981, p. 3.
- 70 Zou Erjun, a native of Zhejiang province, served as vice-mayor of Xiamen between 1981 and 1982 and then mayor and party secretary from 1982 and 1984 respectively to 1993. He was replaced by Hong Yongshi, a native of Yongchun County, Fujian and eleven years his junior. Hong had been mayor of Fuzhou since 1984 as well as deputy secretary of the provincial Party Committee. He also took up the position of deputy party secretary on Xiamen's Party Committee whilst Shi Zhaobin, of Zhangzhou, Fujian, served as party secretary.
- 71 *Fuzhou Wanbao*, 8 August 1992, p. 1.
- 72 *Fuzhou Wanbao*, 5 August 1992, p. 1.
- 73 *Fuzhou Wanbao*, 20 April 1992, p. 1.
- 74 *Fuzhou Wanbao*, 20 April 1992, p. 1.
- 75 *Fuzhou Wanbao*, 20 April 1992, p. 1, 29 April 1992, p. 1.
- 76 *Fuzhou Wanbao*, 2 May 1992, p. 1.
- 77 Fujian Provincial Service, 2 April 1981, in *FBIS*, 6 April 1981 pp. 1–3.
- 78 *Fujian Ribao*, 6 October 1984, p. 2.
- 79 Xinhua, 23 April 1991 in Summary of World Broadcasts, FE/1070/A3/6, 13 May 1991.
- 80 In 1987 these remittances totalled US\$4.03 million, this lower figure probably reflecting the tendency for Overseas Chinese to invest more in enterprises rather than giving directly to relatives.
- 81 *Fuzhou Wanbao*, 16 May 1984, p. 1.
- 82 *Fuzhou Wanbao*, 18 January 1984, p. 1.
- 83 *Fuzhou Wanbao*, 7 September 1985, p. 1; for further details on TVEs in Fujian see Zhu *et al.*, 1988.
- 84 *Fuzhou Wanbao*, 29 June 1994, p. 2.
- 85 See Terry, p. 17.
- 86 *Renmin ribao*, 11 May 1991 in Summary of World Broadcasts, FE/1070/A3/5.
- 87 Taiwanese enterprises and joint ventures in Xiamen were granted income tax exemption for the first four profit-making years and allowed a 50 per cent reduction between the fifth and

- ninth years. For other Sino-foreign joint ventures only one tax-free year is permitted, followed by a 50 per cent reduction in the second and third profit-making years. See *JPRS*, Chinese Economic Affairs, 2 February 1985, p. 63.
- 88 Xinhua, 9 April 1991 in Summary of World Broadcasts, FE/1047/B2/4, 16 April 1991.
- 89 Central News Agency, Taipei, 19 October 1992, in Summary of World Broadcasts, FE/W0254/A/5, 28 October 1992.
- 90 *Fuzhou Wanbao*, 30 May 1992, p. 1.
- 91 *Fuzhou Wanbao*, 13 November 1992, p. 1.
- 92 *Fuzhou Wanbao*, 18 January 1992, p. 1.
- 93 *Fuzhou Wanbao*, 18 December 1994, p. 1.
- 94 *Fuzhou Wanbao*, 17 June 1992, p. 1.
- 95 *Fuzhou Wanbao*, 29 June 1994, p. 1.
- 96 Around 75 per cent of Taiwanese firms in Xiamen used simple machinery, most of which was imported second-hand from Taiwan.
- 97 *Fuzhou Wanbao*, 29 June 1994, p. 2.
- 98 In March 1981 Hu Ping announced that capital construction investments were to be reduced by a third compared to 1980. See Fuzhou, Fujian Provincial Service, 31 March 1981 in *FBIS*, 2 April 1981, pp. 1–2.
- 99 Still the provincial government contributed RMB50 million to infrastructural development in Xiamen that year.
- 100 Wen Wei Po, 5 February 1983 in *FBIS*, 16 February 1983, p. w13.
- 101 Lin, p. 505.
- 102 See, 'Fujian', *China Trader*, February 1987, p. 7.
- 103 See Terry, pp. 11–12.
- 104 The plan was to raise RMB1.4 billion through foreign investment, RMB1.9 billion from the provincial government, ¥300–400 million annually from banks and RMB1 billion from the central government, giving a total of RMB5.5 billion. See *South China Morning Post*, 2 November 1981.
- 105 *The China Business Review*, September/October 1983, p. 10.
- 106 *South China Morning Post*, Business News supplement, 16 October 1985, p. 5, in *JPRS*, China Economic Affairs, 19 November 1985, p. 101.
- 107 *South China Morning Post*, Business Post, 8 November 1986, p. 3, *FBIS*, 13 November 1986, p. 1.
- 108 Fuzhou, Xinhua, 24 June 1987 in *FBIS*, 25 June 1987, p. 27.
- 109 *Fujian Ribao*, 25 November 1985.
- 110 *Fuzhou Wanbao*, 6 October 1992, p. 1.
- 111 *Fuzhou Wanbao*, 11 September 1992, p. 1.
- 112 *Fuzhou Wanbao*, 16 June 1992, p. 1.
- 113 See *Fujian Luntan*, no. 9, 5 September 1987 in *FBIS*, 5 September 1987.
- 114 Liang Longjun, 'Fujian Economic Development Studies', in *Fujian Luntan*, no. 9, 5 September 1987, reproduced in *JPRS*, CAR, 19 February 1988.
- 115 *South China Morning Post*, 28 May 1990.
- 116 See *Xiamen Statistical Yearbook 1997*, pp. 328, 530.
- 117 *Fuzhou Wanbao*, 28 July 1992, p. 1.
- 118 *Fuzhou Wanbao*, 2 May 1992, p. 1.
- 119 Beijing, Xinhua, 23 May 1987, in *JPRS*, CEA, 23 May 1987, p. 99.
- 120 See Terry, p. 22.

- 121 Li Hongmei, 'Total output value of Fujian's Sino-Foreign Joint Ventures accounts for 12.5 percent of the Province's GVIAO: Vice-Governor Chen Mingyi said that Fujian's investment climate has clearly improved', in Beijing Guoji Shangbao, in *JPRS*, CAR, 2 September 1988, p. 47.
- 122 Up until the reform period the airport had served mainly as a military base.

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6

A tale of two cities

A comparative study of the political and economic development of Chengdu and Chongqing

Lijian Hong

Introduction

Chengdu is the capital of Sichuan Province and Chongqing is the largest industrial city at the upper reaches of the Yangtze River. Both Chengdu and Chongqing are the most industrialized cities in the western regions. Even in China, the two cities are among the largest city economies. In a more balanced economic development strategy of the Chinese new leaders, Chengdu and Chongqing are expected to play a leading role in linking China's advanced east and backward west.

Since the late 1970s, local governments in China have been granted greatly increased decision-making powers in all spheres of political, economic, financial, cultural and social life under their jurisdiction. We can no longer assume that trade, investment, and other social, economic and cultural activities are solely governed by the laws and policies of the central government. Local governments are, and increasingly becoming more so, very important players in the above areas. While much power has been delegated to provincial level administrative units, a similar process is under way from the provinces to sub-provincial units. Because of their economic strength and their political connections with the central and provincial authorities, major cities within a province are normally the first to exploit the benefits of political and economic decentralization.

Before Chongqing was upgraded to a centrally administered city, both Chengdu and Chongqing were among sixteen deputy-provincial level cities with separate planning status that gave them economic management power equal to that of a province. [Table 6.1](#) shows that compared with other deputy-provincial level cities in China, geographic locations of Chengdu and Chongqing have seriously affected their ability to attract foreign investment and to promote foreign trade. This is especially obvious for Chengdu. However, despite their geographic disadvantages, both cities had outstanding performances in industry and agriculture. Their GDPs ranked among the top five cities in China. In terms of per capita performance, however, both cities are downgraded due to having the largest populations among the sixteen major cities.

Furthermore, as the Chinese central government switches its strategy of economic development from the southeast coast to the western regions, the economic strength of

Statistical profiles of Chengdu and Chongqing, 1996

<i>Indicator</i>	<i>Chengdu</i>	<i>Chongqing</i>
Total population (1,000)	9,808	15,300
GDP (RMB million)	86,934	123,507
GDP as percentage of Sichuan's GDP	20.6	29.3
Gross value of industrial output (RMB million)	9,5429.9	9,768.2
GVAO (RMB million)	16,838	25,825
Total foreign trade (US\$ million)	450	1,380
Total foreign trade as percentage of Sichuan's total	12.1	37.0
Realized FDI (US\$ million)	145	420
Realized FDI as percentage of provincial total	23.0	66.5

Chengdu and Chongqing in China's west will enable them to play a leading role in regional economic development in the years to come. Table 6.2 shows the economic power of Chengdu and Chongqing among their neighbours in China's west.

The regional as well as national importance of Chengdu and Chongqing and their performance in the reform era are therefore the primary reason for conducting the following research. Moreover, while decentralization since the reform has promoted rapid development in Chinese cities, the strong economic growth of major cities has also brought about more general growth within a province. In Sichuan, both Chengdu and Chongqing have played crucial roles in local economic growth. The importance of the two cities in the province can be seen from Table 6.3.

There was a huge gap between the two cities and their nearest rivals in the province. For example, Mianyang is a national centre of the electronic industry and the third largest city in Sichuan. However, both GDP and GVIO of Mianyang were less than one-third that of Chengdu or Chongqing. Local revenue was little more than half that of Chengdu and 44.48 per cent that of Chongqing.¹ Furthermore, in the past forty years and more, industrialization of the two cities has led to the rise of two industrial corridors along two railways. One links Chengdu and Chongqing, and the other connects Jianguyou and Panzhihua via Chengdu. Areas along the two railways have formed the heartland of Sichuan's modern industry. The importance of Chengdu and Chongqing in local economic development of Sichuan is thus the second focus of this research.

Third, the study sets out to investigate the similarities and dissimilarities between the two cities. While Chongqing remains the largest city economy in Sichuan, a striking fact is that when the two cities were taken by the communist army, Chengdu was a city with little modern industry. By 1952, GVIO in Chengdu had increased to RMB165.3 million, while Chongqing was RMB807.3 million, 4.9 times that of Chengdu. By 1978, GVIO in Chengdu was about 66 per cent that of Chongqing. In 1995, however, GVIO in Chengdu exceeded Chongqing by RMB18.2 billion.² This has raised a very interesting question: what made the relatively new industrial city of Chengdu grow faster than the old industrial centre Chongqing? The question becomes even more interesting if we take into account the several advantages of Chongqing over Chengdu. First, physically, Chongqing is a river port city on the Yangtze which provides a link with central China. Chengdu on the other

Table 6.1 Economic and social indicators of the key cities in China, 1995

City	Area (km ²)	Population (m)	GDP (RMBbn)	GVIO (RMBbn)	GVAO (RMBbn)	Actual foreign investment (US\$m)	Foreign trade (US\$m)	Local revenue (RMBm)
CD	12,390 ⁶	9.7 ²	71.4 ⁴	122.6 ⁵	15.0 ³	65.8 ¹⁶	383.0 ¹¹	2,969.5 ⁷
CQ	23,114 ¹	15.2 ¹	74.3 ³	120.1 ⁷	23.9 ¹	569.3 ⁷	855.7 ⁹	3,442.3 ⁵
SY	12,980	6.7	68.3	100.6	10.2	665.2	988.1	3,554.8
DL	12,574	5.4	64.5	124.0	13.6	910.0	2,520.0	4,290.0
QD	10,654	6.8	52.1	94.1	19.2	865.7	2,450.7	2,947.7
WH	8,464	7.1	60.7	88.4	9.4	115.0	31.1	2,883.5
GZ	7,434	6.5	125.3	173.5	12.7	2,253.0	6,247.2	9,705.4
SZ	2,020	3.5	79.6	122.6	2.3	1,735.5	8,452.2	8,801.7
XA	9,983	6.5	35.1	40.6	7.5	186.5	300.0	1,820.6
HB	18,466	5.7	39.4	48.9	8.8	143.4	109.4	2,170.4
CC	18,881	6.8	26.2	51.1	14.5	181.6	145.3	985.2
NJ	6,516	5.2	57.6	126.4	8.6	415.3	808.1	2,942.7
NB	9,365	5.3	63.9	147.5	12.4	449.8	2,368.4	2,479.4
XM	1,516	1.2	25.1	40.1	2.6	1,321.6	3,479.2	2,162.6
HZ	16,596	6.0	n/a	n/a	10.0	457.8	968.0	2,304.3
JN	8,227	5.4	48.2	67.0	11.4	252.9	n/a	1,699.4

Source: *Chongqing Statistical Bureau, Chongqing tongji nianjian 1996* (Chongqing Statistical Yearbook 1996), Beijing, China Statistical Publishing House, pp. 399–406.

Note

Superscripts refer to the respective rank of Chengdu and Chongqing among sixteen cities. CD=Chengdu, CQ=Chongqing, SY=Shenyang, DL=Dalian, QD=Qingdao, WH=Wuhan, GZ=Guangzhou, SZ=Shenzhen, XA=Xi'an, HB=Harbin, CC=Changchun, NJ=Nanjing, NB=Ningbo, XM=Xiamen, HZ=Hangzhou, JN=Ji'nan.

hand is a purely inland city, enclosed by the great ranges of the Qinling Mountains in the north. Second, because of its importance in China's military industry, heavy investment has been made in Chongqing by the central government since the 1950s, especially in the 1960s and 1970s when China was building its Third Front Project, a defence-related large scale industrial construction. Third, since 1978, more preferential policies have been granted to Chongqing by the centre, while Chengdu had much less favourable conditions. With these physical and policy advantages, Chongqing's lag behind Chengdu needs explanation. Therefore, the third purpose of this research is to investigate the various factors that led to the different performances of the two cities in the reform era.

The main target of our investigation will be three possible underlying factors leading to the similarities and differences between Chengdu and Chongqing. They are: the location and history of the two cities, which constitute 'given factors' with which the post-Mao reform started; the central and provincial policies as the 'semi-given factors' that influenced the direction and speed of the reforms in Chengdu and Chongqing; and finally, the 'to-be-created factors' that reflected the responses of the local leadership in the two cities to the changes in post-Mao China and the different consequences of their strategies for development.

Table 6.2 Major economic indicators of Chengdu, Chongqing and other western cities, 1994

City	Population (m)	GDP (RMBbn)	GVIO (RMBbn)	GVAO (RMBbn)	Actual foreign investment (US\$m)	Foreign trade (US\$m)	Local revenue (RMBbn)
CD	9.6	55.8	102.6	12.8	236.0	1,367	1.4
CQ	15.1	54.3	94.9	16.5	453.0	1,010	2.1
GY	1.7	9.9	14.8	0.9	31.0	133	0.5
KM	3.7	26.8	35.2	3.6	70.0	1,281	0.7
LS	0.4	n/a	n/a	n/a	n/a	n/a	n/a
XA	6.4	29.0	38.9	5.7	194.0	1,246	1.3
LZ	2.7	15.6	28.1	1.6	31.0	526	1.6
XN	1.1	3.6	6.9	0.4	0.8	n/a	0.4
YC	0.9	4.8	5.9	1.1	48.0	125	0.2
UM	1.4	14.1	14.7	0.6	n/a	420	1.1

Source: Liu Guoguang (ed.) *Zhongguo chengshi nianjian 1995* (Yearbook of China's Cities 1995), Beijing, China's Cities Yearbook Publishing House, 1995, pp. 48–51, 112–15, 128–31, 176–9, 368–71, 384–7.

Note

CQ=Chongqing, CD=Chengdu, GY=Guiyang, KM=Kunming, LS=Lasha, XA=Xi'an, LZ=Lanzhou, XN=Xi'ning, YC=Yinchuan, UM=Urumqi.

Chengdu and Chongqing in space and time

Geography and history

Surrounded by mountains and hills, Sichuan has one of China's largest inland basins, known as the Red Basin. The city of Chengdu is located in the northwest part of the Sichuan Basin. Extensive flat land forms the Chengdu Plain, which was one of the richest areas in Imperial China. On the other side of the basin is the mountainous city of Chongqing. Two rivers, the Yangtze and Jialing join at the foot of the city. The climate in the basin is subtropical. While the average temperature rarely falls below zero, the eastern part of the basin is warmer than the western. The weather in Chengdu is generally stable and favourable for agriculture. In Chongqing, however, because of the high humidity, fogs are particularly heavy from October to April, which seriously affect inland navigation, aviation, and local traffic. During the summer, the temperature in Chongqing can exceed 40°C. For these reasons, Chongqing has won a reputation as *Wu Du* (Fog Capital) and, as one of 'three furnaces' on the Yangtze.

Both Chengdu and Chongqing were the capitals of two ancient kingdoms, dating back to the pre-Shang (16–11 centuries BC) period: *Shu* in the northwest and *Ba* in the southeast.³ Between Qin and Han (221 BC-AD 220) and Yuan (AD 1271–1368), Sichuan was always divided into two or three administrative units with both Chengdu and Chongqing being regional political and economic centres. Agriculture in ancient Chengdu was highly developed. By Han times, Chengdu was known as the 'heavenly kingdom' and the 'granary of the nation'.⁴ The Tang-Song period (AD 618–1279) saw the areas around

Table 6.3 Economic performance of Chengdu and Chongqing in Sichuan, 1995

	Chengdu	Percentage of Sichuan	Chongqing	Percentage of Sichuan
Population (m)	9.7	8.7	15.2	13.6
Area (km ²)	12,390	2.2	23,114	4.1
GDP (RMBbn)	71.4	20.2	74.3	21.0
GVI0 (RMBbn)	102 ^a	23.0	83.8 ^a	18.9
Total investment in fixed assets (RMBbn)	21.6	22.9	19.7	20.9
GVAO (RMBbn)	15.1	9.9	23.9	15.7
Per capita national income (RMB)	7,388		4,897	
Local revenue (RMBbn)	2.97	17.8	3.44	20.6
Foreign trade (US\$m)	647 ^b	14.9	1,479.2 ^c	34.1
Realised foreign investment (US\$m)	65.8 ^c	10.6	569.3 ^c	91.9

Sources: Sichuan Statistical Bureau, *Sichuan tongji nianjian 1996* (Sichuan Statistical Yearbook 1996), Beijing, China Statistical Publishing House, pp. 22, 25, 95, 137, 295.

Note

GVAO=gross output value of farming, forestry, animal husbandry and fishery. Per capita national income in Sichuan was RMB3,201.

a *China tongji nianjian 1996*, pp. 332, 404.

b *Chengdu tongji nianjian 1996*, p. 37.

c *Chongqing tongji nianjian 1996*, pp. 19, 406. Realized foreign investments of Sichuan are data from *China tongji nianjian 1996*, p. 600.

Chengdu becoming one of the two richest parts of China.⁵ The map of modern Sichuan was formed during the Yuan Dynasty. Both Chengdu and Chongqing became sub-provincial cities in Sichuan with Chengdu as the provincial capital.

Modern times saw different paths of development in Chengdu and Chongqing. Following an agreement between the Qing Court and the British Government, Chongqing was forced to open to the West. Despite strong local anti-Western sentiment, modern industry grew in Chongqing, slowly but steadily. Convenient water transportation and rich mineral resources provided favourable conditions for Chongqing's early efforts at modernization. By the time the 1911 Revolution broke out, modern factories in Chongqing accounted for 45 per cent of the provincial total and output was 7.42 times that in Chengdu. The city had surpassed Chengdu as the economic and trade centre not only in Sichuan but also in the entire southwest of China.⁶

If geographic remoteness and inaccessibility were the major factors that prevented both cities from rapid modernization in the early days of this century, it was precisely the same factor that led to the sudden rise of Chongqing as China's new industrial centre during the Second World War. In September 1940, as the Nationalist government took refuge in Chongqing, the city was upgraded to the wartime capital of China and was consequently separated from Sichuan. The increase in political importance of Chongqing in China was accompanied by a corresponding growth in its economic power. With the relocation of

the coastal industries into Sichuan, the local economy gained exceptionally rapid development. By 1940, more than 90 per cent of the factories moved to Sichuan were relocated in Chongqing.⁷ In the years following, Chongqing quickly rose to a leading position in China's modern military, chemical, metallurgical, engineering and power industries with a strong financial position second only to Japanese-occupied Shanghai.⁸

By contrast, Chengdu moved slowly. The provincial capital was still a city based on agriculture, handicrafts and commerce. Local industry accounted for only 12 per cent of the local economic output. Service industry generated 40 per cent of the city's total business turnover.⁹ Compared with the busy trade and industrial city of Chongqing, life in the local warlord-controlled city was quiet and relaxed.

The economic miracle of Chongqing, however, did not last long. The city developed rapidly when China was squeezed into it during the war. When China re-expanded after the war, the local economy shrank. With the Nationalist government returned to Nanjing, the modern industries in Chongqing also moved back to the coastal cities. The war ended in 1945. By 1947, almost half of the factories that had moved from the coastal cities were closed. Ninety per cent of the engineering industry in Chongqing ceased operations.¹⁰ The rapid decline of the local social and economic life created a strong anti-Nationalist government sentiment among urban citizens, especially among young students and teachers of the universities, and provided a favourable political environment for Communist takeover.

The most important change in wartime Sichuan was that the war had provided a unique opportunity for Chongqing to grow into a city with national and international importance even greater than that of Sichuan, a city whose political and economic role could not be easily accommodated by a backward province. This change has since influenced local political and economic development in the years to come and the future relations among China, Sichuan, Chengdu and Chongqing.

Development under communist government

In the seventeen years up to the Cultural Revolution, the communist effort of modernization in the two cities was a mixture of success and failure. The radical industrialization programme created remarkable achievements in both cities. Between 1952 and 1965, GVIO increased by 6.3 times in Chengdu and 3.2 times in Chongqing.¹¹ The communist industrialization in the two cities had a number of important features.

First, the highly centralized industrialization programme led to a similar process of industrialization and resulted in a similar industrial structure in both cities. Central investment biased towards heavy industry, especially in defence-related industry, characterized the industrialization process of both Chengdu and Chongqing in the 1950s and 1960s.

Second, while both cities achieved fast growth in local industrialization, the gap between the two cities was narrowed by Chengdu's faster development. As shown above, during the period between 1952 and 1965, industrial growth in Chengdu was higher not only than in Chongqing, but also than that of the national average.¹²

Third, the fast growth of Chengdu was a result of many factors. A low starting point for the industrialization in Chengdu was an important reason. But local politics also played a crucial role. While rapid industrialization promoted local economic growth, it also caused tensions among various groups of political forces, namely, among central, provincial and city leaders. Disputes among leaders at various levels were mainly concentrated on how to allocate limited resources between centre and regions, between province and cities, and between Chengdu and Chongqing. Similar problems could be seen in other parts of China. However, the central government seemed to have been particularly entangled with the issue of how to represent Chongqing's political and economic position in Sichuan as well as nationwide. The Nationalist government not only left an industrialized city that provided the Chinese communist government with a much needed power base for its early economic reconstruction, but also created an 'oversized' modern city that a poor agricultural province like Sichuan could not easily handle. In fact, one of the most noticeable local political features in the first seventeen years after 1949 was a prolonged uncertainty about Chongqing's position in Sichuan as well as in China. In the past forty-seven years leading up to the eventual separation of Chongqing from Sichuan in 1997, the city was directly administered by the central government for four years (1950–4); economically, however, the city was centrally managed for about twenty-six years (1950–8, 1963–8 and 1984–97)—longer than it was under the provincial government of Sichuan. It is no exaggeration to say that while Chongqing was a city in Sichuan, it was not really managed by the province. The following pages will focus our discussions on this matter.

The unique position of Chongqing in Sichuan and China was largely a result of the pattern of communist occupation. Politically, there were two important developments in post-1949 Sichuan that need to be stressed. First, in the period up to the Cultural Revolution, Sichuan was virtually ruled by the 'outsiders'. Cadres from the First Field Army and the Second Field Army formed the backbone of the party and government institutions down to the county level.¹³ Second, among the outside rulers, people from two different field armies formed two major factions. The tension between them characterized local politics in the 1950s and 1960s.

In 1949, Chengdu and Chongqing were occupied by two field armies of the People's Liberation Army, which occupied the two cities. These were the Second Field Army led by two Sichuan natives, Marshall Liu Bocheng and Deng Xiaoping, and the Eighteenth Corps of the First Field Army. The main force, the Second Field Army, occupied Chongqing and extended its control into east and south Sichuan. The First Field Army swept into Sichuan from the north and took over Chengdu, west and north Sichuan. This bifurcated pattern of occupation by the two field armies had a prolonged impact on local political and economic development. When Sichuan was divided into five administrative units in 1950, it was actually divided between the two field armies. The Second Field Army controlled Chongqing, east and south Sichuan, while the First Field Army controlled Chengdu, west and north Sichuan. Chongqing kept its special position as a city under the central government. In July 1950 when the Second Field Army controlled regional government, the Southwest Military-Administrative Committee was established,¹⁴ Chongqing, the location of the headquarters of the SMAC, virtually became

the capital of the whole of southwest China. In September 1952, the four sub-provincial governments of Sichuan were reorganized as one province. Chengdu became the provincial capital, while Chongqing remained a centrally administered city.¹⁵

The central government had strong reasons for putting Chongqing under its direct leadership. Chongqing was the last capital of the Nationalist government. Anti-communist resistance was threatening the new government. On the other hand, Chongqing's industrial power not only supported early economic recovery in the region but, more importantly, its strong capacity for military production provided badly needed weapons for the Chinese army on the battlefields of Korea. However, it seems that the implication of an 'oversized' city in Sichuan was not fully realized by the new rulers. When the Korean War ended and when national economic reconstruction achieved positive results, the city was returned to Sichuan in July 1954 after fourteen years of separation from the province and was subsequently downgraded to a sub-provincial city. The decision, as we shall see, caused many problems for both Sichuan and Chongqing.

At the same time, the political and economic importance of Chengdu in the province grew. This was not only because of Chengdu's position as the provincial capital, but also because of the changing influence of the two field armies in Sichuan. When the SMAC was eventually abolished in 1954, senior leaders from the Second Field Army left Chongqing to work in the centre. When Sichuan was reunified, Li Jingquan—Political Commissar of the Eighteenth Corps—became the new head of the province. The former west Sichuan government in Chengdu became the core of the new provincial party, government and military institutions.

Li Jingquan's rule in Sichuan was characterized by his strong factional politics, especially his strong antipathy towards people not from the First Army. When the Eighth National Party Congress was held, three leaders from Sichuan—Li Jingquan, governor Li Dazhang and Yan Hongyan, a Second Field Army general and leader of Chongqing—were elected as members and alternative members to the Eighth Central Party Committee.¹⁶ After several clashes with Li Jingquan, Yan Hongyan was moved from Sichuan. His party and government positions in Chongqing were taken up by Ren Baige, also from the Second Field Army, but his position in the central and provincial party committee was not, nor by anyone from Chongqing. During the seventeen years of Li's rule, no party or government leader from Chongqing was promoted to the top position of the provincial leadership. Chongqing's position in national and provincial politics obviously did not match its economic importance.¹⁷

Despite its political downgrading, Chongqing retained its position as an advanced industrial city with national significance. For most of the time after 1949, Chongqing was granted separate planning status with provincial level economic management power, and as such, the city enjoyed much special treatment. Chongqing, for example, was entitled to have raw materials supplied from anywhere in China for its industry and to sell its end products nationwide. Its party and government leaders were able to attend national economic planning conferences together with provincial leaders, an important way for local leaders to participate in the decision-making process at the central level.¹⁸ Again in 1964, as a direct response to China's deteriorating international relations, the central government decided to build a series of defence-industrial projects, known as the Third

Front Project Chongqing was one of the key cities of the Project. From 1966 to 1978, a total of RMB5.05 billion was invested in Chongqing.¹⁹ The period also saw a large scale relocation of defence-related enterprises from the coastal regions into Chongqing, the largest since the Second World War. Of a total of 700 projects relocated from the coastal areas to the western regions, more than 200 were moved to Chongqing.²⁰ Chengdu, however, was not included in the Project.²¹

The plan to separate the administrative and economic powers of Chongqing, however, caused new tensions between Sichuan and Chongqing. As two separate local economies, Sichuan and Chongqing had conflicts of interest in many areas of development. With its administrative superiority over Chongqing, the province was able to use its political power to interfere in the economic activities of the city. As a sub-provincial city of Sichuan, Chongqing had to fulfil the instructions of the provincial government while carrying out directives from the centre. In a planned economy where politics command the economy, the administrative position of a government determines its power in economic management. Whenever conflicts between Sichuan and Chongqing arose, the provincial government had the power to resolve the problem in favour of the province. In addition, as a powerful administrative unit between the centre and sub-provincial cities, Sichuan could also influence the direction of central investment. Statistics show that despite Chongqing's much larger industrial size, investment in Chengdu grew steadily and even surpassed Chongqing during Li Jingquan's rule in Sichuan. [Table 6.4](#) overleaf shows that changes in investment in the two cities were linked to the changed relations among the centre, Sichuan, Chengdu and Chongqing. A sharp increase in investment in Chengdu was seen after it became the capital of a reunified Sichuan. The Second Five-Year Plan period saw the devolution of central powers to the province and Chongqing was completely downgraded to a sub-provincial city. The immediate consequence was that while investment in Chengdu increased four-fold, Chongqing, with a much larger industrial base, increased only two-fold. During the difficult period 1963–5, investment in Chongqing was even less than that in Chengdu. Starting from the Third Five-Year Plan period, economic development in Chongqing was virtually taken over by the central government, at least economically, and enjoyed a much higher level of investment than Chengdu.

All of this suggests that in a highly centralized command economy, politics plays an important role in local economic modernization. Different political and economic relations between Beijing, Sichuan and the two cities led to different paths of local modernization and resulted in different rates of growth of the local economies. Faster growth in Chengdu was not so much linked to a balanced economic development by the central government, as to the biased economic development strategy of the provincial government. In Chongqing, meanwhile, political discrimination by the provincial leaders obviously affected local economic growth. While troubled relations with Sichuan seemed to have caused the comparatively slow growth of Chongqing, a closer link with Beijing did not necessarily result in a faster growth. Direct central control did provide the necessary resources for local economic development, but the negative impact of such control should not be underestimated. [Table 6.4](#) shows that while in absolute terms, total investment in Chengdu during the period from 1950 to the end of the Fifth Five-Year Plan was only 64

Table 6.4 Total investment in fixed assets in Chengdu and Chongqing during various periods (RMB million)

<i>Period</i>	<i>Chengdu</i>	<i>Chongqing</i>
1950–2	18.0	144.4
1st FYP (1953–7)	400.2	965.0
2nd FYP (1958–62)	1,610.0	1,852.5
1963–5	659.6	630.9
3rd FYP (1966–70)	904.5	1,766.6
4th FYP (1971–5)	945.4	2,045.7
5th FYP (1976–80)	1,720.1	2,319.3
Total	6,257.8	9,724.4

Sources: Chengdu Statistical Bureau, *Chengdu tongji nianjian 1996* (Chengdu Statistical Yearbook 1996), internally published, Chengdu, 1996, p. 151; and Chongqing Statistical Bureau, *Chongqing tongji nianjian 1993* (Chongqing Statistical Yearbook 1993), Beijing, China Statistical Publishing House, 1993, p. 168.

Note

FYP=Five-Year Plan.

per cent that of Chongqing, the industrial growth of Chengdu was faster than that of Chongqing. Considering that Chongqing had a much larger modern industrial base than that of Chengdu, it is hard to deny that central investment in Chongqing was not as efficient as that in Chengdu. Increased central investment during the Third, Fourth and Fifth Five-Year Plan periods was mainly focused on the defence-related industries, with little consideration of local interest and economic efficiency. In 1978, the realized output value for every RMB 100 invested in the fixed capital of the Third Front Project enterprises was 30 per cent lower than the national average. The capital-tax rate was 40 per cent lower.²² With the introduction of a market economy in the reform era, this Maoist legacy came to be a burden rather than an asset.

Central and provincial policies for local reforms in Chengdu and Chongqing

Biased central policy in favour of Chongqing is, perhaps, the most distinctive feature of post-Mao development in Sichuan. When reform started in Sichuan in 1978, Chongqing led China's urban reform. However, reform has eventually brought many negative results to cities in this remote province. The uneven economic development strategy of the central government, declining central investment, geographical difficulties that disadvantage inland cities in terms of access to foreign markets and foreign trade, a large number of inefficient state-owned enterprises (SOEs) with obsolete technologies, etc. are common difficulties that face both Chengdu and Chongqing in the new era. Compared with Chengdu, however, Chongqing seems to have benefited by its position in Chinese industry. In the following pages, we shall discuss policy differences of the central and provincial governments towards these two cities in the reform era.

The Cultural Revolution brought damage to many cities in Sichuan as elsewhere in China. However, the Revolution also caused important changes to local politics and economic development. The downfall of Li Jingquan during the Revolution led to a collapse of the old factional politics based on the field army groups. With the appointment of a reform-minded leader, Zhao Ziyang, Chongqing's relation with the provincial leadership improved. Moreover, continued central investment in the Third Front Project during the Cultural Revolution had substantially changed the local economic structures in both cities. GVIO in both Chengdu and Chongqing surpassed GVAO.²³ By 1978, GVIO had increased over 27 times in Chengdu and 7.5 times in Chongqing compared with those in 1952.²⁴ In absolute terms, the industrial output gap between the two cities was further narrowed in favour of Chengdu.

Central policies towards Chengdu and Chongqing in the reform era

Encouraged by his initial success in Sichuan's rural areas, Zhao Ziyang launched his ambitious urban reform in Chongqing in 1978. In that year, Zhao introduced the responsibility system into the SOEs in Chongqing. He picked six enterprises as his 'experimental basis' in the city and later increased the number to fourteen as well as several from Chengdu to conduct a comprehensive reform of industrial management.²⁵ A new policy with strong market orientation was introduced which permitted these enterprises to retain more profits to pay bonuses to hard-working workers, to expand production and engage in production outside the state plan, and to market their products after the state plan was met. The new policy gave enterprises the rights to deal with foreign companies and to reserve part of the foreign exchange earnings to import new technology, raw materials, advanced equipment and other products necessary to improve their production. The new policy also gave factory managers the right to penalise those workers who brought heavy losses to the factory.²⁶ A modified new policy was soon extended to another 100 enterprises in the two cities and a further 200 in 1980. In the same year, a more radical policy was adopted in several enterprises which allowed the factories to 'manage independently, pay tax rather than profits to the state and assume full responsibility for profits and losses'.²⁷ In the early days of the reform, Chongqing worked closely with the new provincial leader. The city virtually became Zhao's office of industrial reform. The reform achieved a positive result and the 'Chongqing experience' was later spread nationally.²⁸

The urban reform in Chongqing seemed to have lost its dynamism and the honeymoon between Chongqing and Sichuan ended after Zhao was appointed Premier of the State Council and left Sichuan. Reform continued, but the new leadership in the province seemed to lack local initiative. In fact, after Zhao, most reform initiatives for Chongqing came directly from the centre. Zhao's support for urban reforms in Chongqing became even stronger as his power increased. Since the 1980s, Chongqing has enjoyed much more special treatment from the central government than Chengdu. In 1980, for example, with the approval of the State Council, the Chongqing Customs Office was set up. The city became the only inland port city that could engage in foreign trade directly. Three years

later, Chongqing became the first city in post-Mao China to conduct comprehensive urban reform and was consequently granted separate ‘planning city’ status, and as such, the city was now financially responsible directly to the State Planning Commission and enjoyed economic management power equivalent to that of a province.²⁹ As for foreign trade, the city government was authorized to deal directly with foreign countries regarding trade and investment, to issue passports and visas, and import and export permits of commodities with official approval of the relevant departments of the State Council. All local products previously exported through Sichuan were now managed by Chongqing itself. It was granted power to approve foreign investment up to US\$30 million, to approve technology transformation worth up to US\$5 million and to approve overseas investment projects up to US\$ 1 million.³⁰ In 1984, Chongqing, along with thirteen other cities, was granted legislative power to make local laws and regulations to suit local conditions.³¹ In 1992, in the midst of a new wave of reform, Chongqing and other major cities along the Yangtze River—including Shanghai, Nanjing, and Wuhan—were granted a special status as open cities on the River and enjoyed preferential policies similar to those adopted in coastal regions. As the new generation of the Chinese leadership has determined to build the world’s largest dam on the Yangtze, Chongqing’s position as the largest industrial city in Sichuan has once again won the city a new prize. In June 1997, the city was upgraded to a centrally administered, provincial level city with increased access to national political and economic resources.

It should be noted that in the reform era, the central government has not only granted many preferential policies to Chongqing, it has actually provided certain financial aid to support local economic development. Although the central government’s financial capacity has been weakened since the reform, Beijing has still managed to provide special funds for Chongqing’s reform and opening-up. For example, in an effort to convert military industries to civil production, the central government agreed to provide a total of ¥800 million to local defence industries in Sichuan. Ninety per cent of this went to Chongqing. In addition, relevant departments of the central government also provided a total of RMB300 million to their factories in Chongqing.³² While the coastal regions turned to the West for foreign investment, the early ‘foreign investment’ in Chongqing was from the central government. The State Planning Committee and the relevant departments spent a total of US\$170 million to buy advanced foreign technologies for Chongqing. From the late 1980s, US\$5 million of foreign government aid was directed to Chongqing through the central government.³³ It is also very important to note that the central government’s policy to ban new plans in other cities and provinces to develop such industries as car and motorbike manufacture has also helped Chongqing to maintain a dominant position in the Chinese market.

It is worth noting that since the reform, policies of the central government have been mainly focused on providing Chongqing with more preferential treatment similar to that applied in the coastal regions. However, inland cities have different problems from those of the coastal regions. Policies used successfully in the coastal cities are not necessarily applicable in Chongqing. Moreover, after these policies were widely applied in the coastal region, the effect of ‘policy advantage’ was minimized when they were introduced into the inland areas. Even though policies were introduced simultaneously in Chongqing and

some coastal cities, difficulties caused by geographic remoteness had the effect of reducing the competitiveness of Chongqing.

On the other side of the Sichuan Basin, reforms in Chengdu were relatively slow and always half a step behind Chongqing in the early days after 1978. Zhao's reform programme for the SOEs was introduced in Chengdu after it was tried in Chongqing. The provincial capital began to conduct comprehensive urban reform a year after Zhao claimed success in Chongqing. Not until May 1987, did the centre allow leaders from Chengdu, together with those from Nanjing, to attend national conferences on economic planning with those from the separate planning cities. In February 1989, Chengdu, Nanjing and Changchun were finally approved by the State Council as separate planning cities,³⁴ six years after Chongqing was granted similar status. Chengdu was authorized to approve foreign investment up to US\$10 million, less than Chongqing was allowed. The city government could also approve technology transfers up to US\$5 million and issue import and export permits for commodities approved by the State Council.³⁵ For an inland city, foreign trade is very important to promote local economic development. However, in the ten years between 1978 and 1988, the foreign trade of Chengdu was actually controlled by the province. The city did not have the right to deal with the outside world directly until 1988, after it was upgraded to a deputy-provincial level city. From 1988 to 1993, the total export value of Chengdu grew to US\$200 million, less than one third of Chongqing's export value in that year.³⁶ As the central government extended its open-door policy from coastal regions to central and western areas, Chengdu and other cities along the Yangtze River and fourteen provincial capitals began enjoying preferential policies previously applied to coastal open cities.³⁷ Even for these much delayed and devalued policies, the central government stipulated that they were valid only until 1995.³⁸ To some extent, Chengdu was not fully opened up until 1988.

Provincial policies towards Chengdu and Chongqing

The biased policies of the central government in favour of Chongqing intensified the relationship between Beijing and Sichuan. The increased political and economic power of Chongqing and the city's close links with the central government were seen by Sichuan as giving the centre an opportunity to interfere in local affairs. More importantly, a growing Chongqing was seen by the province as a strong competitor and as a threat to the already declined political and economic position of Sichuan in the region as well as in the nation. The fear of the province was not groundless. Since a large part of Sichuan's revenue came from Chongqing, the direct result of Chongqing's separation was a reduction of provincial revenue and an increase in local deficits. In fact, Sichuan agreed to let Chongqing be economically independent from the province only after repeated negotiations with the centre. According to an agreement in 1984, Chongqing had to deliver 50.5 per cent of its annual income to the central government, 12.5 per cent to Sichuan as the central government's financial subsidy to the province and 37 per cent for the city for its further development. A year later, the proportion changed to: 39.5 per cent to the centre; 23.5 per cent to Sichuan, with Chongqing's proportion remaining unchanged.³⁹ [Table 6.5](#)

Table 6.5 Revenue and expenditure of Sichuan (RMB billion)

	<i>Revenue</i>	<i>Expenditure</i>	<i>Balance</i>
1980	3.46	3.35	11.1
1981	3.15	2.99	0.16
1982	3.55	3.19	0.36
1983	4.03	3.66	0.37
1984	4.64	4.79	-0.15
1985	5.88	6.42	-0.54
1986	6.73	8.77	-2.04
1987	7.59	8.78	-1.19
1988	9.16	10.31	-1.15
1989	11.48	12.72	-1.24
1990	11.98	14.27	-2.29

Source: China State Statistical Bureau, *Quanguo ge sheng, zizhiqu, zhixiashi lishi tongji ziliao huibian* (Historical Statistical Data of Various Provinces, Autonomous Regions and Centrally Administered Cities), Beijing, China Statistical Publishing House, 1990, p. 716.

shows a declining financial position for Sichuan after Chongqing became a separate planning city.

Not only was the reform in Sichuan relatively slow after Zhao Ziyang left, but the uneven economic development strategy of the central government had affected local modernization. A detailed study compared economic development in three Chinese provinces: Sichuan, the coastal province Shandong and the central province Hubei. The study shows that in 1978, Sichuan had the highest GDP among the three. By 1990 GDP growth in Sichuan was 367 per cent compared with that in 1978, lower than Shandong's 482 per cent.⁴⁰ Another study shows that the annual growth rate of GVIO in Sichuan was 11.8 per cent in the period between 1953 and 1978, higher than the national average of 11.4 per cent while Guangdong's was 10.6 per cent. From 1981 to 1989, however, the annual growth in Sichuan was 12.2 per cent, lower than the national average of 13.2 per cent and 20 per cent in Guangdong.⁴¹ The reasons for the decline were many but the continuous decline of central investment in Sichuan since the 1980s has caused serious shortages of funds for local development. Statistics show that central investment in Sichuan accounted for 95.65 per cent of the total investment in the Third Five-Year Plan. During the Sixth Five-Year Plan, it decreased to 42.5 per cent.⁴² Geographic remoteness and policy disadvantage has also made Sichuan less attractive for external funds. In 1995, actual foreign investment in Sichuan was only 5.8 per cent that of Guangdong and 1.3 per cent that of the national total.⁴³ The decline of Sichuan's economic position in the nation also led to the decline of Sichuan's role in national politics. Its seat in the Political Bureau of the Central Party Committee was taken up by provincial leaders from China's advanced coastal regions at the party's Fourteenth National Congress.

Under heavy political and economic pressure, the then provincial party secretary Yang Rudai adopted a series of locally initiated policies aimed at encouraging sub-provincial

cities to compete in domestic and international markets. A noticeable one was Sichuan's 'boat-borrowing' policy. According to this policy, local enterprises were encouraged to set up 'window enterprises' in China's coastal regions, especially in the special economic zones (SEZs), in order to exploit the benefits of the preferential policies granted to the SEZs and to share the fast economic growth in China's coastal regions. The most important part of the policy was that once these window enterprises were established, they were allowed to invest back into Sichuan. As enterprises from the SEZs, these window enterprises were entitled to enjoy special tax exemptions.⁴⁴ By the end of 1990, Sichuan had established more than 700 window enterprises in Shenzhen, Hainan, Guangdong, Fujian and Shanghai with a total investment of RMB1 billion.⁴⁵ In 1990, window enterprises produced a total output value of RMB0.3 billion and exported US\$50 million worth of goods. More importantly, RMB30 million was sent back to Sichuan.⁴⁶ It is believed that although in 1992 a total of RMB 10 billion was needed for capital investment in Sichuan, the province invested RMB7 billion into the coastal areas, including RMB3 billion in Beihai alone.⁴⁷

A similar policy could be seen in Sichuan's efforts to open up Southeast Asian markets. Having recognized that Sichuan was not capable of competing with the coastal regions to attract foreign investment from Western countries, the provincial government then turned southwest and tried to link Sichuan with the fast growing economies of Southeast Asia. In a provincial government document issued in late 1992, Sichuan urged sub-provincial city government to build foreign trade companies in Southeast Asian countries. The province promised to provide favourable policies and financial support for its overseas enterprises, including, for example, a five-year tax exemption. Profits earned by these enterprises are allowed to be reinvested back into Sichuan and enjoy policies similar to those for foreign companies.⁴⁸ In recent years, the provincial government has also adopted a biased economic development strategy of its own to allow Chengdu, Chongqing and cities in an industrial corridor linking the two cities to develop first. While investing much of its limited resources into the area, the provincial government also promised to adopt more flexible policies in order to attract domestic and foreign investment into the area.⁴⁹

The boat-borrowing policy and the Southeast Asia market policy were said to be applicable to all sub-provincial city governments in Sichuan. In reality, however, only Chengdu and Chongqing are financially capable of squeezing their limited budgets to invest elsewhere. It should be pointed out, however, that since Chongqing had already had many preferential policies granted by the central government, these provincial policies have mainly provided favourable conditions for the disadvantaged cities like Chengdu. In recent years, as the trade and economic competition between local government intensified, Sichuan, like many other regions in China, adopted a series of policies to protect local interests. In the border areas of Sichuan, for example, government regulations were adopted to prevent tobacco, silk and other raw materials to flow to neighbouring provinces.⁵⁰ When Chengdu established a joint venture with Pepsi, the city government persuaded the provincial government to prevent Coca Cola from entering the local market and setting up any similar joint venture in Sichuan. As a result, for a considerable period of time consumers in Sichuan could taste only locally made Pepsi. All Coca Cola must be imported from other provinces.⁵¹

Table 6.6 Total capital construction investment (RMB billion)

Year	Chongqing			Chengdu		
	City %	Province %	Centre %	City %	Province %	Centre %
1985	0.4	36.4	0.0	0.7	63.6	0.3
1990	0.7	36.8	0.0	1.2	63.2	0.5
1995	2.8	67.5	0.0	1.4	32.5	4.2

Sources: *Chongqing tongji nianjian 1996*, p. 86. *Chengdu tongji nianjian 1996*, p. 156. Percentages are author's calculations.

In contrast to Sichuan's policy towards Chengdu, the province's relations with Chongqing deteriorated after the latter became a separate planning city. The province made it clear that since Chongqing had a new boss it should ask Beijing, not Sichuan, to solve its problems because the city was now economically and financially independent. Research showed that after Chongqing became a separate planning city, it became very difficult for the city to get supplies from Sichuan and to market its products within the province.⁵² With reduced central investment capacity, lack of provincial support could produce substantial differences between Chengdu and Chongqing. Table 6.6 shows that while total central investment in Chongqing was RMB3.3 billion, and RMB3.66 billion in Chengdu during the ten years from 1985, the province added a further RMB1.31 billion in Chengdu, but nothing in Chongqing.

In fact, the unmatched administrative and economic powers of Chongqing made the city powerless to resist the administrative interference of Sichuan. Although Chongqing had economic management power equal to that of a province, the city was still under the jurisdiction of Sichuan. Under the current system, the provincial government and its functional departments could still manipulate the local economy of Chongqing through their administrative power. For instance, although the financial administration of Chongqing had been separated from the province in 1983, the city still had to 'contribute' extra funds to various projects of the province as long as it was administratively part of Sichuan. When Sichuan decided to sponsor a main city road in Chengdu to beautify the provincial capital, Chongqing had to 'donate' a total of RMB200 million to this project. 'This road,' one local economist said with anger, 'should not be named the 'Capital Road', as it is, but 'Chongqing Road.'⁵³ More importantly, various kinds of sponsorship like this were but an addition to the annual financial contribution of Chongqing to the provincial revenue, which was about RMB200 million with a 3 per cent annual increase.⁵⁴ Indeed, the upgrading of Chongqing actually created two independent economies of the same level of economic management power in Sichuan with conflicting interests in many areas. Chongqing's administratively inferior position in Sichuan cripples its decision-making power and consequently puts the city in an economically inferior position when competing with Sichuan. Local academics strongly believe that without political, or more precisely, administrative independence, economic separation from the province is not beneficial, or even makes the situation worse.⁵⁵

Table 6.7 Major economic performance of Chengdu and Chongqing since 1978

<i>Indicator</i>	<i>1978</i>	<i>1985</i>	<i>1990</i>	<i>1995</i>
GDP (RMB bn)				
Chengdu	3.6	8.6	19.4	71.4 ^a
Chongqing	4.7	10.5	20.7	74.3 ^a
GVIO (RMB bn)				
Chengdu	4.5	11.3	25.2	102.0 ^a
Chongqing	9.6	21.5	32.5	83.8 ^a
Foreign trade (US\$m)				
Chengdu	n/a	n/a	114.0	647.0
Chongqing	n/a	165.6	535.2	1,479.2
Actual foreign investment (US\$m)				
Chengdu	n/a	n/a	6.0 ^b	65.8
Chongqing	n/a	18.9	144.9	569.3

Sources: *Chengdu tongji nianjian 1996*, pp. 48, 100, 37, 189; and *Chongqing tongji nianjian 1996*, pp. 25, 28, 19, 323.

Notes

a 1995 GDP and GVIO of both cities are from *Sichuan tongji nianjian 1996*, pp. 25, 183.

b 1990 actual foreign investment in Chengdu is from *Sichuan nianjian 1991*, p. 338.

The impact of different policies on the two cities

Table 6.7 shows how different central and provincial policies towards the two cities led to different economic performances for Chengdu and Chongqing. During the period between 1978 and 1995 GDP increased almost 20 times in Chengdu, but about 16 times in Chongqing. As for GVIO, Chengdu's figure in 1995 was 23 times that of 1978 while Chongqing's was close to nine. Chengdu had a higher growth rate than that of the national average in terms of both GDP and GOVI (national figures were 16 and 22 times respectively), while Chongqing's growth was lower in both respects.⁵⁶ In the areas of foreign trade and foreign investment, preferential policies granted to Chongqing and its close links with the central government obviously provided the city with more access to foreign markets and overseas financial resources. However, statistics show that foreign trade grew 567.2 per cent in Chengdu and 276.4 per cent in Chongqing between 1990 and 1995. During the same period, foreign investment grew over 20 times in Chengdu, but only 3.4 times in Chongqing.

Table 6.7 suggests that different policies of the central and provincial governments appear to have been responsible for the different economic performances of Chengdu and Chongqing in the reform era. On the other hand, as the local governments have gained more decision-making powers since the reform, different responses of the city leadership to central and provincial policies may also have contributed to the different performances

of the two cities. In the following pages we shall focus our discussions on the responses of Chengdu and Chongqing to a rapidly changing world.

Local responses to central and provincial policies

Political and economic development in post-Mao China has caused similar problems for both Chengdu and Chongqing, as shown above. Because of this, similar responses towards the changing environment could be seen in the policies of the leaders of both Chengdu and Chongqing. However, there are also dissimilarities between the two in terms of their geographic location, population, economic strength, industrial structure, cultural tradition, etc. Above all, the different policies of the central and provincial governments towards the two cities have not only provided the city leaders with different powers and capacities to handle the changing situation, but also created different social, political and economic contexts within which the city leaders have responded with different political and economic development strategies.

An increasing awareness of local interests

Generally speaking, reform after 1978 has indeed created many difficulties for inland cities. But it has also provided ambitious local leaders with unprecedented opportunities to demonstrate their talent and leadership. The decline of the highly centralized economy and the consequent decline of the central authority made it possible for local leaders to produce locally initiated policies that will not only guarantee the maximum exploitation of policies issued by the central government, but more importantly, guarantee their political future. As Neville pointed out, 'the economic reforms have broken the top-down monopoly of the Party-state over the careers of officials...offering the ambitious local official the opportunity to become a "big fish in a small pond" rather than simply to follow the traditional "ladder of advancement" up the Party-state hierarchy'. Neville observed that in a centrally administered city like Tianjin, city-level officials are much more likely to continue adhering to a ladder-of-advancement strategy. 'Given their high position, Tianjin's top officials are not only under close scrutiny from the centre but they have also already made a considerable investment in this career path.' Lower level officials, however, were much more attracted by the 'big-fish' strategy.⁵⁷ Which career strategy local officials are likely to choose depends very much on which level these local officials are at and what connections they have with their supervisors. In 1984, as part of China's administrative reform, personnel appointment was decentralized.⁵⁸ As a result, it is quite possible to increase the centrifugal tendency among the local officials to swing further away from the centre and to build closer ties with their immediate provincial party leaders. In Sichuan, however, while the provincial party committee gained more control over personnel appointment of the sub-provincial city leaders, Beijing still manipulated the selection of the leaders of Chongqing. Of six party secretaries in Chengdu after 1978, five were appointed by the province. Of seven party secretaries in Chongqing, all were appointed by the centre. It is important to note that most party secretaries in Chengdu were Sichuan natives. Of two 'outsiders', one had been mayor of Chengdu until the

Cultural Revolution. In Chongqing, however, half of the party secretaries were appointed from outside Sichuan.⁵⁹ Local people believe that Chengdu is more 'flexible' in implementing central policies partly because there are more locally born leaders who are more aware of local interests.⁶⁰ With the appointment of a native Sichuanese, Pu Haiqing, as the new mayor, Chongqing people have been able to feel a change of tone in the new leadership. At the first plenary meeting of the first local People's Congress, Pu urged people to create locally initiated policies, never to be addicted to the old system, old models, old regulations, and to dare to find a new path that suits the real situation of Chongqing.⁶¹

The increased awareness of local interests among local politicians can also be seen from the changing role of the local People's Congresses. In the early days after the reform, local People's Congresses were actually transitional institutions to accommodate aged party and government leaders, before they were totally retired from politics. They did not have real power to appoint government leaders who were selected by either the centre or the province. Furthermore, most mayors were concurrently second party secretaries while the chairmen of the standing committees of the two cities were not even members of the standing committee of the city party committees. When the government heads acted simultaneously as party leaders, it was almost impossible for the local People's Congresses to supervise the work of the government at the same level. Thus, tension between the local People's Congress on the one hand and the party and government on the other characterized the early relationships between different local political institutions.

In recent years, however, the decentralization of economic management has led to a rising consciousness of local interest. The intensified economic competition nation-wide has been responded to with a strong localism that bonds together leaders of local party, government and People's Congress. Local legislative bodies are now much more concerned with the local economic interests and use their power to create legal protections for local economic development. As the competition between different regions intensifies, there appears to be a tendency for local People's Congresses to grant more power to local governments. By July 1991, of 148 local laws adopted by the local People's Congresses in fourteen separate planning cities, over 94 per cent were administrative regulations that granted more power to city governments.⁶² Another tendency should also be noted. While provincial and city People's Congress worked hand in hand to create a legal framework to protect local trade and economy, relationships between provincial and city People's Congresses were also strengthened after Chengdu and Chongqing were granted deputy-provincial level status. From 1980 to 1990, the provincial People's Congress approved a total of thirty-four local laws and regulations adopted by the People's Congresses in Chengdu and Chongqing. Many of them were by nature in conflict with the existing provincial laws and regulations.⁶³ The city People's Congresses argued that they should have legislative power equal to the cities' administrative and economic power and that laws adopted by the standing committees of these city People's Congresses should have legal effect equal to those adopted by the provincial People's Congress. They also argued that laws adopted by the city People's

Congresses should not necessarily be consistent with those adopted by the provincial People's Congress.⁶⁴

Development strategies in Chengdu and Chongqing

In the 1980s, the central government justified its uneven development strategy by advocating a theory of 'stages of development'. According to this, priority should be given to industrially advanced eastern regions, and then the central region. Western regions must wait until the next century. The theory and the strategy have been severely criticized by the disadvantaged regions—provinces and autonomous regions in China's northwest and southwest. To challenge this uneven development strategy of the central government, both Chengdu and Chongqing joined a united front, known as the Great Southwest China Development Strategy, that bound Sichuan, Yunnan, Guizhou, Guangxi, Tibet, Chengdu and Chongqing together to put pressure on the central government. While pressing for an increase of central investment in China's energy rich regions of the northwest and southwest, economic cooperation among the disadvantaged provinces and regions has also been strengthened. As seen from Table 6.2, Chengdu and Chongqing are the two largest city economies in the entire western region. Regional cooperation has helped the two cities to expand a domestic market for the local products of Chengdu and Chongqing and provided them with a rich energy and raw materials supply. Statistics also show that in the ten years between 1984 and 1994 regional cooperation attracted RMB3.05 billion domestic investment in Chengdu and RMB1 billion in Chongqing. Regional trade produced a total value of RMB3.9 billion in Chengdu and RMB11 billion in Chongqing. Encouraged by the provincial government, both cities also extended their economic activities into coastal regions and even overseas. During the same period, despite their limited financial capacity, Chengdu invested a total of RMB600 million in its 2,000 window enterprises in coastal cities, while Chongqing invested RMB650 million in 800 window enterprises. In addition, Chengdu established thirty-six overseas companies in seventeen countries.⁶⁵ However, due to different policy environments, differences in economic development strategy can be found between the two cities. Chengdu seems to have restored its pre-1949 tradition as a trade centre for the entire western region. Statistics show that in 1995, there were five huge markets in Chengdu with a trading value exceeding RMB1 billion, dealing a range of commodities from traditional Chinese herbs to imported medicines, from the latest fashions to agricultural products.⁶⁶ Susan Young described some markets near the Chengdu railway station. According to her, in 1990 'there were five thousand traders. In one day over six hundred private traders and sixteen state or collective units came from all over China to buy from the Chinese medicine section'. By 1993, this and other markets became part of a large trading area near the railway station, 'with designated stall spaces and shops whose holders included state, private and collective enterprises from all over Sichuan'.⁶⁷ Statistics show that compared with 1978, the total value of retail sales of consumer goods increased 2,072 per cent in Chengdu.⁶⁸

For Chongqing, however, the city had more policy advantages that enabled it to access national resources for local development. As a designated open city on the upper reaches of the Yangtze, Chongqing joined Shanghai, Wuhan and Nanjing in economic and

technological cooperation among major cities along the Yangtze River. Proposed by Chongqing, a shareholding economic development corporation was formed jointly by Chongqing, Wuhan and Nanjing.⁶⁹ It is expected that the cooperation of the four cities will form a strong industrial corridor in China to link the advanced east and weak west. In post-Deng China, it is widely believed that this industrial corridor will be the focus of new economic development strategies of the central government in the years to come. Moreover, the construction of the world's largest dam on the Yangtze will also provide new opportunities for Chongqing. The upgrade of Chongqing has expanded the city into the reservoir area. A special economic and technological zone has been established in the Three Gorges area. Many new policies were granted by Beijing to attract foreign and domestic investment into the area. These will almost certainly boost the local economy of Chongqing and make the city more attractive for domestic and foreign investors. Consequently, Chongqing will probably become more competitive than Chengdu. It is also worth noting that while forming different types of regional as well as national associations, Chengdu and Chongqing have also formed a strong cooperation between themselves. Local media reported that immediately after the establishment of new Chongqing, the mayors of the two cities visited each other and signed an agreement to strengthen their traditional cooperation.⁷⁰ However, local academics worried that administrative separation between Sichuan and Chongqing will probably lead to a disconnection of traditional economic and trade links between Chengdu and Chongqing, owing to the current administrative system. They are also worried that this will eventually damage the regional economic integration.⁷¹ Whatever the scenario may be, different opportunities of the two cities will inevitably lead to different strategies of development between the two cities in the years to come.

Reform of the state-owned enterprises

Reform in the post-Mao period has caused many new problems for almost all local governments in China. The most serious threat to the local economy of Chengdu and Chongqing during the transition period is, perhaps, the introduction of market forces. Industrialization in pre-1978 period, as discussed above, has left a large number of military-related SOEs with highly centralized management systems. High growth rates in the past were realized by the heavy central investment without paying much attention to economic efficiency. In the reform era, the past glory of Maoist industrialization has turned into heavy burdens for both cities. In fact, this is the problem facing almost all old industrialized cities in China.⁷²

In recent years, the central government has adopted a series of policies aimed at improving the poor performance of the SOEs in China. Loss-making enterprises are allowed to be sold. Poorly managed enterprises can be incorporated with profitmaking ones. Even an enterprise bankruptcy law was adopted. These policies, however, have so far achieved limited results in both cities. Many large SOEs in Chengdu and Chongqing, as elsewhere in China, are not merely productive units, but also administrative units whose social and political implications are even greater than their economic functions. Most SOEs have to share various kinds of social responsibilities with local government. 'It was

virtually inconceivable that the Chinese government would allow sizeable enterprises to go bankrupt', as Byrd and Tidrick said.⁷³ Obviously, to let an SOE go bankrupt means the local government will have to take over all responsibilities previously shared by the SOEs, not to speak of the possible serious social and political consequences a local government might have to face.

For the Chinese government, the SOEs will have to remain at least for a certain period of time, because the social and political implications of these SOEs are more important than their economic efficiency. On the other hand, the difficulties involved in the SOEs' reform also justified the necessity for more government interference in their economic activities, which has increased the number of government corruption cases. In 1992, for example, one of the largest SOEs in Chongqing and the third largest of its kind in China, Chongqing Knitting Mill, went bankrupt; 2,913 workers lost their jobs. The angry employees blocked the main traffic road of Chongqing. The demonstration was supported and joined by workers from other factories. A total of more than 5,000 workers even kidnapped two city government officials. Workers claimed that the government deliberately let their factory go bankrupt. Whether the claim is true or not is unknown. Two years later a deputy mayor and another senior government official were dismissed for alleged involvement in a scandal in which a private entrepreneur was reported to have bribed government officials to buy the bankrupt knitting factory at a very low price.⁷⁴ Similar incidents occurred in Chengdu, too. In 1994, over 2,000 employees of a government-run hotel held a demonstration in front of the city government building. The strikers claimed that their unemployment compensation was underpaid. The overseas buyer was said to have paid RMB20,000 for each dumped worker, but they received only RMB4,000 of this.⁷⁵

Between the two cities, however, there is an important difference. Chengdu, as shown earlier, had virtually no modern industry before 1949. Most SOEs were built after the later 1950s. Government management of modern industry did not have a long history. When economic reform requires a division between government and enterprises, leaders in Chengdu seem quite adaptable to the new policy. The city government claims that it will no longer interfere in any problem that can be solved by the market. Instead, the city government will be mainly concerned with city planning and long-term economic development strategies.⁷⁶ The situation in Chongqing is rather different. The city has been a highly industrialized city since the 1940s. Government management of the local economy has a long history. During the war, while private enterprises moved into the city, the Nationalist government also built a large number of military-related SOEs in Chongqing. While encouraging the development of the private economy, the Nationalist government had also put heavy investment into the SOEs. When planning the economic development of the wartime capital, the Nationalist government emphasized the importance of 'integrating the planned economy with the market one'.⁷⁷ On the other hand, workers in the government controlled defence industries had to join the Nationalist Party. Political inspectors were sent to supervise production in every government-controlled factory. To obtain workers' political loyalty, the government provided permanent employment, a guaranteed stable income, better social welfare, special social and political status in

society, etc. This tradition continued and has been strengthened under the communist rule.

During the reform era, despite the preferential policies of the central government, highly centralized local industry has still been controlled by the skilful government planners of Beijing and Chongqing. The initial reform led by Zhao Ziyang was aimed at improving the economic efficiency of the SOEs, not by privatizing them. When the market economy was introduced and the central government was gradually withdrawing from economic activities, the SOEs found it very difficult to survive the market economy without government support. On the other hand, Chongqing's status as a separate planning city has also put Chongqing under the direct control of the central government. This close link made it difficult for the city leaders to produce locally initiated policies to reform the SOEs, because many of them are owned by the relevant departments of the central government. The new mayor of Chongqing has complained that there are just two large planned economies remaining in the world today: North Korea and Chongqing.⁷⁸ A local economist once said that 'a separate planning city is still a planned economy where government plays a crucial role in economic activities. The rapid growth of the coastal regions is a result of the increasing importance of the market economy. Chongqing lagged behind many coastal cities simply because the planned economy, not the market economy, continued to play a leading role in Chongqing'.⁷⁹ Industrial planners in Chongqing always looked down upon their counterparts in Chengdu for their poor skills in managing modern industry. Perhaps it was precisely because of this weakness that private business boomed in Chengdu.

Another problem relating to the SOEs is their employees. According to a survey, sixty-two SOEs in Chongqing were closed down or partially-closed down in the first quarter of 1996, leaving over 100,000 workers unemployed. Even so, these unemployed workers preferred to wait at home for government aid rather than to search for jobs themselves. There were private enterprises willing to employ these laid-off workers, but they were very disappointed when they were told that many of the laid-off workers refused to accept the offer because they were private enterprises, or because the factories were too far away from their homes, or working conditions were not as good as in their previous factories, etc. In fact, in the labour market, the former SOE workers are much less competitive than young peasant boys and girls from the remote countryside. The author of the survey worried that 'the mentality of enjoying relaxed working conditions, fearing severe competition and not daring to take any risk, becomes a major obstacle for these workers to be re-employed'.⁸⁰ Maoist industrialization has created an 'SOE culture' that made many former government employees believe it is their legitimate right to rely on the social security system of the government which still proclaims its socialist nature.⁸¹ To some extent, this culture is, perhaps, one of the most important non-economic factors that has slowed down the process of market-oriented economic reform in Chongqing.

Conclusion

At the beginning of this chapter we set out to examine the three factors that may explain the similarities and differences in the political and economic development between the

two inland cities, Chengdu and Chongqing. Many provinces in China can be divided into two or even more parts, each having its distinctive local features. For example, people living in north Jiangsu, Zhejiang and Fujian cannot understand the dialects used by people living in the southern parts of the same province. Within Guangdong, different parts speak different local dialects. None of them can understand each other. Although Chengdu and Chongqing have been different in many ways, similar local dialects and convenient internal travel have formed strong ties linking people living at the two sides of the Sichuan Basin. Maoist industrialization in post-1949 Sichuan created many more similarities in local social, cultural and economic life between the two cities, mainly due to the faster industrialization of Chengdu which enabled it to become more like Chongqing. Despite the recent separation of Chongqing from Sichuan, local people believe that the new Chongqing will remain as part of Sichuan, at least culturally.

Having said that, we must not ignore some important differences between the two cities. This chapter argues that of all three factors, it was the 'semi-given factors', namely, the central and provincial policies towards the two cities, that played the crucial role in shaping the different economic growths in the two cities and causing the different responses of the local leaders to the reform.

There is no question that in comparison with Chengdu, Chongqing has a far better position in terms of its importance in China, its geographic location, its area and population, its industrial strength, and the preferential policies it has received from the centre. However, our study suggests that Chengdu has experienced faster growth than Chongqing in recent years. This chapter argues that it is precisely Chongqing's special relation with the centre that caused many problems for its development. Chongqing's growth in the past reflected the growth of China's defence industry. Local resources were mobilized mainly to meet national interests rather than local needs. When China switched away from its war preparation economy the local economic order was in disarray. The defence industry in Chongqing was, as in the late 1940s, built with national strength. When the national need for military products declined and the central government withdrew its investment, the local economy went into crisis. Moreover, an 'oversized' city also had many conflicts of interest with its immediate leaders in the province. Since 1940, Chongqing has always been a special city in Sichuan. To some extent, it is a city of the central government in Sichuan rather than a city under Sichuan.

In Chengdu, however, the situation is different. Although the city suffered problems similar to those of Chongqing, its relations with the province helped the city leaders to adopt more flexible policies that were not permitted by the centre. The province here functions as a safe political buffer zone. This chapter argues, therefore, that when market forces become increasingly important and the financial capacity of the central government declined, a close relationship with the central government might not necessarily have benefited an inland city. Discussions in previous sections suggest that although the two cities are pivotal players in, and an economic powerhouse for, local growth in Sichuan, provincial authorities still play an unchallenged role. Politically, the provincial party committee is still an immediate supervisor of the sub-provincial cities and has a decisive say in appointing city leaders. Despite the changing political environment in recent years, a province is nevertheless the only institution that has direct access to central decision-

making. Its political and economic resources are beyond comparison with any sub-provincial city. This chapter argues that although much of its power has been delegated to sub-provincial cities, the role of the province in the reform era is still as important in local development as it used to be. Chongqing has recently been completely separated from Sichuan, but it is uncertain whether this separation will bring any real benefit without cooperation from Sichuan.

Compared with cities in China's coastal region, leaders of inland cities have much less publicity nationally, or internationally. Lack of personal information has caused difficulties for our study of individual leaders in Chengdu and Chongqing. Our limited sources show, however, that it is not necessarily true that leaders who have more access to central decision-making will demonstrate better leadership and be more capable of steering an economic development strategy that leads to fast growth. Judging from the economic performance of the two cities, our research indicates that locally selected leaders may show better performance in local economic development than those appointed by the centre.

The discussions above suggest that complex economic and political relations between Beijing, Sichuan, Chengdu and Chongqing have caused and will continue to cause conflicts as well as cooperation among all parties. However, the unmatched political and economic management power of Chongqing created more trouble than cooperation for an oversized city in a remote province. The recent separation of Sichuan and Chongqing is seen by many as an inevitable outcome of the past reform. The social, political, economic and cultural impact on local development remains to be seen in the years to come. Yet, one thing is quite possible: that while Chongqing will continue to strengthen its tie with the centre, Chengdu's role as the capital of Sichuan and the only largest industrial city in the province will be increased.

Notes

- * On 14 March 1997, the Chinese Eighth National People's Congress approved a motion to separate Chongqing from Sichuan and upgrade it to a centrally administered provincial level city. Little more than three months later, on 18 June, a new Chongqing merged three former Sichuan regions of Wanxian City, Fuling City and Qianjiang Prefecture. This chapter has dealt with Chongqing's performance before the separation.
- 1 Figures are from Sichuan Statistical Bureau, *Sichuan tongji nianjian 1996* (Sichuan Statistical Yearbook 1996), Beijing, China Statistical Publishing House, 1996, pp. 25, 183, 197, 196, 193.
- 2 Chengdu Statistical Bureau, *Chengdu tongji nianjian 1996* (Chengdu Statistical Yearbook 1996), Chengdu, 1996, p. 100; Chongqing Statistical Bureau, *Chongqing tongji nianjian 1996* (Chongqing Statistical Yearbook 1996), Beijing, China Statistical Publishing House, 1996, p. 91.
- 3 *Shu* people are believed to be of Qiang origin and to have moved into Sichuan from northwest China in the Xia-Shang period. They finally settled down in the area around today's Chengdu. *Ba* people are believed originally to have lived in south Shaanxi, northwest and west Hubei and northeast Sichuan. They finally settled down in east Sichuan with

- Jiangzhou (now Chongqing) as the centre. See Chen Shisong (ed.) *Sichuan jianshi* (A Brief History of Sichuan: hereafter referred to as *A Brief History*), Chengdu, Sichuan Academy of Social Sciences Press, 1986, pp. 8–10.
- 4 Yuan Tingdong, *Ba Shu wenhua* (Ba Shu Culture), Shenyang, Liaoning Education Press, 1991, p. 33.
 - 5 The other part was the area around today's Yangzhou in Jiangsu Province.
 - 6 Yang Chao (ed.) *Changjiang shangyou jingji zhongxin Chongqing* (An Economic Centre at the Upper Reaches of the Yangtze River—Chongqing: hereafter referred to as *Chongqing*), Beijing, Contemporary China Press, 1994, p. 23; and Zhou Yong (ed.) *Chongqing: yige neilu chengshi de jueqi* (Chongqing, the Rise of an Inland City), Chongqing, Chongqing Publishing House, 1989, pp. 119–21, 131–4, 138–9.
 - 7 A total of 448 were relocated in Sichuan between 1937 and 1940. See Zhou, *Chongqing, the Rise of an Inland City*, pp. 328, 331.
 - 8 Yang Chao, *Dangdai zhongguo de Sichuan* (Sichuan in Contemporary China: hereafter referred to as *Sichuan* with volume numbers), Beijing, Chinese Social Sciences Press, 1990, vol. 2, pp. 49–50.
 - 9 Yang, *Sichuan*, vol. 2, p. 10.
 - 10 Zhou, *Chongqing, the Rise of an Inland City*, p. 388. See Chen Shisong, *A Brief History*, p. 290.
 - 11 *Chengdu tongji nianjian 1996*, p. 100; and *Chongqing tongji nianjian 1993*, p. 90.
 - 12 *Chengdu tongji nianjian 1996*, p. 100; and *Chongqing tongji nianjian 1996*, p. 91. The national figure during the same period was 4.0. See State Statistical Bureau, *Zhongguo tongji nianjian 1996* (China Statistical Yearbook 1996), Beijing, China Statistical Publishing House, 1996, p. 403.
 - 13 For a detailed discussion, see Lijian Hong, 'Provincial Leadership and Its Strategy towards the Acquisition of Foreign Investment in Sichuan', in Peter T.Y. Cheung, Jae Ho Chung and Zhimin Lin (eds) *Provincial Strategy of Economic Reform in Post-Mao China: Leadership, Politics, and Implementation*, Armonk, M.E. Sharpe, 1998, p. 378.
 - 14 Area controlled by the Southwest Military Administrative Committee included Sichuan, Xikang, Yunnan, Guizhou and Tibet.
 - 15 Yang, *Chongqing*, p. 83.
 - 16 He Husheng, Li Yuedong and Xiang Changfu (eds) *Zhonghua renmin gongheguo zhiqian zhi* (List of the Party and Government Leaders of the People's Republic of China), Beijing, China Social Press, 1993, p. 26.
 - 17 Liao Zhigao, former party secretary of Xikang Province, was elected alternative member of the Central Party Committee in 1958 after Li Jingquan was promoted to alternative member of the Politburo. Yan was moved to work as the party secretary of Yunnan in 1959, a year after Chongqing was completely downgraded to a subprovincial city. No one from Chongqing replaced Yan in the Central Committee or in his position as a deputy Provincial party secretary. Ren Baige succeeded Yan as the party secretary and mayor of Chongqing, but his position in the province as the vicegovernor of Sichuan lasted for only three years until 1958. Unlike Yan, Ren was never appointed party secretary of Sichuan, nor was he ever elected member of the Central Party Committee. See Yang, *Sichuan*, vol. 2, pp. 770–1, 778–9. Also see Yang, *Chongqing*, pp. 374–5, 381–3.
 - 18 Deng Liqun et al. (eds) *Dangdai zhongguo de jingji tizhi gaige* (Economic Restructuring of Contemporary China), Beijing, Chinese Social Sciences Press, 1984, pp. 648–50.
 - 19 Yang, *Sichuan*, vol. 2, p. 60. Investment in Chengdu during the same period was RMB2.48 billion. See *Chengdu tongji nianjian 1996*, p. 156.
 - 20 Yang, *Chongqing*, pp. 178–9.

- 21 He Haoju (ed.) *Dangdai Sichuan jiben jianshe, 1950–85* (Capital Construction in Contemporary Sichuan, 1950–85, hereafter referred to as *Capital Construction*), Chengdu, Sichuan Academy of Social Sciences Press, 1987, pp. 23–4; and Yang, *Sichuan*, vol. 1, pp. 140–1, and vol. 2, p. 16.
- 22 Hong, 'Provincial Leadership and Its Strategy towards the Acquisition of Foreign Investment in Sichuan,' p. 59.
- 23 GVIO in both cities exceeded GVAO during the Great Leap Forward, but Chengdu struggled for several more years before local industry claimed a final victory over agriculture in 1970. *Chengdu tongji nianjian 1996*, p. 48; and *Chongqing tongji nianjian 1993*, p. 26.
- 24 During the same period, the national increase was 12.1 and Sichuan was 18.3. See *Chengdu tongji nianjian 1996*, p. 101; *Chongqing tongji nianjian 1993*, p. 91; *China tongji nianjian 1996*, p. 403; and *Sichuan tongji nianjian 1996*, p. 334.
- 25 Yang, *Sichuan*, vol. 2, pp. 18–19, 63.
- 26 David Shambaugh, *The Making of a Premier: Zhao Ziyang 's Provincial Career*, Boulder, Colorado, Westview, 1984, pp. 88–9.
- 27 Gong Zhide (ed.) *Zhonggong Sichuan difang shi zhuanji jishi: shehui zhuyi shiqi* (Chronicles of the Major Events of the History of Sichuan Local Communist Party in the Socialist Period), Chengdu, Sichuan People's Publishing House, 1991, pp. 365–7; and Yang, *Sichuan*, vol. 1, p. 202.
- 28 After the initial success in Chongqing, six other enterprises in Beijing, Shanghai and Tianjin adopted similar policies. See Sichuan Provincial People's Government, *Sichuan sheng liyong waizi cujin jingji fazhan de yanjiu baogao* (A Report on Sichuan's Utilization of Foreign Capital for Greater Economic Progress), internally published in 1995, p. 226.
- 29 Yang, *Chongqing*, pp. 217–18.
- 30 Liu Zizhong (ed.) *Zhongguo chengshi zonghe shili wushi qiang congshu: Chongqing* (Top Fifty Cities in China Series: Chongqing, hereafter referred to as *Chongqing*), Beijing, China City Press, 1995, pp. 151, 154.
- 31 Tao Weijin (ed.) *Chongqing dashiji* (Major Events of Chongqing), Chongqing, Science and Technology Document Press, 1989, p. 635.
- 32 Wang Xiaogang, 'Woguo sanxian gongye zhengce de tiaozheng' (Policy Adjustment of the Third Front Industries in Our Country), in *Zhongguo gongye jingji yanjiu* (Studies of Chinese Industrial Economy), 1989, no. 5, p. 60.
- 33 Liu, *Chongqing*, pp. 24–5.
- 34 The Legal Working Committee of the Standing Committee of the National People's Congress (ed.) *Yanhai, yanjiang, yanbian kaifang falu ji guifanxing wenjian huibian* (A Collection of Laws, Regulations and Legal Documents of the Coastal, River Side and Border Areas: hereafter referred to as *Laws*), Beijing, Law Publishing House, 1992, pp. 560, 561.
- 35 The Legal Working Committee, *Laws*, pp. 560, 561.
- 36 Wang Rongxuan (ed.) *Zhongguo chengshi zonghe shili wushi qiang congshu: Chengdu* (Top Fifty Cities in China Series—Chengdu: hereafter referred to as *Chengdu*), Beijing, China City Press, 1995, p. 48. Also see Liu, *Chongqing*, p. 154.
- 37 The State Council, 'Guowuyuan guanyu jinyibu duiwai kaifang Chongqing deng shi de tongzhi' (A Circulation of the State Council on the Further Opening-up of Chongqing and other Cities: hereafter referred to as 'Circulation') in *Zhongguo falu nianjian 1993* (China Law Yearbook 1993), Beijing, China Law Yearbook Press, 1993, p. 399.
- 38 Liu, *Chongqing*, pp. 47–8. Also see the State Council, 'Circulation'. For regulations regarding Chengdu, see Huang Yingkui (ed.) *Chengdu touzi zhinan* (A Guide to Investment in Chengdu), Chengdu, Chengdu Press, 1994, pp. 101–2.

- 39 Yang, *Chongqing*, p. 219. Also see Wei Liqun (ed.) *Shichang jingji zhong de zhongyang yu difang guanxi* (Central-Local Relations in the Market Economy), Beijing, China Economy Press, 1994, p. 5.
- 40 Ma Lieguang, *Zhongguo ge shengqu jingji fazhan bijiao* (A Comparison between Economic Development of Various Provinces and Regions), Chengdu, Chengdu University of Science and Technology Press, 1993, p. 127.
- 41 The Research Room of the State Council, *Zhongguo lao gongye jidi gaizao yu zhenxing* (The Reform and Development of China's Old Industrial Bases), Beijing, Science Press, 1992, pp. 10, 52.
- 42 He Haoju, *Capital Construction*, pp. 415–17. Absolute figures during these periods were: RMB 12.38 billion in the Third Five-Year Plan, RMB 12.45 billion in the Fourth Five-Year Plan, RMB9.45 billion in the Fifth Five-Year Plan, RMB6.70 billion in the Sixth Five-Year Plan.
- 43 *China tongji nianjian 1996*, p. 600.
- 44 See Lijian Hong, 'Sichuan: disadvantage and mismanagement in the Heavenly Kingdom', in David S.G. Goodman (ed.) *China's Provinces in Reform: Class, Community and Political Culture*, London, Routledge, 1997, pp. 223–4.
- 45 Lin Lin, *Sichuan: Zhongguo neilu da sheng de deiwai kaifang* (Sichuan: The Openness of a Big Chinese Inland Province, hereafter referred to as *Sichuan*), Chengdu, Sichuan Science and Technology Press, 1992, p. 234.
- 46 Lin Lin, *Sichuan*, p. 234.
- 47 Information shown is based on interviews with local government officials in Sichuan in 1993–5.
- 48 'Sichuan sheng renmin zhengfu guanyu jinyibu kaituo dongnan ya shichang de youguan zhengce de tongzhi' (A Circular of the Sichuan People's Government Regarding Further Opening-up of the Southeast Asian Market) in Qian Laizhong (ed.) *Zhongguo jingji wenhua, bashu juan* (China's Economic Culture—Sichuan: hereafter referred to as *Economic Culture*), Beijing, China Economic Press, 1995, pp. 107–8.
- 49 Xiao Yang, 'Tianfu zhiguo de touzi huanjing yu duiwai jingmao hezuo' (Investment Environment and Foreign Economic and Trade Cooperation of the Heavenly Kingdom) in Qian, *Economic Culture*, p. 8.
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- 53 From an interview with a local government official in Chongqing in June 1997.
- 54 From interviews with provincial and city government planners in Chengdu and Chongqing in June 1997.
- 55 From an interview with local academics in Chongqing in June 1997.
- 56 National average growth is from *China tongji nianjian 1996*, pp. 42, 403.
- 57 Christopher Earle Neville, 'Private Business Association in China: Evidence of Civil Society or Local State Power', in *The China Journal*, 1996, no. 36, p. 38.

- 58 According to a document issued by the Secretariat of the Central Party Committee, from 1984 the centre would appoint and dismiss only provincial level Party and government leaders and all sub-provincial leaders should be selected, appointed and dismissed by the province. Fan Tianshun and Zhao Bo (eds) *Zhongguo gongchandang zuzhi gongzuo dashiji* (Major Events of the Organizational Work of the Chinese Communist Party), Beijing, China International Broadcasting Press, 1991, p. 392.
- 59 Official publications show that after 1949, all fifteen party secretaries of Chongqing were appointed by the centre. Of nine party secretaries in Chengdu, only three in the early days of the 1950s were appointed by Beijing. The rest were appointed by Sichuan. Information based on Yang, *Chongqing*, pp. 377–9. Zhang Guangcheng (ed.) *Zhonggong Chengdu difang shi dashiji* (Major Events in the History of Chinese Communist Party of Chengdu), Chengdu, Chengdu Press, 1995, pp. 201, 220, 229, 248, 253.
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- 62 Zhang Zhengde, ‘Qianghua lifa gongzuo banzi de falu shuxing’ (To Strengthen the Legal Nature of the Legislative Working Group), in Sun Zhifu (ed.) *Difang lifa de lilun yu shijian* (Theory and Practice of Local Legislation: hereafter referred to as *Local Legislation*), Chengdu, Sichuan People’s Publishing House, 1992, p. 261.
- 63 Lu Hua, ‘Guanyu wanshan wo sheng difang lifa de sikao’ (Thoughts on the Improvement of Provincial Legislation), in Sun, *Local Legislation*, p. 200; and Zhou Siyuan, ‘Wanshan woguo difang lifa de sikao’ (Thoughts on the Improvement of China’s Local Legislation), in Sun, *Local Legislation*, p. 81.
- 64 Zhou Siyuan, ‘Thoughts on the Improvement of China’s Local Legislation’, p. 82.
- 65 Wang, *Chengdu*, pp. 71, 74; and Liu, *Chongqing*, p. 170. Chongqing also set up its trade organization in foreign countries, but details are unknown. See Liu, *Chongqing*, p. 152.
- 66 *Chengdu tongji nianjian 1996*, p. 5.
- 67 Susan Young, *Private Business and Economic Reform in China*, Armonk, M.E.Sharpe, 1995, p. 71.
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- 69 Liu, *Chongqing*, p. 170.
- 70 ‘Chongqing dangzheng fanwentuan zuori tirong’ (Party and Government Delegation of Chongqing Arrived in Chengdu Yesterday), *Chengdu Shangbao* (Chengdu Business Daily), 13 August, 1997, p. 1
- 71 Liu Huijun and Wang Yiqian, ‘sheli Chongqing zhixiashi hou Chengdu-Chongqing jingji guanxi jiqi hezuo yanjiu’ (A Study of the Economic Relations and Cooperation between Chengdu and Chongqing after a Centrally Administered City was Set Up in Chongqing), an internally circulated document, pp. 9–11.
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Institutional constraints, path dependence and entrepreneurship

Comparing Nantong and Zhangjiagang, 1984–96

David Zweig

Introduction¹

Why do some Chinese cities develop quickly while others demonstrate a slower pace of growth? Location may play the pivotal role, as coastal cities in China have developed much quicker than inland ones.² But even among coastal cities, the pace of development has varied considerably. Why? Four factors seem most salient: (1) the institutional constraints a city faced as the reforms emerged and changes to these constraints proffered by ‘preferential policies’ (*youhui zhengce*) granted to it by central or provincial leaders; (2) its level of ‘path dependence’; (3) its opportunities—i.e. endowments or comparative advantage; and (4) the entrepreneurship and strategies of its leadership. Still, as much as one may try to portray these factors as distinct influences on economic outcomes, they are highly interrelated.

Institutional constraints and path dependence

As the reform era began, communities faced different institutional constraints. In particular, their tax commitments,³ their administrative boundaries,⁴ and the level of regulation by what Leeds calls ‘supra-local power authorities’,⁵ all set limits on their ability to respond to new opportunities. Thus, a community’s location within the ‘hierarchy of urban places’ set limits on its ability to respond to evolving opportunities under the reforms.⁶ Cities remained highly constrained by provincial governments and their industrial bureaucrats who, under a system of ‘partial reform’, have the authority to interfere in their decisions.⁷ Similarly many ‘county-level’ cities were seconded to larger municipalities whose political influence could affect their economic activities. Moreover, many aspects of development, particularly those related to internationalization, such as building harbours, opening airports, expanding international shipping lines, establishing national-level ‘county-level’ cities, and the power to authorize joint ventures, remained under the purview of higher level officials to whom urban leaders could often only raise hopeful pleas.

A city’s administrative boundaries constrained development. Land was not marketable for much of the reform era, and without the intervention or approval of higher level officials, it could be obtained only through negotiations with neighbouring administrative

Statistical profiles of Nantong and Zhangjiagang, 1996

<i>Indicator</i>	<i>Nantong</i>	<i>Zhangjiagang</i>
Total population (1,000)	7,852	828
GDP (RMB million)	53,042	23,007
GDP as percentage of Jiangsu's GDP	8.8	3.8
Gross value of industrial output (RMB million)	87,536	47,837
Gross value of agricultural output (RMB million)	24,214	2,106
Total foreign trade (US\$ million)	2,241	1,211
Total foreign trade as percentage of Jiangsu's total	11.1	6.0
Realized foreign capital (US\$ million)	503.24	567.61
Realized FDI (US\$ million)	405	568
Realized FDI as percentage of provincial total	8.0	11.2

units.⁸ But a city's (and its leader's) status depended on their city's GNP, so few governments willingly allowed land, and more particularly the industrial enterprises on that land, to be transferred from their control. Similarly, the city's industrial base was the core of its taxes, creating a local property rights system that mirrored that in Western corporations.⁹ But with limited land transfers, cities were constrained in their efforts at industrial expansion and the creation of the type of infrastructure that would attract new domestic and foreign investment.

However, as the reforms unfolded, China's institutional environment changed as the state, through a process I call 'segmented deregulation', reduced barriers between the outside world and a host of 'open' cities, regions, and spaces, expanding these locality's internationalization by endowing them with 'preferential policies' or 'exemptions' from regulatory controls that still governed global transactions between other domestic locations and the outside world.¹⁰ These exemptions—tax breaks for foreign investors, easier access to capital, greater freedom in foreign trade, increased local decision making authority over foreign investment—also lowered transaction costs for international commerce and increased the likelihood of successful business operations, even as extant regulations constrained other communities' transactions with the global economy.¹¹ These preferential policies also attracted domestic investors who sought benefits from lower transaction costs, particularly tax breaks available in these 'open' spaces.

Second, cities did not begin the reform era within an 'institutional void'.¹² Previous investment in particular industrial sectors, or in districts in a community, often the heritage of pre-reform or early reform decisions, created a 'path dependence' that limited the city's ability to reallocate its investments from 'sunset' industries into new, export-oriented sectors of the economy. Citizens, too, may resist the transition costs that come with industrial restructuring and the shift from more planned to market-oriented, or from public to private, economic development.¹³ Vested interests in these industries, such as the concerns of workers, managers, and higher level officials, constrain a city's ability to reallocate its investments into sectors, projects, or locations, that might offer larger returns under the reforms, in particular into new links with the international economy.

Industrial enterprises, long protected from international competition, could not survive a sudden transition to export-led growth (ELG), and were therefore likely to oppose it. As a result, while market forces should push investments into zones, harbours, airports, roads or other infrastructure investments that open links to the global economy and cut transaction costs,¹⁴ political forces based on domestic institutions or political constraints can undermine such forces and even redirect such investments.¹⁵ The result is less productive investments that waste capital and slow economic growth.¹⁶

Third, each community had its own natural endowments which resulted in different rates of development, as economic resources, costs, and opportunities for growth, especially trade related opportunities, are all highly correlated with location. Under export-led growth, endowments, such as the possession of a harbour or being situated near a major highway or trunk line, improve a locality's comparative advantage in terms of transport and production costs. Also, under the policy of spatial deregulation, location was also the best determinant whether or not a community would receive preferential policies. Similarly, a community's economic hinterland affected its growth rate, by determining the costs of inputs to its industry, the size of its consumer base, the regional markets for its products, as well as the amount of goods and services that flowed through it.

Fourth, entrepreneurial community leaders could proactively alter the institutional framework within which their economy functioned by lobbying for open status or restructuring the community's relationship to upper level governments.¹⁷ By elevating their community's status within the hierarchy of urban places—for example, from a county to a 'county-level' city—they could escape some institutional constraints imposed by supra-local power authorities. With higher status they could take land from now lower-status, neighbouring administrative units and resolve administrative conflicts among units within their own domain.¹⁸ Higher status communities could deal directly with higher level administrators, with less interference from intervening bureaucratic levels.¹⁹ Higher ranking cities were empowered to alter their own investment climate—they could authorize larger foreign investment projects or establish foreign trade companies that could approve imports and exports without the agreement of foreign trade officials. In all these ways, they could overcome the political limits imposed by bureaucratic constraints and 'path dependence', utilize their comparative advantage and natural endowments, and maximize the opportunities created by the new policy environment, to advance their community's interests.

And gaining control over deregulated space was critical to successful development under China's reforms and was a key component of entrepreneurial leadership. Territories endowed with 'preferential policies' and 'openness' developed an enormous 'power of attraction', drawing in domestic resources for infrastructure projects, as well as domestic enterprises that sought less regulations on internal trade and fewer barriers to global commerce. According to a slogan at the time, local officials 'didn't want money, just power' (*bu yao qian, zhi yao chuan*)—i.e. freedom from bureaucratic and tax regulations governing global and domestic transactions. Through 'particularistic contacting',²⁰ involving lobbying, personal networks, and promises of political loyalty,²¹ and targeted investments, a community could internationalize its harbour, gain the tax exempt status of a State Council development zone, obtain the preferred tax breaks

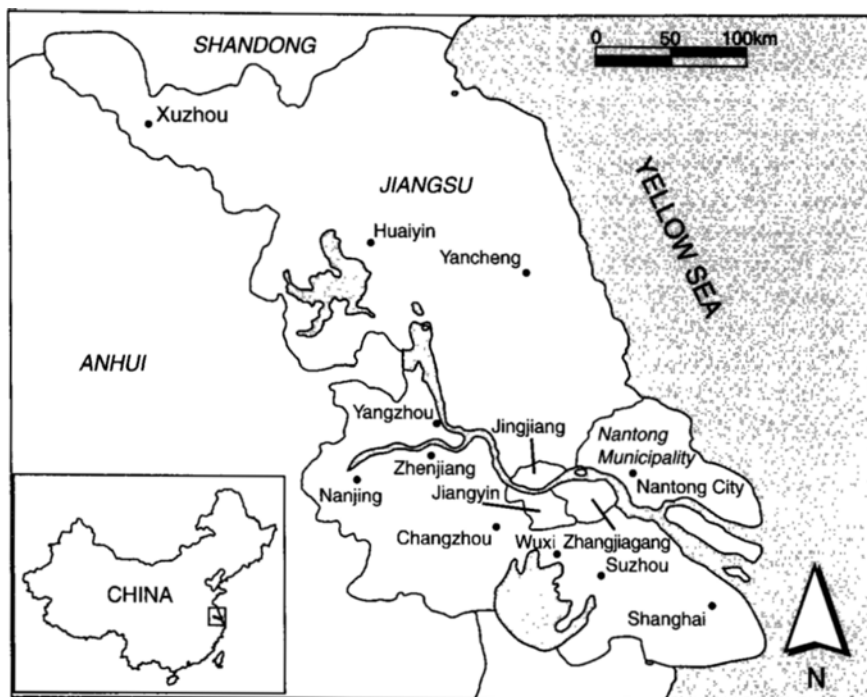
available to cities directly under the provincial or national budget, or benefit from the myriad opportunities that the centre or provinces bequeathed as the open policy unfolded.²² And once they got those policies they needed to market them, so as to attract enterprises from other locations to resettle in their community.

Gaining access to international markets and foreign direct investment (FDI) was another critical strategy in the 1980s and 1990s. Since 1978, China's growth in exports has outpaced its GDP growth, making exports a driving force behind economic expansion. International prices have been very favourable to Chinese industry, and as the costs of foreign trade dropped—through improved shipping facilities, new technologies, deregulation, and new trade networks—China's comparative advantage in foreign trade—which Mao had ignored—generated great opportunities for those who dared to enter global markets. But could cities move into export-led growth when faced with rigid institutional and political constraints? Could they shift investment and capital flows away from established patterns that had taken on the quality of entitlements? Even if they possessed a comparative advantage in location, local entrepreneurship was necessary if communities were to shed their institutional constraints and path dependence, gain preferential policies which deregulated their relationship with the outside world, and turn their city's comparative advantages or endowments into opportunities for growth and development.

Finally, entrepreneurial leaders can maximize their opportunities and minimize their transaction costs by altering the political and economic climate within their community.²³ By creating norms, belief systems, or social conventions within the community that support economic development, leaders can increase compliance with their directives by lower level officials and cut monitoring costs. Assembling teams of trustworthy staff and creating marketing networks expand the city's economy. By building winning coalitions of social, political, and economic interests, elites can overcome the constraints of path dependence and societal resistance that make reallocating capital so difficult. They must simplify their city's regulatory regime and the process of foreign investment, helping foreigners traverse the maze of bureaucratic obstruction confronting them. Finally, they must constantly seek new products and markets where 'extra-normal' profits are still available;²⁴ only in this way can their growth outpace other similarly endowed communities.

The two case studies

This chapter compares two communities, both situated in the lower Yangtze River Delta: Nantong, on the north side of the river, and Zhangjiagang, on the south side (see Figure 7.1).²⁵ Each city faced constraints as the 1980s unfolded. Nantong, a 'second level city', was directly controlled by the Jiangsu provincial government; Zhangjiagang began the era as a county but became a 'county level city' in 1986, unshackling it from some constraints imposed by Suzhou Municipality. Yet their location and endowments (both possessed excellent harbours) proffered important opportunities and limitations as the lower Yangtze River Delta was incorporated into the world economy. Also national, provincial and regional policies set the political and economic context within which they faced the



Map 7.1 Lower Yangtze River Delta

global and domestic economy. Thus Zhangjiagang's position on the south side of the river, near the booming cities of Wuxi, Suzhou, and Changzhou, helped it grow faster than Nantong. (see [Map 7.1](#)) Yet variations in local leadership also explain much about these communities' differing pace of development, determining whether institutional constraints and 'path dependence' limited their economic opportunities, and the extent to which they utilized preferential policies and transnational linkages to maximize opportunities under China's open policy.

Zhangjiagang is a community on the march, whose leaders constantly find new ways to stay ahead of their regional competitors. While in 1978, it was the poorest of the counties under Suzhou Municipality, its economic transformation began in the late-1970s during the heyday of the growth of township and village enterprises (hereafter TVEs) in southern Jiangsu Province. TVEs became Zhangjiagang's comparative advantage in foreign trade and foreign investment, as TVEs flexibly responded to international market demands while their low labour costs let them enter the global market at the low end of the product cycle.²⁶ Known throughout southern Jiangsu as aggressive and somewhat unscrupulous business people, their leaders mobilized the entire community in the late 1980s and early 1990s for a massive transition to export-led growth.

While other counties in southern Jiangsu also possess strong TVEs, Zhangjiagang's natural endowments proved critical for its development. Its harbour on the south side of

the Yangtze helped raise its status in the hierarchy of urban places from a county to a ‘county-level city’ and gain ‘open’ status before nearby communities. Local elites also lobbied hard for these benefits and with their allies in the provincial foreign trade and investment bureaucracy, who supported their aggressive entry into the global economic fray, they received a critical preferential policy, a ‘bonded free trade zone’, established at their harbour. This way, Zhangjiagang officials established new organizations and grabbed most linkage opportunities proffered by the state that enhanced global communication, transactions, and investment. They also fiercely protected their autonomy, as when they resisted provincial plans to build a ‘second-level city’ at their harbour.

After 1992, under a new, aggressive party secretary, Zhangjiagang hitched its wagon to the Communist Party’s General Secretary, Jiang Zemin, and his effort to combine economic development with a strict social and political order—the campaign on ‘spiritual civilization’.²⁷ After visiting Singapore, Party Secretary Qin turned Zhangjiagang into the cleanest city in China, in order to make it more inviting to foreign investors. Utilizing this form of authoritarian developmentalism to promote economic growth, Zhangjiagang became a national model of how to link up with foreigners, keep a clean environment, and maintain tight party control, even as economic growth zooms forward.

Nantong is the gateway to the Yangtze River and Shanghai for northern Jiangsu Province. But, while privileged in 1984 with the status of being an open coastal city (OCC), Nantong squandered many opportunities. An unsuccessful effort in the mid-1980s to establish a joint venture harbour undermined harbour development, while their State Council development zone, physically and politically isolated from the city, had not taken off by 1992, seven years after it was established.

The city was trapped by previous investments in state-owned enterprises (SOEs). Built up around the city centre and in Tang Jia Za, birthplace of Nantong’s turn-of-the-century industrialization,²⁸ the SOE sector was in decline in the 1980s. It could not compete with TVEs nor with foreign funded enterprises (FFE). But rather than jettison its textiles and food processing industries and restructure the economy towards export-oriented production, such as electronics and electronic machine building, Nantong chased away foreign investors in the mid-1980s, limited foreign access to its TVEs, and failed to utilize the development zone fully. While local officials argued that their tax obligations to the Jiangsu provincial government limited leadership flexibility, data on the city’s income and expenditures show that Nantong bore no special burden (Tables 7.1 and 7.2). Moreover, it spent funds allocated to it as one of China’s fourteen original OCCs propping up ailing SOEs, rather than turning the economy outward. As a result, as of 1992, Nantong had been a somewhat laggard performer among the OCCs, and despite its preferential policies, was no more successful in establishing joint ventures or in promoting its own GNP than smaller cities in Jiangsu Province, such as Yangzhou or Changzhou (Table 7.3). In fact, as Table 7.4 shows, its gross value of industrial output (GVIO) grew much more slowly than that of Zhangjiagang, which has ten times fewer people. Thus, location, bureaucratic constraints, and the leadership’s inability to break the bonds of path dependence explain the comparatively slower pace of Nantong’s development.

Table 7.1 Revenue and funds passed up by prefecture-level cities in Jiangsu Province (RMB million)

Year	Nanjing	Wuxi	Xuzhou	Changzhou	Suzhou	Nantong	Lianyungang	Huaiying	Yancheng	Yangzhou	Zhenjiang
Local finances passed up	1989 1,323.24	1,635.29	423.90	893.01	1,518.47	716.23	157.35	278.21	113.88	521.89	340.82
	1991 1,458.87	1,799.81	469.14	972.17	1,680.71	790.93	140.98	308.18	133.72	579.91	379.34
	1993 1,611.66	1,888.15	493.53	1,016.43	1,768.70	831.26	84.18	344.04	184.75	611.29	400.20
Local revenues	1989 2,000.68	2,074.34	953.84	1,266.80	2,088.69	1,214.29	372.87	676.17	554.55	1,096.41	568.92
	1991 2,090.86	1,963.16	1,034.67	1,171.90	1,975.45	1,242.95	383.37	624.31	571.32	1,109.06	566.64
	1993 2,384.31	2,268.48	1,096.70	1,365.16	2,371.22	1,398.49	414.07	764.00	653.48	1,398.16	650.16

Sources: Jiangsu Provincial Statistical Bureau (ed.) *The Economy of Cities and Counties in Jiangsu*, 1993, pp. 235–7; 1992, pp. 237–45; 1990, pp. 294–309.

Note

Data include all counties and county-level cities within each municipality.

Table 7.2 Revenue and funds passed up to higher level government: Nantong and Zhangjiagang, 1989, 1991, 1993 (RMB million)

	Year	Nantong ¹	Nantong suburbs	Zhangjiagang ²
Local finances passed up	1989	716.23	328.50	170.07
	1991	790.93	360.93	192.90
	1993	831.26	375.42	205.43
Local income	1989	1,214.29	466.88	240.05
	1991	1,242.95	489.91	225.73
	1993	1,398.49	527.52	430.88

Sources: Jiangsu Provincial Statistical Bureau (ed.) *The Economy of Cities and Counties in Jiangsu*, 1993, pp. 235–7; 1992, pp. 237–45; 1990, pp. 294–309.

Notes

1 Prefecture-level city (includes counties/county-level cities).

2 County-level city.

While the statistical yearbook used for this table reported 1993 income for Zhangjiagang as 276.94, Zhangjiagang's Finance Department told me in June 1997 that 276.94 was the 1992 value.

Table 7.3 Direct foreign investment in Jiangsu Province, 1988–95

Year	Number of foreign direct investment contracts signed				Actual foreign direct investment (US\$m)			
	1988 ^a	1990	1993	1995	1988 ^a	1990	1993	1995
Nanjing	29	47	1,340	663	173.0 ^c	59.28	316.98	402.76
Wuxi	22	52	1,301	541	18.6	9.21	476.31	857.37
Suzhou	100	130	2,532	2,532	65.8	33.71	1,508.74	2,327.47
Nantong	26	40	810	292	9.1	4.39	119.91	261.70
Xuzhou	21	33	1,151	498	18.4	10.24	140.74	307.63
Lianyungang	8	6	421	159	4.7	1.10	37.28	104.32
Huaiyin	9	7	386	279	4.0	1.40	64.88	69.88
Yancheng	6	3	219	80	0.4	2.84	21.44	38.70
Yangzhou	13	23	731	275	5.8	14.92	152.08	158.67
Zhenjiang	12	27	560	207	7.9	2.19	133.60	164.84
Jiangsu Province ^b	0	2	73	26	n/a	0.00	1.60	26.77
Total	247	392	10,032	4,056	310.0	141.10	3,001.9	4,780.58

Sources: 1988 data from Richard Pomfret, *Equity Joint Ventures in Jiangsu Province*, Hong Kong, Longman Professional Intelligence Reports, 1989, p. 11. Other years from *Jiangsu tongji nianjian*, (Jiangsu Statistical Yearbook), various years.

Notes

a Promfret's data were for contracted FDI.

b Data of 1990 and afterwards are derived by subtracting the sum of the cities from the total.

c The figure for Nanjing FDI probably includes foreign loans which I excluded from all my data.

The regional context: Jiangsu's open policy

The regional context of these two communities helps explain their differing rates of development. Jiangsu has three distinct economic zones: (1) *Sunan*, including the cities of Suzhou—where Zhangjiagang is located—Wuxi, and Changzhou (also called Suxichang); (2) *Subei*, comprising Xuzhou, Huaiyin, and Lianyungang; and (3) a middle zone, sometimes referred to as *Suzhong*, including Nanjing, Yangzhou, Zhenjiang, Yancheng, and Nantong. Significant differences exist among these three zones in terms of industrial output versus agriculture, per capita income, FDI, and the types of economic linkages that exist with other regions of the country. *Sunan*, where Zhangjiagang is located, is one of the fastest growing areas in all of China. As the harbour for that region, Zhangjiagang received enormous fiscal attention and economic benefits. *Suzhong*, where Nantong is located, is a middle income region in the province and has done well under the reforms, although its eastern regions have grown more slowly than the west, which benefits from ties to the provincial capital, Nanjing. As the harbour for central and northern Jiangsu, Nantong benefited from the post-1992 growth in the counties north and east on the coast, but did not become a growth pole for the entire region. Finally, *Subei* remains relatively poor.

Table 7.4 Zhangjiagang's GVIO as a percentage of Nantong's GVIO, 1978–95

Year	Number of foreign direct investment contracts signed				Actual foreign direct investment (US\$m)			
	1988 ^a	1990	1993	1995	1988 ^a	1990	1993	1995
Nanjing	29	47	1,340	663	173.0 ^c	59.28	316.98	402.76
Wuxi	22	52	1,301	541	18.6	9.21	476.31	857.37
Suzhou	100	130	2,532	2,532	65.8	33.71	1,508.74	2,327.47
Nantong	26	40	810	292	9.1	4.39	119.91	261.70
Xuzhou	21	33	1,151	498	18.4	10.24	140.74	307.63
Lianyungang	8	6	421	159	4.7	1.10	37.28	104.32
Huaiyin	9	7	386	279	4.0	1.40	64.88	69.88
Yancheng	6	3	219	80	0.4	2.84	21.44	38.70
Yangzhou	13	23	731	275	5.8	14.92	152.08	158.67
Zhenjiang	12	27	560	207	7.9	2.19	133.60	164.84
Jiangsu Province ^b	0	2	73	26	n/a	0.00	1.60	26.77
Total	247	392	10,032	4,056	310.0	141.10	3,001.9	4,780.58

Sources: Data presented in Tables 7.7 and 7.8

Note

GVIO is gross value of industrial output.

Opening Jiangsu Province to foreign investment

Jiangsu Province was not one of the earlier advocates or beneficiaries of internationalization. Early efforts to open Pudong on the eastern side of the Huangpu River in Shanghai were opposed by Jiangsu officials, and in order to protect central finances, Chen Yun, back in the early 1980s, had specifically ruled out any special economic zones for Jiangsu Province.²⁹ Thus no cities in Jiangsu were on the initial list of twelve OCCs composed by Beijing in 1984. Officials in the Special Economic Zone Office (SEZO) under the State Council admitted that they had not been very familiar with Nantong. Either initially Jiangsu's leaders did not push hard enough for their inclusion or Shanghai wanted to keep all neighbouring cities off the list. But after extensive lobbying by Jiangsu Province and visits to the cities by SEZO officials, Nantong and Lianyungang were included among the now fourteen OCCs and were allowed to build economic and technical development zones (ETDZs), which received important tax exemptions and other preferential policies. According to SEZO officials, Nantong's inclusion was a gift to Jiangsu Province; it is the only riverine harbour of the fourteen open coastal cities.

Jiangsu's internationalization deepened dramatically with the 1985 State Council decision to open three river deltas, one of which was the lower Yangtze Delta. As a result, Suzhou, Wuxi and Changzhou were opened to foreign investment, as were the counties under their administration, including Zhangjiagang.³⁰ Thus location brought Zhangjiagang some preferential policies. Then in March 1988, the expansion of the 'open coastal economic zone' opened the urban areas and rural counties in Nanjing, Yangzhou,

Zhenjiang and Yancheng municipalities to foreign investment, as well as counties under Nantong and Lianyungang, Jiangsu's two OCCs.³¹ Also beginning in 1985, rural towns in Jiangsu were sequentially recognized as 'industrial satellite towns' of urban centres and allowed to host FDI and receive some tax and investment benefits reserved for coastal cities.³² This policy benefited Zhangjiagang and southern Jiangsu for whom TVEs were a key resource for attracting FDI and promoting foreign trade.

Opening Shanghai's Pudong District on the east bank of the Huangpu River in April 1990 increased FDI and domestic development into the lower Yangtze Delta, as the central government announced plans to invest US\$10 billion into Pudong to make it the 'dragon head' for the development of the entire region.³³ Thereafter, in May-June 1992, the State Council opened twenty-eight cities and eight prefectures along the Yangtze River, running up to Sichuan Province, granting them the same exemptions as cities along the coast. All these policies increased the flow of goods and services through Jiangsu Province.

Foreign investment in the province varies along the lines of the three zones (Table 7.3). Nanjing has benefited as the political centre of the province; nevertheless, Suzhou Municipality, where Zhangjiagang is located, has surpassed it as the centre for FDI in the province. Also, county level data on FDI from the *Jiangsu Statistical Yearbook 1994* shows that a county's or 'county-level' city's location in these three zones is an important predictor of the level of FDI in the period 1993–5, both in terms of the amount of US dollars and the number of contracts. Of course, rural areas in Sunan were opened to FDI three years before rural areas in the rest of Jiangsu. Nevertheless, the best explanation for the number of FDI contracts in 1993 was a combination of township and village industrial production (which is also highly correlated with regional factors), plus the year in which the county was opened to FDI,³⁴ suggesting that the level of TVE development was crucial, as it is the main independent force attracting FDI to a rural locality. Thus, as we shall see below, Zhangjiagang's TVEs were a critical attribute in its export-oriented development, even as Nantong's more conservative TVE policy undermined its overall level of internationalization.

Investment and infrastructure development in the lower Yangtze Delta

The lower Yangtze River delta, particularly the Shanghai-Nanjing corridor, was one of only two zones of urban agglomeration in pre-1949 China. As such, its infrastructure should have far surpassed that of other regions in China. However, like Shanghai, Jiangsu's provincial leaders were quite conservative; their eyes always focused on Beijing. Their primary task—to ensure that a high percentage of their fiscal income went to the central government. As a result, Jiangsu invested little on urban development. According to *Dangdai Zhongguo de Jiangsu* (Contemporary China's Jiangsu), between 1949 and 1985, only 4.1 per cent of state investment by state-owned units went to urban construction, while another 12.4 per cent went to transportation, communication and postal services.³⁵ Similarly, road development did not keep pace with demand—in the period 1978–84, mechanized vehicles increased by 96 per cent, bicycles by 87 per cent, but the length of

roads increased by only 36 per cent, leaving traffic bottlenecks which increase the costs of doing business.

Jiangsu Province and the national government began to invest in infrastructure in the early-1980s. As part of the third East coast port group of southern Shandong, Northern Jiangsu, and the Yangtze River Delta, the harbours in Nantong and Zhangjiagang received funding under the Sixth Five-Year Plan (1981–5), which emphasized construction of harbours along lower reaches of the Yangtze.³⁶ Even more money was poured into the construction of Jiangsu's harbours under the Seventh Five-Year Plan (1986–90) as part of a 'national key construction project' (*guojia zhongdian jianshe xiangmu*), including RMB260 million to build five new 10,000 ton berths at Zhangjiagang's harbour and RMB220 million for creating three new berths and upgrading one old berth in Nantong, thereby creating four 10,000 ton berths.³⁷ Nanjing has built a major international airport and a highway to Lianyungang.³⁸ A new bridge under construction at Jiangyin City, next to Zhangjiagang, will bring traffic from Subei directly through to the south, as will a new railroad from Wuxi to Jiangyin (see Map 7.1). But the bridge and rail line may push Nantong to the periphery, as goods from the north will flow south, rather than east towards Nantong. This flow could increase the role of Zhangjiagang's harbour. Thus in 1992, Nantong established a ferry service to Changshu city directly across the river which will cut travel time to Shanghai. The province also built a new road from Nantong to Yangzhou (and Nanjing) with World Bank money.

The province also invested in its two OCCs, giving each RMB5 million a year for four years (1986–9); in 1990–1 it also gave them an interest free loan of RMB4 million. This level of funding surpassed the RMB 10 million Liaoning Province reportedly gave Dalian for developing its zone, but paled into significance compared with the RMB150 million Guangdong Province reportedly gave Guangzhou.³⁹

Brief background on Nantong and Zhangjiagang

Nantong was established in AD 958. Originally known as Tong Zhou, it was renamed Nantong County after 1911. The city sits on the northern shores of the Yangtze River, approximately 96 km up river from the Wusong port of Shanghai. Its economy was based on its role as the industrial gateway to Shanghai for the hinterland of northern Jiangsu. Historically, it became a major producer of textiles, relying heavily on cotton grown in the Subei countryside.

In the late nineteenth century, the takeoff of its industrial development was led by Zhang Jian, a local entrepreneur who in 1895 set up a large textile plant in Tang Jia Za, approximately six km from the centre of today's Nantong. Thereafter he built several other plants, established grain and shipping companies, built a teachers' college, and in 1903–4 built a harbour for the city. In the 1920s and 1930s, industry expanded somewhat, again relying primarily on textile production. In fact, as of 1926–33, Nantong County had the largest acreage in Jiangsu planted to cotton. Nantong was also a centre for agricultural processing and most of these goods were brought to Nantong by boats, on a series of rivers and canals running from the north, and were then shipped out through Nantong's harbour to Shanghai.

In 1949, the county was renamed Nantong City, cut off from its rural hinterland, and in 1952 this urban area became a provincial-led city. As a second level city, it was given direct control over six counties in 1983 under Jiangsu's policy of 'cities' leading counties' (*shi lingdao xian*). These counties had previously been part of Nantong District. Its harbour, which had previously been a domestic harbour under control of the Yangtze Harbour Commission located in Wuhan, was internationalized in 1983 and received six international shipping lines. Then in April 1984 Nantong became one of fourteen open coastal cities with the right to build a national level economic and technical development zone. Yet Nantong had already been an important export processing city, having been recognized as one of forty-six 'key cities' and one of thirty-three 'general commercial export production centres'.

Zhangjiagang's historical development was quite different. People there are descendants of immigrants from Subei, who settled on the south shore of the river after their villages slipped into the river through natural erosion. There, on the south side, they reclaimed land from the river, a process that continues today. Province-wide they are seen as very aggressive people, spatially isolated from Suzhou's high cultural traditions, living precariously on land built up over time, as floods cause dykes to collapse. In some ways, they lived on the periphery of Sunan, physically, culturally and economically. In fact, their community was sometimes called the '*Subei of Sunan*'.

Shazhou County, the original name for Zhangjiagang—it changed its name in 1986 when it became a 'county-level city'—did not exist before 1962, but that year was carved out of Jiangyin and Changshu counties, the former under Wuxi Municipality and the latter under Suzhou Municipality. Administratively it is part of Suzhou, but geographically and economically it is closer to Wuxi—all of Wuxi's exports go through Zhangjiagang's harbour—making the community somewhat schizophrenic.

But its existence on Suzhou's periphery gave the community great autonomy and a fierce drive to catch up. Hungry for development, Shazhou County leaders rapidly promoted TVEs in the early 1980s. Exhilarating growth in the 1980s was also derived from its harbour and the contributions of supra-local authorities who wanted to promote the harbour. Yet even as Zhangjiagang's leaders use the harbour to bargain for 'policies' and other financial opportunities, such as higher status, new roads, a plethora of joint ventures and a free trade zone, all of which advance the city's interests, they have maintained their autonomy and limited interference from these upper level authorities.

Constraints on the development of the two communities

Both communities faced important administrative constraints as they emerged from the Maoist era. Both were directly controlled by the next level in the administrative hierarchy—the province for Nantong and Suzhou Municipality for Zhangjiagang. Both were affected by the Ministry of Transport, which allocates international shipping lines and, as of 1992, still planned 70 per cent of all international shipping in China. It also determined where investment capital would go for harbour construction. Also provincial bureaus, including the provincial commission on foreign economic relations and trade (COFERT),

the grain bureau, the coal bureau and other bureaus that needed shipping facilities, could choose which harbours to invest in.

On all these counts, Zhangjiagang won out. Because of the preferred location of its harbour on the south side of the river it received more support from the provincial government. The Ministry of Transport gave it more international shipping lines. Also, while Nantong spent five years fruitlessly negotiating with a Dutch firm to establish a joint venture harbour—an effort that was subverted by the monopolistic Ministry of Transport which refused to give the future port any shipping lines—Zhangjiagang built modern container facilities which cut shipping costs in the 1990s. Finally, by shifting to a county-level city it evaded some constraints imposed by Suzhou. We now look at these events in slightly greater detail.

Institutional constraints on Nantong

As a second level city directly under the province, and a base for SOEs, Nantong's options for development were limited by supra-local fiscal constraints. The province relied on Nantong for its own budget and for the industrial profits the province passed to the central government. According to local officials interviewed in 1992, Nantong sends over 80 per cent of its industrial profits to the province. Reportedly Nantong's targets were based on their 1984–6 income, which was quite high as Nantong had just undergone a major growth spurt in 1982–4 owing to the expansion of TVEs. But this growth was extensive, not intensive, so profits have been hard to sustain. According to local officials, these high payments in 1991 left the city with only RMB1.3 billion, just enough to run the government and pay its staff, but with little capital for reinvestment.

One must take these complaints with a pinch of salt.⁴⁰ Nantong did not contribute more of its revenues to the province than other 'second' level cities in Jiangsu. The first three rows of Table 7.1, 'Local finances passed up,' show that Nantong bore no special burden. Also, 'Local finances passed up' as a percentage of 'Local revenues' place Nantong in the middle ranks in the province, passing up a much smaller percentage of its income to the province than the cities in Sunan. For 1989, 1991, and 1993, Nantong averaged 58, 63, and 59 per cent respectively, while Wuxi, Changzhou, and Suzhou always passed up over 70 per cent of their income and in 1991, they turned over 83 (Changzhou), 85 (Suzhou), and 91 per cent (Wuxi).⁴¹ Of great importance for this chapter, Table 7.2 shows that for these three years Zhangjiagang passed up 70, 85, and 74 per cent, respectively, despite its reliance on TVEs rather than SOEs.⁴²

Nevertheless, Nantong faced great pressure to improve its urban infrastructure. Its investment in housing and other aspects of urban infrastructure was among the lowest in the province. In 1990, Nantong had the least per capita square footage of housing of any major city in Jiangsu Province.⁴³ Similarly, the length of usable roads was much less than cities in Sunan, and its acreage of greenbelt was the second lowest in the province.⁴⁴ Moreover, Nantong did face greater fiscal constraints than Zhangjiagang.

The city's location is problematic for foreign investors. Ironically, the Yangtze River, which earned the city its 'open status,' cut it off from the economic boom in Sunan.⁴⁵ Until the mid-1990s, the trip to Shanghai took five hours by bus and hydrofoil; today it

still takes three hours. Only in 1992 did Nantong open a commercial airport, but it has no international routes. Outside forces also influenced that decision. The request for an airport, put forward in 1983 as the city opened to the outside world, was approved by the State Council in 1985 after Nantong became an OCC and at a cost of RMB50 million. But the central government invested only RMB20 million, leaving the rest for the city and province to find. But the Bureau of Civil Aviation, concerned that low usage would make the airport financially unsuccessful, held up the project. According to one official,

Airports are under CAAC (*Minhang zong ju*) and they wouldn't build an airport where they would not get financial returns. They could not agree to build an airport, since Nantong is in Shanghai's economic zone (*fushe fanwei*). They learned the lesson of Behai, a coastal city, where they put in a big airport that can handle Boeing 737s, but till today there is only one flight a week to Guangzhou and it's not full.

Thus being close to Shanghai was not an advantage as Shanghai lobbied against the airport through its influence in CAAC. Only after the State Planning Commission approved the formal construction project in 1990 did work begin.

Supra-local forces affected the harbour's development. The Ministry of Transport preferred to ship through Shanghai or Zhangjiagang. Also, the provincial effort to limit its dependence on Shanghai's harbour, to whom it had to pay shipping fees, led Jiangsu COFERT to build new berths at Zhangjiagang and make it a 'provincial export shipping centre' (*sheng waimao yunshu jidi*). Also, COFERT pushes its exports to Zhangjiagang so that the ships it rents sail fully laden. Many Subei exports are loaded on to international vessels at Zhangjiagang, not Nantong.

Even strategies for circumventing these constraints, such as attracting foreign investment or establishing a joint venture harbour, were undermined by the Transport Ministry. The idea of a joint venture harbour had been supported by former premier Zhao Ziyang, but after four years of talking with a Dutch company about building three 10,000 ton berths, the foreign investors pulled out when they realized that the Ministry of Transport would give first priority on shipping lines and cargoes to its own berths. Also, when the Dutch asked the Chinese side to contribute three 10,000 ton berths to the joint venture, the Ministry of Transport refused. Thus while some analysts believe that Nantong's development plan should focus on its harbour,⁴⁶ control over this aspect of development was beyond the city's powers.

Institutional constraints in Zhangjiagang

Weaker institutional constraints let Zhangjiagang respond more flexibly to global opportunities. Moreover, its more advantageous location attracted much more 'positive' attention from higher level authorities. Still, Zhangjiagang's key administrative position under Suzhou Municipality, as well as its county-level status, allowed Suzhou to play at best a minimal—and at worst a limiting—role in Zhangjiagang's development.

Why? China's link between administrative boundaries, the taxes paid by industrial enterprises, and a system which ranks cities by their industrial output, created strong disincentives for Suzhou to support industrial development and institutional change in Zhangjiagang. Because of its closer links to Wuxi, pressures existed within the province to move Zhangjiagang under Wuxi's administrative control. Were that to happen, however, Wuxi's GNI would suddenly surpass that of Suzhou's, increasing Wuxi's status.⁴⁷ With the possible transfer constantly in the air, Suzhou officials had little incentive to channel funds, technology, or business opportunities into Zhangjiagang. Instead, they promoted counties such as Wu, Changshu, and Wujiang, with which they were more closely linked.

This institutional arrangement limited Zhangjiagang's access to provincial funds and provincial information, as all interactions with the province had to pass through Suzhou municipality's bureaus. According to one provincial official, even if he had wanted to introduce technology into enterprises in Zhangjiagang, the monies had to be transmitted through Suzhou Municipality which would divert these funds to counties which would remain under its control and continue to augment its own GNP and tax base. In fact, the province had little economic interaction with Zhangjiagang until it became a county-level city and a line-item in the provincial budget, allowing provincial officials to allocate domestic investment directly to county leaders.

The harbour also attracted supra-local power authorities, particularly provincial officials, who tried to recreate Zhangjiagang according to their provincial and regional interests. In December 1984, then premier Zhao Ziyang visited the harbour and said that its construction could affect the entire situation (*quan ju xing*) and turn Suzhou, Wuxi, and Changzhou into a 'golden triangle'. He called for a new major harbour city on the lower reaches of the Yangtze River⁴⁸ that could serve as a hub 'to attract external funds and make internal linkages (*wai yin nei lian*), and [become] a key foreign trade harbour and major distribution centre (*jisan di*) for import and export products for the lower reaches of the Yangtze River'.⁴⁹

Provincial leaders responded enthusiastically. As a 'national harbour' serving Sunan, this new city would be eligible for national and regional financial support and would let the province export through its own harbour, rather than pay Shanghai for the use of its docks. In 1985, a retired vice-governor of the province, who had been the head of the provincial planning commission and was responsible for foreign investment in the province, suggested that a town of 300,000 be built at the harbour and that the harbour serve as the 'major doorway to the outside world for Suxichang' (*Suxichang dui wai kaifang de zhongyao menhu*).

Since the county was under its administration, Suzhou was given responsibility for planning the harbour and the community around it. But its officials were unenthusiastic:

After several reports it was clear that they couldn't see the importance of the project, and that they had a much different viewpoint from the province. They simply didn't do a good job. They send all their export products through Shanghai, so they didn't need this harbour to be developed.⁵⁰

They showed little foresight in terms of telecommunications; their June 1985 report called only for establishing a domestic long distance system for the then Shazhou County; international long distance would be handled through Shanghai or Nanjing. Provincial planners were surprised,⁵¹ so the province established its own planning group which proposed combining Zhangjiagang, Jiangyin, and Jingjiang, on the northern shore, to create a second 'Wuhan' on the lower Yangtze.⁵²

But such a plan gave Suzhou officials a further incentive not to invest in Zhangjiagang. Also, if the harbour at Zhangjiagang were to become the property of an independent city, Suzhou would lose another component of its GNI. Suzhou, therefore, wanted Zhangjiagang and its harbour to remain within its administrative boundaries; yet at the same time officials there had few incentives to see the harbour or the town develop quickly, especially if greater autonomy or financial investment from Suzhou were necessary to make that development occur.

Path dependence in Nantong and Zhangjiagang

Path dependence influenced Nantong's industrial structure and its attitude towards its development zone. While Nantong had moved successfully from agriculture to light industry through the mid-1980s, limited investment in new technology left it with antiquated industry that was in decline and an industrial structure, based on textiles and food processing, not conducive to producing higher value-added products.⁵³ Nantong had failed to surpass the peak profit level of 700 million RMB of the mid-1980s because economic efficiency had been declining since 1982–3 when each RMB invested yielded RMB2.33. By 1991 returns to capital had dropped to RMB1.92 for each RMB invested. Declining profits resulted from increasing inputs, much of which was comprised of imports, and a reliance on extensive, rather than intensive growth. But with city leaders preferring stability in their industrial structure, the city was becoming dependent on imports and foreign loans for its development.⁵⁴ Thus many loans taken in the early opening—1984–7—were due in 1991–3 and Nantong lacked the funds to pay them.⁵⁵

Path dependence and the Nantong zone

The city's spatial investment decisions suffered from path dependence. Under market conditions, capital should flow to points of 'openness', where domestic and international China meet, where transaction costs are lower, and where domestic investors can link with the global market.⁵⁶ In fact, most zones in China have relied on domestic investors and enterprises who move to zones to benefit from the less regulated links to the international market.⁵⁷ However, Nantong's old industrial base was built up around Tang Jia Za, in the city's northwest, and within the city proper itself, far from the ETDZ which sat 12 km away in the southeast corner of the city.⁵⁸ As a result, entrenched interests in the city resisted shifting domestic and foreign investment from its traditional industrial base to the new zone.

Nantong utilized the opening to benefit the city rather than the zone in several ways. For six years, Nantong as an OCC was granted the privilege of using domestic currency to

purchase US\$90 million in foreign exchange from Beijing, with which they could buy foreign technology or develop joint ventures. In fact, according to the local economic commission, two-thirds of that money went to technical innovation in the factories, while the remaining third was used to import lowpriced resources for industrial production. Local researchers, however, argued that Nantong used these funds to subsidize old factories producing old products rather than shift into new exportable products.

In 1992, local officials lamented that decision. ‘Now we see the need to let products lead our technical innovation. If you buy equipment for old products, even if you reform the equipment in the old sector, you still have the same products’. Thus Nantong was still exporting primarily cotton based textiles. SEZO officials concurred.

In 1984 we gave them about \$10 million in foreign exchange for updating old equipment. We called it *kuo chan wai hui* (foreign exchange for expanding production). We gave this money for a few years to transform the old equipment and change the economic structure.... We wanted them to use this money for new export products. But Nantong used the money to support old state enterprises that were not doing very well. They did not use it to open up new areas of production.

This same official, however, felt that Nantong did not have enough money to restructure the economy in any significant way.

A critical issue in the ‘takeoff stage’ (*qidong guocheng*) is how well do you use funds? Did they invest in good new products that earned good returns, did they get good returns on the new products or not? This is a critical issue, this first stage. But Nantong didn’t have enough money to put into new areas of development, they had to use the money that they earned to keep up the old factories, so they couldn’t move into export sector firms.⁵⁹

Nor did the city support its ETZD very enthusiastically. Because Nantong was opened in 1984–5, concerns that pernicious foreign influences would pollute socialist China still influenced the views of local elites who responded cautiously to opportunities under internationalization. So Nantong’s zone was build 12 km outside the city, which without a good road, meant that the zone and city were worlds apart.⁶⁰ As one urban planner commented:

Our ‘guiding thought’ (*zhidao sixiang*) was to build a separate area to cut off the influence of the foreigners and the capitalistic management systems that we expected to be used in the zone. Initially, we thought that the zone would be all foreigners. Keeping it separate would be good for management (*bianyu guanli*).

But with the zone far away, the city had to spend RMB150 million on its infrastructure, including RMB22 million on the road to town, RMB10 million on a power transformer sub-station, a US\$40 million loan from the Austrian government for a water purification plant (the zone also put in another RMB20 million of its own), plus another RMB22

million for a hotel in the zone which as of spring 1992 was absolutely uninhabited. Had they put the zone near the city, as with industrial parks established later on, it would have cost about one-tenth the price. Also, with city officials trying to attract joint ventures to the city centre, foreigners had many disincentives to come to the zone.

According to a zone official, city leaders had not used the zone to attract more money. City leaders reportedly felt that if the central government wanted to give the zone money and make it a State Council ETDZ, fine; but rather than use the zone to bring in more money, city officials waited for state largesse. SEZO officials who see the zone as rather weak, argue that

the city government didn't put enough emphasis on the zone, didn't get it investment, and the leadership of the zone was not very strong. Compared to other provinces, Jiangsu didn't put enough emphasis on its zone or give it enough support.... They didn't make the development zone a high enough priority.

Relations between the city and zone were difficult. According to interviews, zone leaders introduced by the city were not members of the city's insider network; as a result, zone leaders built their own network, drawing on administrators from the city's factories, rather than from the city's administrative power structure. Consequently, while zone leaders were somewhat independent, they got little help from city officials who saw the zone as a threat, rather than an ally or opportunity; so they prevented the zone from challenging the city and never used it to promote the city's development. Thus, despite their desire for autonomy, zone officials lacked both the finances and the broader network to develop the zone on their own.

Not only did city officials wait for the State Council to assist the zone—since it was a State Council ETDZ, they believed the state would or should continue to fund it—but the city took RMB7 million targeted as a loan for the zone to build the Nantong Hotel in the city centre, as well as another RMB9 million for other projects. City leaders also steered factories to the city, not the zone, afraid that they would lose the tax base. And for four years they refused to build a good road from the city to the zone. As a result, there were more joint ventures in the city than the zone. One zone official felt that the city should let the foreigners decide themselves where they want to set up their plant. 'Let them see our situation, only 15 per cent tax, versus 24 per cent tax in the city, but maybe they won't like the fact that our zone is so far away.'⁶¹

Path dependence and Zhangjiagang's harbour

While becoming part of a second level city at the confluence of Zhangjiagang, Jiangyin, and Jinjiang (see Map 7.1) offered Zhangjiagang autonomy from Suzhou Municipality, enormous economic, political, and societal forces caused both Zhangjiagang and Suzhou to oppose the plan. As mentioned above, losing the harbour to a new city would damage Suzhou's total output, while Zhangjiagang officials opposed moving the government seat from Yangshe Town—the seat of the county government—to the harbour. Government employees would have to move, or travel 18 km each day. And if shifting the locus of

industrial development to the harbour town undermined economic growth in Yangshe Town, job creation in the town would not keep pace with the expanding labour force. Also, with these factories no longer within their parents' network, children of Zhangjiagang officials would have more difficulty gaining access to these jobs. Zhangjiagang also had just spent RMB700 million rebuilding Yangshe Town, so why move all the buildings to the harbour? Townships in Zhangjiagang were concerned that domestic enterprises, as well as joint ventures, would move to the zone, under-mining their output. So Suzhou and Shazhou County officials asked provincial planners to revise their proposal to the State Council and delete the idea of creating a provincial or 'second level' city.⁶² But although they refused, when the State Council elevated Shazhou County into Zhangjiagang City, provincial officials were surprised that their own plan had been derailed, and the capital was not placed in the harbour as they had recommended.

Nevertheless, in his speech in 1988 to the twentieth anniversary meeting of the opening of the harbour, Yang Shoukang, deputy chair of the Zhangjiagang Harbour Association, forcefully emphasized the important role the harbour had to play in the city's development.

The whole city, from top to bottom, must clearly understand the leading ideas behind 'letting the harbour construct the city, and letting the city promote the harbour' (*yi gang jian shi, yi shi cu gang*), and they must focus most of their work on Zhangjiagang's harbour district, and put the task of constructing the harbour in an important position.⁶³

He called on Zhangjiagang officials to invest time, energy, and funds in promoting the harbour, and to set aside their local interests to promote the greater good—the harbour.

It doesn't matter whether in human effort, or material or financial strength, it must work its way into the various city's units and various ministry's plans, to resolve and handle the relationship between the city and the harbour, and assertively serve the harbour's construction, limit and put an end to arguments over trifles (*du si zhi po*), be of one mind and unify efforts, speed up the installation of a complete system, to meet the needs of the harbour's development even more rapidly.⁶⁴

Clearly, in his eyes, Zhangjiagang officials had not been investing sufficient time and energy in promoting the harbour.

Still the new spatial plan for the city gave both Harbour Town and Yangshe Town—the government seat—a significant role in the city's overall development. The province built a road from Yangshe Town to the harbour in 1988. Of 11,000 new phones that were installed, 10,000 were placed in Yangshe Town; only 1,000 went to Harbour Town. In 1991, as the new development zone went up near the harbour, a new zone also emerged near Yangshe Town, as did new amenities for foreign investors. Thus Zhangjiagang officials, who lived and worked in Yangshe Town, tried to insure their town's development and overall demonstrated luke-warm support for developing the harbour town. That ambivalence was put to the test when a national level 'duty free port' (*bao shui qu*) was awarded to Zhangjiagang and established beside the harbour.

Entrenched interests in townships surrounding the harbour complicated efforts to expand the town located beside the harbour. Three townships had to contribute land to Harbour Town, but each resisted because to do so would have decreased their local GNP, and therefore their community and leader's status. The alternative strategy—to unite two or three townships into one larger town—faced similar problems, as township leaders bickered over who would be party boss of the new town. Only after Shazhou County was elevated into Zhangjiagang City did officials in the county-level city have the political clout to overcome the local opposition and simply take land from the adjoining townships to build a new town.

Leadership strategies for development

Expanding the depth of internationalization

ELG has been the hallmark of China's coastal economic boom. Cities that have grown quickly have done so by significantly expanding their global linkages, producing goods explicitly for export, linking with foreign investors to find new international markets, and using new technologies to capture larger shares of the domestic market. Harbour cities were well positioned to earn wealth by shipping goods in and out of China and were better able than inland cities to benefit from 'segmented deregulation' and 'preferential policies' which cut the transaction costs of foreign trade and investment as well as their overall tax rates. Thus entrepreneurial leaders should have sought to become 'developmental communities', expanding exports, joint ventures, importing new technologies, grabbing more than their share of 'deregulated spaces', all the while expanding their domestic and international market share.⁶⁵

Nevertheless, leaders in these two cities differed greatly in their attitude towards transnational exchanges, with leaders in Zhangjiagang far more committed to export-led growth and to utilizing fully the opportunities emerging under internationalization. Tables 7.5 and 7.6, which compare per capita exports and the procurement of export commodities for Nantong and Zhangjiagang, show that Zhangjiagang, initially far behind Nantong, quickly increased the role of exports in its economy. Data on FDI reflect a similar pattern; as Tables 7.7 and 7.8 show, Zhangjiagang, a third-level city with one-ninth the population of Nantong, by 1994 had attracted twice as much FDI as the entire municipality of Nantong.⁶⁶ Also, for many years, the role of exports in Nantong's GNP did not increase at all. According to MOFTEC data, exports as a percentage of GNP reached 14.7 per cent in 1989, dropped to 10.2 per cent in 1991, then hovered around 13.5 per cent in 1992–3 until 1994 when it jumped to 25.1 per cent.⁶⁷ While Zhangjiagang's data may be flawed because of the use of current *renminbi*, exports were playing a much more important role in Zhangjiagang's GNP than in Nantong.

Why? First, while Nantong's leaders tried to lure foreigners to invest in their SOEs, a strategy which through the 1980s attracted little FDI, Zhangjiagang's leaders pushed their TVEs into the export sector—utilizing their comparative advantage in cheap labour—and enticed hundreds of foreign investors to invest in these TVEs. In fact, in 1988

Table 7.5 Per capita export procurement, Zhangjiagang and Nantong Municipality, 1984–92 (RMB)

<i>Year</i>	<i>Zhangjiagang^a</i>	<i>Nantong Municipality^b</i>	<i>Zhangjiagang per capita exports as a percentage of Nantong per capita exports</i>
1984	79.34	105.42	75
1985	94.46	120.27	78
1986	162.99	146.82	110
1987	364.48	178.11	204
1988	639.67	216.62	295
1989	796.79	220.98	360
1990	1,135.45	259.88	439
1991	1,399.29	393.75	356
1992	4,389.09 ^c	977.86	448

Sources: a Calculated from data supplied by the Zhangjiagang Statistical Bureau in 1991 and 1992. b Calculated from data supplied by the Nantong Statistical Bureau, 1992. c Calculated from data from the *Suzhou tongji nianjian 1993* (Suzhou Statistical Yearbook 1993), p. 238.

Note

Exports here refers to procurements in RMB by foreign trade companies of goods that are exported from China.

Zhangjiagang was criticized by some provincial ministries and other municipal leaders in Jiangsu Province for establishing too many joint ventures. However, officials in Jiangsu's Foreign Investment Bureau and the provincial vice-governor responsible for the 'open policy' praised them and called on other regions in the province to learn from them.⁶⁸ Only after 1991, as they witnessed the growth of FDI in TVEs in Sunan, did Nantong leaders employ their TVEs' comparative advantage in attracting FDI and market them as viable partners for foreign investors.

Leadership problems in Nantong

In China, with development highly constrained by a plethora of administrative and ideological constraints, entrepreneurial leaders must break those administrative barriers to resolve collective action problems, rally local elites, build strong local and nationwide networks, and seek a new market share wherever it may lie. But Nantong's leaders clearly failed to build a coalition between leaders in their traditional and more internationalized sectors. Before 1992, Nantong's leaders were plagued by ideological conservatism, and compared to leaders in Sunan, were not aggressive in utilizing their existing opportunities and seeking new ones in the highly competitive coastal economy. As we saw, they built their zone far from the city to prevent its pernicious influence from poisoning Nantong's socialist nature; as a result it played a negligible role in the local economy through 1994. The key slogan of their development strategy, a 'bird with two wings', treated the zone and harbours as only one wing; the other wing was the old industrial base of Tang Jia Za, with the city core as the bird's body.

Table 7.6 Total value of commodities purchased for exports, Zhangjiagang and Nantong, 1984–92 (RMB million)

<i>Year</i>	<i>Zhangjiagang^a</i>	<i>Nantong^b</i>	<i>Zhangjiagang exports as percentage of Nantong exports</i>
1984	59.98	783.27	7.6
1985	71.79	896.04	8.0
1986	125.18	1,107.16	11.3
1987	283.92	1,346.54	21.1
1988	504.70	1,651.76	30.1
1989	637.43	1,703.76	37.4
1990	920.63	2,016.63	45.7
1991	1,181.20	3,067.30 ^c	38.5
1992	3,705.00 ^c	7,626.00 ^c	48.6

Sources: a Data for Zhangjiagang, 1984–91 were supplied by the Zhangjiagang Statistical Bureau in 1991 and 1992. b Data for Nantong, 1984–90, were supplied by the Nantong Statistical Bureau, 1992. c *Jiangsu tongji nianjian 1993* (Jiangsu Statistical Yearbook 1993), p. 65.

Note

1 *The Almanac of China's Foreign Economic Relations and Trade, 1992–1993* reported the total purchase value of export commodities in 1991 as RMB4,090 million. Using that number, Zhangjiagang exports as a percentage of Nantong exports is 28.8 per cent. It also reported 1990 export purchases as RMB3,398 million. See *Almanac of China's Foreign Economic Relations and Trade, 1992–1993*, p. 323. But these numbers differ significantly from data supplied to me locally, which are likely to be more reliable.

Nantong responded to the 1988–9 economic retrenchment and the political conservatism that swept China after Tiananmen by institutionalizing the ability of cautious thinking to influence its administrative structure and decision making when in July 1990, it established a 'Decision-Making Consulting Committee' (*juece zixun weiyuanhui*) to guide city leaders on all major domestic and international investment projects. The majority of its members were old retired cadres (thirtythree of approximately sixty members), with supplementary participation by officials from the planning, economic, and foreign trade commissions.⁶⁹ Scholars and specialists were also included. Because this committee was composed of many people outside official posts, they were expected to be more practical and suffer less from 'departmentalism' than bureaucrats who pursued their own bureau's self-interest. However, by hesitating to accept new ideas, they increased the time needed to approve foreign investment projects.

Nantong's inability to resolve collective action problems manifested itself in small ways as well. A stretch of road from the zone to the harbour runs through Nantong County. But the zone pays taxes to the city, not the county, so county officials refused to finish the road. By 1992, Nantong leaders had not resolved this problem, leaving a short stretch of the route from the zone to Nantong harbour a dirt road that turned muddy in the rain and remained covered with enormous bumps that convinced foreign investors that Nantong was not serious about internationalization.

Table 7.7 Production, trade and investment data for Nantong Municipality, 1978–96

Year	GNP ^{6,a} (RMB100m)	GVIO ^{7,a} (RMB bn)	Export ^{10,a} purchases (RMB100m)	FDI ^a contracted (US\$ m)	FDI utilized (US\$ m)	Exports ^d (US\$ m)	Imports ^d (US\$ m)
1978	27.9	5.0					
1984	53.5	10.9	7.2 ⁸				
1985	64.7	13.6	7.4 ⁵	61.9 ⁵	13.0 ⁵		
1988	115.5	22.8	17.2 ³	78.8 ⁴	26.5 ⁴	260.3	42.5 ^f
1990	127.5	24.2	34.0 ^{d,2}	51.4	42.2	156 ^f	34.0
1992	180.5	35.2	85.4 ^c	306.3	60.4	398	55.9
1993	194.6	50.8	149.0 ^c	557.0 ^d	147.0 ^d	556	202
1994 ^b	216.2	75.7	194.0 ^{b,8}	509.9 ^d	323.4 ^{d,9}	954 ^e	256
1995	466.5	78.7	n/a	1,530	413	1,366	322
1996	530.4	79.7	n/a	834	503	1,689	524

Sources: a 1978–92, GNP and GVIO, plus FDI and export purchases, are all from—Nantong shi tongji ju (ed.) *Lishi de zuo biao: Nantong shi, xian, shehui jingji yilan, 1949–92* (Nantong tongjiju, 1993). b Nantong shi tongji ju (ed.) *Nantong shi shehui jingji tongji nianjian 1994* (1995), p. 248. c Nantong shi, *Nantong shi shehui jingji tongji nianjian, 1993* (1994), p. 248. d Various *Almanac of China's Foreign Economic Relations and Trade*. Local data received in Nantong in 1992 reported 1990 export purchases as RMB2.016 billion, not 3.398 billion. Similarly, local data for 1985 was 0.896 billion, not 0.741 billion as reported by *Lishide zuo biao*. e *Zhongguo duiwai jingji maoyi nianjian 1995–6* (China Yearbook of Foreign Economics and Trade) p. 269. f *Zhongguo duiwai jingji maoyi nianjian 1989*, p. 213. g *Zhongguo duiwai jingji maoyi nianjian 1984*, p. 198.

Notes

1 *Zhongguo duiwai jingji maoyi nianjian 1991*, reported total foreign trade for 1990 as US\$385 million, but the following year's yearbook adjusted that figure to US\$190 million saying that US\$195 million of this value had been earned by 'joint operation' (*lian ying*).

2 Nantong shi tongji ju, *Nantong shi shehui jingji tongji nianjian 1993* (1994), pp. 248; p. 13 reported total export procurement purchases for 1990 as RMB4.72 billion, significantly above the value reported in the *Almanac of Foreign Economic Relations & Trade*.

3 *Zhongguo duiwai jingji maoyi nianjian, 1990* reported procurement export sales for 1988 at RMB 1.651 billion, less than those reported by *Nantong shi, xian, shehui jingji yilan 1949–1992*.

4 *Duiwai maoyi nianjian 1989* lists 1988 contracted FDI as US\$69.35 million of which US\$5.2 million was in government loans, and utilized FDI as US\$27.47 million.

5 *Zhongguo duiwai jingji maoyi nianjian 1986*, p. 228 reports 1985 export commodities procurement purchases as RMB896 million, up 14.4 per cent over 1984. It also reports contracted FDI for 1985 as US\$32.41 and utilized FDI as US\$7.53 million, much less than in source a.

6 GNP for 1978–92 is in 1990 RMB.

7 Gross value of industrial output is in current RMB. 1994 GVIO in 1990 RMB was reported as RMB70.87 billion.

8 Values reported in planned priced (*jihua jia*).

9 *Nantong shi shehui jingji tongji nianjian 1994* reported utilized FDI in 1994 as RMB290.2 million and 269.52 million for 1993.

10 Export purchases for 1978–94 are in current RMB.

Table 7.8 Production, trade and investment data for Zhangjiagang, 1978–96

Year	GNP (RMB million)	GVD (RMB million)	Value of export commodities purchased (RMB million)	FDI (US\$ million)		Foreign trade' (US\$ million)	
				Contracted	Utilized	Exports	Imports
1978	324.43	505.19	18.14	n/a	n/a	n/a	n/a
1984	890.02	2,330.31	59.98	n/a	n/a	n/a	n/a
1985	1,236.53	3,806.82	71.79	0.27	0.27	n/a	n/a
1988	2,262.28	7,312.08	504.70	21.59	8.75	n/a	n/a
1990	2,782.07	9,387.05	920.63	25.09	9.82	12.54	–
1992	6,317.02	22,007.99	3,705.00	994.27	198.42	n/a	n/a
1993	10,279.49 ¹	35,207.15	7,000.00	1,114.95	359.10	50.70	27.50
1994	15,250.49 ²	49,079.45	9,000.00	1,201.17	579.69	120.37	57.85
1995	19,101.29 ²	57,237.51	n/a	1,010.55	599.80	212.1	90
1996				1,003	567	285	145

Sources: Jiangsu Province Statistical Bureau (ed.) *Suzhou Statistical Yearbooks, 1993*, p. 39; 1994, pp. 99, 44, 200–1; 1995, pp. 33, 310; and 1996, pp. 192, 269. Jiangsu Province Statistical Bureau (ed.) *The Historical Process of Leaping Towards Modernization, 1949–1992 (Benxiang xiandaihua zhi licheng, 1949–1992)*, 1996 data supplied by Zhangjiagang COFTRE, June 1997. Much of the data before 1992 supplied by Zhangjiagang's local Statistical Bureau.

Notes

1 Includes total value of imports and exports by local trade companies (*difang ziying jinchu kou zonghe*).

2 Data reported are GDP figures, not GNP, which was no longer available and is in current prices.

Nantong's harbour fell behind in the 1980s because of poorly invested time and energy in a prospective joint venture harbour—years before joint venture harbours were really feasible.⁷⁰ But Nantong officials knew the Ministry would not give their joint venture's berths any cargo, and although they did not tell the Dutch, they reportedly realized the plan would not work. Yet during the four years that Nantong negotiated, Zhangjiagang, across the river put in a new container harbour, leaving Nantong's shipping in an uncompetitive and vulnerable state. Expanding highways and greater regional economic integration increased the role of container shipping in China significantly, so Nantong's lack of container facilities as of 1992 hurt their shipping greatly. As a result, two-thirds of Nantong's own exports go through other harbours, including Zhangjiagang, its major competitor within the province, where goods can be loaded on to container ships.

Even after Deng's southern trip (*nan xun*), leadership problems plagued Nantong. A new mayor, sent in in 1992 allowed too many polluting plants along the coast-line; she was subsequently removed from office following allegations of malfeasance by her

brother. Within the leadership team that followed, the party secretary and the mayor reportedly fought forcefully for control. Only in 1996 did new leaders come to power who seemed capable of uniting the city behind an export-led growth strategy.

Growth and development in Nantong: using their special policies

Yet Nantong leaders did use their preferential policies to try to attract domestic firms from outside the city into the zone.⁷¹ One factory director in the zone confirmed that these preferential policies were a major reason for relocating.⁷² Key incentives included waving all export taxes if 20 per cent of the goods' value was added on in the factory in the zone.⁷³ In some cases, production taxes could be waived entirely, especially if firms could argue that they were experiencing economic difficulties.⁷⁴ However, to placate localities whose tax base suffered when these firms moved to Nantong, the city promised to return some funds to them.⁷⁵ As a result of this conscious strategy, and under the liberalizing trend of Deng's 1992 southern trip, the number of domestic firms increased dramatically in 1992, when Nantong's zone signed 554 new contracts of which only 45 were foreign investment enterprises (Table 7.9). This trend continued through 1996, as each year approximately 10 per cent of firms in the zone were foreign funded. Still, of the total GVIO in the zone in 1996, 81.9 per cent was generated by joint ventures which made up the vast majority of production firms. Domestic firms were more involved in property development, foreign trade, housing construction and other speculative endeavours which attracted so many Chinese firms to the zone.

As a State Council ETZ, Nantong zone was allowed to establish an import-export company, making it an entrepôt through which firms in the surrounding areas shipped their goods out of China. Thus one small workshop in the zone sewed labels on to pre-fabricated clothes for a conglomerate of seventeen county-owned firms. But since these goods were all exported, the work carried out in these seventeen firms was treated as if it had taken place in the zone and was taxed at a lower rate. According to interviews in 1992 in the zone, about 40–50 per cent of zone exports came from firms outside the zone. As Table 7.9 shows, this ratio varied considerably from year to year, with exports from the zone outpacing industrial output within the zone in 1987, 1988, and 1991.

In fact, of the fourteen ETZs in the OCCs, Nantong in 1995 was only eleventh in the number of new joint ventures and ninth in exports by joint ventures. But it was fourth in export value of its domestic firms.⁷⁶ Apparently, Nantong zone's export companies shared their export power with enterprises that wanted to handle their own exports. According to one firm that came to the zone to serve as an export channel,

We have no export power but we do our own exports. Trade Bureau No. 1 in the zone lets us do our own exports—they simply stamp the paperwork. They have a rule that if you earn US\$2 to 3 million per year, they will give you this export power. They still control the macro-economic factors, keeping track of how much is exported, but they give us the power to do this.

Table 7.9 Nantong Development Zone, 1986-96

Indicator	1986	1987	1988	1990	1991	1992	1993	1994	1995	1996
No. of firms at year end (no. of JVs in brackets)	22 (4)	31 (9)	79 (10)	99 (18)	109 (25) ²	606 (69)	1,151 (146)	1,783 (190)	1,729 (183)	2,036 (200)
Industrial output ³ (RMB million)	n/a	2.27	30.15	175.08	209.61	556.00	1,901.77	3,005.00	3,635.21	4,006
Exports (US\$ million)	1.13	0.1	3.89	18.11	35.61	68.63	123.05	181.05	290.32	296.09
Exports ¹ (RMB million)	5.49	15.0	69.63	123.16	135.89	192.97				
Tax on profits (RMB million)	0.53	3.45	7.99	20.22	24.52	96.28	280.0	344.12	483.65	225.28
Realized FDI (US\$ million)	0	2.37	1.31	0.18	6.29	18.05	35.0	78.76	52.95	149.18

Sources: 1986-91 data from Nantong Economic Development Zone, June 1992. 1992 data from *Almanac of China's Foreign Economic Relations and Trade 1993/94*, Beijing, p. 293. 1994 data from *Almanac of China's Foreign Economic Relations and Trade 1995/96*, Beijing. 1995-6 data from *Nantong shi jingji jishu kaifaq, tongji gongbao 1996* (*Nantong shi jingji jishu kaifaq jingji ju bian*, Nantong Municipality Economic and Technical Development Zone Publications Bureau).

Notes

1 Includes purchases from outside the zone sold through the zone's export firm. The data I received for 1991 from zone officials in 1992 is contracted by a report on 1992 given to me in 1997. The original value of domestic sales in 1991 given to me was RMB251 million. But the 1992 value of 192.97 million was reported to be 42 per cent higher than the 1991 value, forcing me to re-evaluate the 1991 data. Unfortunately, after 1992, domestic purchases for exports were no longer used, only exports in US\$.

2 Of 25 foreign firms in 1991, 16 were joint ventures, 1 was a cooperative firm and 8 were wholly-owned foreign firms. 3 The Chinese reported this as based on 1990 prices.

Shipments of goods through the harbour increased significantly throughout the 1980s. Between 1981 and 1991, Nantong Customs reported a ten-fold increase in total shipping from 160,190 tons to 1,600,091 tons (although total tonnage based on Harbour Commission data from 1983–91 did not increase so dramatically). Imports, exports, and total shipping all peaked in 1988, although trends were again on an upward trajectory by 1991. Still through 1989, Nantong's harbour imported many more goods than it exported, a reflection of the weakness of the city's economic hinterland. Moreover, by 1994, only 16 per cent of all tonnage passing through the harbour involved foreign trade,⁷⁷ again reflecting the low level of internationalization in this 'open' city. Still, once the central government approved the construction of Nantong airport, leaders mobilized the capital to build it. Since delays by the central government and increased material costs had more than doubled the project's bill from RMB50 to 120 million, the city had to borrow money from all its factories, and took a RMB 10 million loan from the province and a RMB20 million loan from the People's Bank to come up with the funds.

However, Nantong's economy picked up after the city redirected investment towards the river, the zone and the harbours.⁷⁸ In June 1992, new city leaders restructured the city's spatial development plan, now labelled 'taking the harbours as the forward position and using the old city as the base'. They improved links between the city and the zone—by building a new road—and created five development centres in the southeast part of the city near to the ETDZ. They began plans for a bonded warehouse, though those efforts failed. Also, many companies from around the province put in their own dock facilities, which brought new business to the city. Analysts had long argued that Nantong needed to use the harbour to promote industrial development; and the boom created by Pudong and the 1992 opening of the Yangtze River finally increased opportunities for utilizing the harbour and the city's riverine status to promote the city's growth.

Nevertheless, Nantong's pace of development remained average for China as a whole and like the rest of the country accelerated after 1992, albeit at a pace which pales compared to Sunan. As [Table 7.7](#) shows, GNP between 1978 and 1994 increased at an average annual rate of 12.6 per cent, at about the national average, but below that of Zhangjiagang, which grew at 25.5 per cent. Nantong got its share of the contracted FDI boom that hit China after 1992, almost doubling between 1992 and 1993, and jumping again in 1994–5. Utilized FDI also grew at a steady pace, increasing almost seven-fold in 1992–6. As for exports, their US dollar value increased 20.4 per cent/year in 1988–94, but increased four-fold in 1992–6. Moreover, exports as a percentage of GDP jumped from 18.1 per cent in 1993 to 32.4 per cent in 1994, although they hovered around 25 per cent in both 1995 and 1996.

Thus, despite its harbour and zone, Nantong's level of internationalization has not been so high. Constraints, path dependence, and weak leadership limited it from fully utilizing opportunities granted to it by its position as one of China's fourteen OCCs. Because it received preferential policies and financial assistance from SEZO and the province, the central government has not constrained Nantong as it did inland cities such as Wuhan. While Solinger rightfully argues that many cities that internationalized slowly were not deficient in leadership but simply lacked 'policies' and suffer from what she astutely calls 'comparative disadvantage',⁷⁹ Nantong does not quite fit that model. No doubt, its

location on the north side of the Yangtze River, across from one of the fastest growing centres in all of China, created great competition for Nantong. Its harbour and airport were held back by supra-local authorities. Nor has its hinterland been conducive to industrial restructuring. Still, when one looks at the record, and at successful OCCs,⁸⁰ Nantong's limitations were largely due to hesitant leaders who failed to use opportunities to break out of institutional constraints and link forcefully with external markets and capital.

Zhangjiagang's leadership, opportunities and endowments

Zhangjiagang, on the other hand, has been one of the fastest growing and most opportunistic communities in all of China. Its location on the south side of the Yangtze River, making it the harbour for Sunan, and the access the harbour offered to the outside world helped Zhangjiagang establish itself as a 'linkage community' on China's boundary with the outside world. As a 'national-level' harbour, it received national, provincial, and regional financial support, including container equipment, which transformed its import/export facilities. As home to a national-level harbour, it moved up in the hierarchy of urban places, becoming a county-level city in December 1986 before its more industrialized neighbours, Jiangyin and Changshu counties.⁸¹ Also, new access routes were needed to move goods inland, leading to new roads and rail links from Wuxi and Suzhou that improved transportation for the entire community.⁸²

Its industrial structure based on TVEs increased its level of global integration.⁸³ TVEs exist beyond the purview of the plan and rely less on supra-local power authorities which affords them more freedom to pursue market transactions. Local elites have clearer ownership rights over the profits of TVEs than they do over SOEs,⁸⁴ giving them greater incentives to respond to global market opportunities.⁸⁵ Also, by working with TVEs, foreigners deal directly with the *de facto* owner of the enterprise, the township or village party secretary.⁸⁶ TVEs also saw their domestic market cut out from under their feet in 1988–90 during the economic retrenchment, which pushed them to seek a second global market. Worker discipline is better in TVEs than SOEs. Finally, with internationalization they evaded their major constraint in foreign trade—the trade bureaucracy's efforts to limit their direct contacts with foreign markets. By setting up joint ventures, Zhangjiagang's TVEs established direct export channels, increased their access to global market information, and removed the middlemen and their fees in foreign trade transactions.

By these moves, Zhangjiagang's leaders demonstrated far-sightedness, recognizing the importance of transnational linkages for their community's economic development. As public entrepreneurs, they introduced an export-led growth strategy and generated a normative environment that increased the likelihood that their agents—township and village officials—would respond to their orders.⁸⁷ While Nantong officials cut the number of TVEs in 1989, Zhangjiagang officials refocused their annual January planning meeting from agriculture to promoting exports from their TVEs. They rewarded local officials with bonuses and subsidies, intensifying inter-township competition, as each sought to expand exports and establish joint ventures in order to prove their loyalty and advance their own careers. Using the organizational advantages of being a county-level

city, which unlike prefectural cities has no administrative level between city officials and township leaders, they mobilized the entire community to follow an ELG strategy. They even seconded city leaders to the townships to ensure their strategy was implemented.

Zhangjiagang officials would have made Schumpeter proud. According to the national government's plan, foreign factories were to produce for the foreign market; domestic enterprises were to function in a protected domestic market. But entrepreneurs find opportunities in destroying such an equilibrium, as the disjunction in prices and quality of products—domestic prices are high and the quality of products is low—allows high quality products from joint ventures access to very significant extra-normal profits, if they can enter the domestic market.

Indeed, Zhangjiagang officials recognized the short-term nature of these profitable endeavours and offered foreign investors access to the domestic market in return for foreign technology and global markets. Also, aware that their joint venture's products were far more competitive than those produced in SOEs, they, as partners in these joint ventures, would share in the spoils of the suddenly vulnerable domestic market. They also understood the importance of technical transfer as a means of improving their firms' technological level and moving up the product cycle. As one official remarked, 'we want to be part of the Second World; internal China can be part of the Third World'.

Zhangjiagang also sought and received more than its share of preferential policies. In 1991, the head of the Foreign Investment Bureau in Jiangsu gave Zhangjiagang the right to approve FDI projects of US\$30 million, much higher than its status as a third-level city dictated. Thereafter, Zhangjiagang needed only to send the decision to the Foreign Investment Bureau in Nanjing for checking and final approval, greatly simplifying the approval process.⁸⁸ This preferential treatment resulted from strong ties with provincial officials, in particular the vice-governor responsible for the external opening, Gao Dezhen, who had been party secretary in Zhangjiagang in the 1960s and in Suzhou in 1988 when the municipality turned outward. In 1992, the city was put in the national plan for foreign trade, giving it important import-export powers. Also, in October 1992, thanks to what one official called 'the attractive power of their harbour', and because of lobbying by the city and the province, Zhangjiagang was one of thirteen Chinese cities awarded a 'bonded warehouse' (*bao shui qu*), and the only county-level city to receive such a preferential policy. In the zone, products employing foreign inputs are manufactured tax free so long as they are exported. But bonded warehouses afford rich opportunities for smuggling. Imported raw materials come in duty free if they are consumed in the production of subsequent exports. By under-reporting production efficiency, enterprises can inflate the value of exported goods and then sell goods imported duty free in the domestic market without paying any taxes.

While Zhangjiagang was following an export-led growth strategy before 1992, its growth rate and level of global integration increased dramatically following the rise to power in 1992 of Qin Zhenghua, the former party secretary of Yangshe Town, who made the harbour's development a top priority along with creating a modern, sparkling clean new city that would be the envy of the entire country. While people had talked about developing the harbour and the town beside it for many years—after all, it was the town's formal development strategy—Qin felt that 'it was just a slogan.... They were not completing

the work',⁸⁹ On his second day in office, Qin called a meeting at the harbour and 'the slogan of "using the harbour to build the city and using the city to develop the harbour" really took on meaning'.⁹⁰ Qin empowered harbour town officials, gave them RMB500,000 per year for urban management and keeping the town clean, got 14,000 of its citizens urban residence permits, built new roads, and made the town into a major centre.

Qin was extremely aggressive in getting the bonded warehouse. While the province selected Zhangjiagang as its candidate for a bonded warehouse, Zhangjiagang was vying with cities in other provinces for this preferential policy. In June, 1992, after a conference in nearby Changzhou, Premier Li Peng visited the harbour and wrote the characters—'bonded warehouse', in essence, supporting Zhangjiagang's request. Suddenly, in large meetings over the next three days, Qin called on the whole community to respond to Li Peng's message, moved farmers off their land and fenced in enough land to build the zone. Reportedly, Zhangjiagang took Li's calligraphy to the Special Economic Zone Office in Beijing and persuaded its director, Hu Ping, to choose their community: after all, the Prime Minister approved!

Within Zhangjiagang, Qin transformed community norms, introducing a communist morality based on ideology, intimidation, and a 'development at all costs' mentality. He emphasized the role of the party secretary, heightening local leaders' sense of responsibility.⁹¹ With over 70 per cent of cadres coming from the ranks of demobilized officers, Zhangjiagang's leaders are responsive to his authoritarian leadership style. Following a 'neo-authoritarian developmentalism', he created a 'Singapore model with Chinese characteristics'. He actively monitors local activities and after recommending changes, he sends his staff to follow up. Those who have not responded to his orders are routinely moved aside and their power is passed on to someone who listens to him. While many intellectuals and local government officials in Jiangsu Province felt that this heavily authoritarian, almost Maoist, leadership style was no longer appropriate in China, Qin has been remarkably successful.

In late 1993 and early 1994 he decided to make Zhangjiagang the cleanest city in China, primarily to make it hospitable to foreign investors. For two years citizens were fined for throwing any trash on the streets. Garbage collection was rigorous, and all public toilets, even those in the villages, became truly spotless. Motorcycles and car horns are forbidden in the government town and all polluting enterprises have been moved out as well. In 1995, the provincial propaganda department promoted the town as a model unit in introducing General Secretary Jiang Zemin's 'two civilizations'—spiritual and material (i.e. economic development). They called a provincial meeting there in 1995, then spread the word about Zhangjiagang's experiences in Beijing. In May 1995, Jiang visited and penned the sixteen characters known as the 'Zhangjiagang spirit'. The CCP Propaganda Department and the General Office of the State Council convened eleven meetings there,⁹² and the Chinese press lauded Zhangjiagang's economic and moral accomplishments.⁹³

Being a model has paid off handsomely (Table 7.8, p. 237). Although still only a county-level city, Zhangjiagang has benefited from a great deal of political tourism which has brought in a lot of domestic capital. Global environmental conferences have been held in this city—a model for cleanliness. In 1996 Li Peng's office approved a loan for RMB1

billion to build a huge power plant. All top leaders excluding Zhu Rongji, who supposedly is angry with them for not repaying their many loans, have come to visit.

Also, Table 7.8 shows that Zhangjiagang's global economic contacts rocketed after 1991. Contracted FDI jumped in 1992 and stayed at about the same level through 1996. Utilized FDI, however, increased dramatically in 1992–4. The value of domestic goods bought for export also increased dramatically—over 10 times in 1990–3, as Zhangjiagang officials used their export rights to buy goods all over China which they then exported. Exports in US dollars also grew five-fold in 1993–6. The role of the harbour, however, did not meet expectations, largely because a harbour 'fever' has swept the Yangtze. Local leaders know that harbours attract investment, and with towns all along the Yangtze River building harbours and berths, some of Zhangjiagang's anticipated cargo is going out through smaller, cheaper ports.⁹⁴ According to provincial officials, funds for the bonded warehouse dried up during the macro-economic tightening of 1994–5, but local officials deny this. Still, foreigners in Zhangjiagang report very little activity in the bonded zone. Also, while they initially cordoned off 4.1 sq. km, as of summer 1997 they were using only about 25 per cent of the land, with much lying undeveloped. The town's own development zone is also progressing less quickly than anticipated because it lacks preferential policies.

Thus, while Nantong's development shows how domestic institutions constrain internationalization and limit the opportunities for economic growth that could result from export-led growth, Zhangjiagang's experience is more complex. Domestic interests led the community to resist investing time and money in infrastructure in the harbour that would have decreased the transaction costs of foreign trade. Therefore, initially they did not shift the focus of their development towards the harbour and its zone. Institutional arrangements and fears that the city would lose tax revenues and jobs had they done so, show the strength of domestic institutions over global markets. Nevertheless, as entrepreneurs, Zhangjiagang's elites eventually realized that control over transnational spaces, such as harbours, zones, and bonded warehouses, could attract the attention of national leaders and foreign investors, both of whom could bring increased investment.

Conclusion

China's coastal cities are booming. The macro-economic conditions fuelling that growth include: the transfer of a large labour force from agriculture to industry; preferential policies, such as tax rebates and special deductions for foreign transactions; new opportunities for foreign trade and the decreased transaction costs of foreign commerce created by improved infrastructure; and new domestic and foreign investment which is flooding into these coastal regions. These opportunities simply have not been available to inland cities whose economic opportunities have been greatly constrained by the policies of the central government in Beijing.

Yet within the coastal areas, variations exist in the level of constraints, endowments, and opportunities, and in the capabilities of cities and leaders to increase the pace of economic development. But as a mixed economy, driven by both administrative controls and domestic and global market forces, China's economy remains quixotic; despite

consistent macro-economic growth which rewards comparative advantage, opportunities for truly rapid development come in fits and starts—when the central government decides to build a new harbour, give a community a World Bank loan, or grant a new form of spatial deregulation, such as a development zone, a high-tech zone, or a free trade zone.⁹⁵ Critical choices or missed opportunities in one year have long-term implications and can retard future development. Cities that overcome constraints, and the socio-political path dependence that would otherwise limit their ability to transfer resources into sectors linked to the global economy, can use their endowments to catch the next wave of domestic deregulation, government allocations, or foreign investments which can bring profitable returns in the medium term. Hesitancy, on the other hand, can be disastrous, since central funds or preferential policies may suddenly become unavailable as the next round of retrenchment unfolds. Entrepreneurial leadership, not just serendipity, determines which communities catch those waves.

On the other hand, even on the coast, some communities suffer more than others from state-imposed ‘comparative disadvantage’.⁹⁶ Suffocated by constraints imposed by higher level power authorities, these communities cannot take full advantage of their endowments, which under more open market conditions might generate opportunity and growth. Perhaps their tax burdens to upper level bureaucrats are too great, leaving them little capital to shift into export-led growth. Or perhaps a neighbouring municipality with administrative authority over resources prevents such transfers out of fear of competition.⁹⁷ The stories of Zhangjiagang and Nantong’s comparative development sustain this portrait of the development process. Zhangjiagang’s location, and its harbour, provided a more valuable endowment than Nantong’s. Its richer hinterland—the booming cities of Wuxi, Changzhou, and Suzhou, and particularly the former two—created strong demand for upgrading its harbour’s facilities. And while Nantong seemed to squander some of its competitive advantages, such as its ETDZ, Zhangjiagang caught up quickly and today with its ‘bonded free zone’, it has attracted a great deal of new FDI.

Though in the late 1970s, and even as of the mid-1980s, Zhangjiagang’s industrial base was far weaker than Nantong’s (Tables 7.7, p. 237 and 7.8, p. 240), TVEs have proved far more adaptive than SOEs under China’s evolving globalized market economy. Thus in 1978, while Zhangjiagang’s gross value of industrial output (GVIO) was only 10 per cent of Nantong’s, and only 27.9 per cent as of 1985, by 1990 it was 38.6 per cent, and by 1995, was 75.6 per cent, quite a remarkable narrowing, especially given the fact that Zhangjiagang has only 10 per cent of Nantong’s population (Table 7.4, p. 222).

Clearly, leadership and leadership networks played an important role in Zhangjiagang’s remarkable growth, as it benefited from a host of preferential policies bequeathed to it by provincial officials, such as special FDI approval rights and the bonded duty-free zone. The significance of these factors was magnified since as these benefits flowed to Zhangjiagang, Nantong’s leaders were trying to turn back the clock on marketization and internationalization in the late 1980s and early 1990s.

Yet comparing the two communities yields interesting counterfactual insights. The blessing of being an open coastal city in 1984 should have enriched Nantong—capital and preferential policies in the form of an ETDZ were forthcoming. But in 1984 cautious leadership, which reflected the more conservative national and provincial views still

prevalent at that time, isolated Nantong's zone from the city's economy both economically and spatially, failed to attract much foreign capital, and prevented a major transformation of Nantong's industrial structure into the production of more exportable and higher value-added goods. In many ways, Nantong's policy benefits came too early, before Nantong (and many other coastal cities in China) were ready to utilize them fully. Its harbour, which contributes to its economic growth, wasted four years in a then fruitless effort to create a joint venture harbour. As a result, it missed the opportunity to expand its container capacity, a benefit endowed upon Zhangjiagang across the river instead. Also by 1992, when Nantong really began to open up, competitors on the south side of the river—all the counties and county-level cities around Suzhou, as well as Suzhou itself—were attracting most foreign capital coming into the province. As a result, Nantong did not gain the benefits in terms of economic growth that greater internationalization might have brought.

Since 1992, as the macro-economic environment liberalized further, Nantong has done well. Its leadership has become more aggressive, more competitive, and more outward focused. In 1994, they greatly increased the role of exports in their GNP. Their growth rate has been consistently high. But the same is true for almost all coastal cities; as a result, Nantong remains an average city in a rapidly developing part of China.

Zhangjiagang's deeper internationalization began much later, around 1987–8, once the central government allowed townships in the counties in the 'golden triangle' to host FDI. But their location on the south side of the river, with the hinterland of Sunan and an industrial structure more conducive to ELG, gave Zhangjiagang more beneficial endowments than Nantong. For its leaders, internationalization was neither a burden nor a benefit to simply take in its stride; it was a brilliant opportunity for self-enrichment for a community that had felt excluded from the beneficence of Suzhou Municipality. While the harbour brought transnational links for its TVEs, based on their cheaper exports, foreign investors permitted Zhangjiagang to circumvent administrative constraints imposed by Suzhou Municipality and the foreign trade bureaucracy. Suddenly, Zhangjiagang could deal with the province and with the world. And despite its own path dependence, which made it hesitate in the early 1990s to shift all its investment towards the harbour, provincial leaders, hungry for a provincial harbour that could liberate them from Shanghai's controls and allow them to handle ocean-going vessels directly, propelled growth at Zhangjiagang. Then in 1992, a new powerful leader emerged who greatly expanded Zhangjiagang's global linkages and integrated its development even more deeply with the global market.

Entrepreneurs always seek new opportunities; so it was with Zhangjiagang. Soon after getting the duty-free zone, they found a new opportunity that could increase national support for their community by meshing political authoritarianism, moral incantations and economic growth, thereby linking their own political future to the neo-authoritarian model favoured by the central party apparatus. After such lofty linkages, one cannot imagine where they will turn next.

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Notes

- 1 Research funds for this study were provided by three grants: one from the Committee on Scholarly Communication with China, Washington DC; a second from the Social Science and Humanities Research Council, Ottawa, Canada; and the third from a Direct Allocation Grant, Hong Kong University of Science and Technology.
- 2 Dali Yang, 'Patterns of China's Regional Development Strategy', *The China Quarterly*, 1990, no. 122, pp. 230–57, and Y.Y. Kueh, 'Foreign Investment and Economic Change in China', *The China Quarterly*, 1992, no. 131, pp. 637–90.
- 3 See Barry Naughton, 'Cities in the Chinese Economic System: Changing Roles and Conditions for Autonomy', in Deborah Davis *et. al.* (eds) *Urban Spaces in Contemporary China*, New York, Cambridge University Press, 1995.
- 4 Dorothy J. Solinger, 'The Place of the Central City in China's Economic Reform: From Hierarchy to Network?', in Dorothy J. Solinger, *China's Transition from Socialism: Statist Legacies and Market Reforms, 1980–1990*, Armonk, M.E. Sharpe, 1993, pp. 205–22.
- 5 Anthony Leeds, 'Locality Power in Relation to Supralocal Power Institutions', in Aidan Southall (ed.) *Urban Anthropology: Cross-Cultural Studies of Urbanization*, New York, Oxford University Press, 1973. For an application of this approach to China, see Solinger, 'The Place of the Central City in China's Economic Reform', p. 207.
- 6 See G. William Skinner, 'Cities and the Hierarchy of Local Systems', in G. William Skinner (ed.) *The City in Late Imperial China*, Stanford, Stanford University Press, 1977, pp. 275–351; and David Zweig, 'Urbanizing Rural China: Bureaucratic Authority and Local Autonomy', in Kenneth Lieberthal and David M. Lampton (eds) *Bureaucracy, Politics, and Decision Making in Post-Mao China*, Berkeley, University of California Press, 1992, pp. 334–64.
- 7 Solinger, 'The Place of the Central City', and Paul E. Schroeder, 'Territorial Actors as Competitors for Power', in Lieberthal and Lampton (eds) *Bureaucracy, Politics, and Decision Making*, pp. 283–307.
- 8 World Bank Country Study, *China: Urban Land Management in an Emerging Market Economy*, Washington DC, World Bank, 1993.

- 9 Andrew G. Walder, 'Local Governments as Industrial Firms: An Organizational Analysis of China's Transitional Economy', *American Journal of Sociology*, 1995, vol. 101, no. 2, pp. 263–301.
- 10 For a discussion of global openings to foreign investment as a form of exemption from legal restrictions, see Jeswald W. Salacuse, 'Foreign Investment and Legislative Exemptions in Egypt: Needed Stimulus or New Capitulations', in Laurence O. Michalak and Jeswald W. Salacuse (eds) *Social Legislation In the Contemporary Middle East*, Berkeley, Institute of International Studies, 1986, pp. 241–61. See also my own, 'Segmented Deregulation' and the Politics of Urban Internationalization', which is [chapter 2](#) in my unpublished manuscript entitled *Linking China with the World*.
- 11 Cannon calls the policy favouring coastal communities—'spatial discrimination'. See Terry Cannon, 'Regions: Spatial Inequality and Regional Policy', in Terry Cannon and Alan Jenkins (eds) *The Geography of Contemporary China: The Impact of Deng Xiaoping's Decade*, London, Routledge, 1990, pp. 28–60.
- 12 David Stark, 'Path Dependence and Privatization Strategies in East Central Europe', *East European Politics and Society*, 1991, vol. 6, no. 1, pp. 17–54.
- 13 Stark, 'Path Dependence and Privatization Strategies'.
- 14 Jeffrey A. Frieden and Ronald Rogowski, 'The Impact of the International Economy on National Policies: An Analytical Overview', in Robert Keohane and Helen Milner (eds) *Internationalization and Domestic Politics*, Cambridge, Cambridge University Press, 1996, pp. 25–47.
- 15 Geoffrey Garrett and Peter Lange, 'Internationalization, Institutions, and Political Change', in Keohane and Milner (eds) *Internationalization and Domestic Politics*, pp. 48–75.
- 16 Cities and economic and technical development zones could exist in a rather conflicting, zero-sum mode, *vis-à-vis* the neighbouring city, as funds allocated for the zone limit funds for resuscitating the city's urban factories. Also, serious competition could emerge among factories in these localities.
- 17 According to Cooke, 'proactive' leaders can be internally innovative or more aggressive in trying to restructure their community's relationship to upper level governments. See Philip Cooke (ed.) *Localities: The Changing Face of Britain*, London, Unwin Hyman, 1989, pp. 297–8.
- 18 While county governments could not impose solutions on townships that might conflict over land reallocations, once the county was elevated to a 'county-level' city, the same administrator could now do so.
- 19 For example, while a county had to work through a prefecture or municipality if it wanted provincial resources, rising to a 'county-level city' allowed it to deal directly with the province. Similarly, a province could establish a project directly in a 'county-level city', while if it was trying to help a county, it would have to give the funds to the municipality or the prefecture and hope they would spend them in the county. Interview in Jiangsu, 1991.
- 20 Susan L. Shirk, *The Political Logic of Economic Reform*, Berkeley, University of California Press, 1992.
- 21 Lieberthal, 'Introduction: The "Fragmented Authoritarianism" Model', in Lieberthal and Lampton (eds) *Bureaucracy, Politics, and Decision Making*.
- 22 For a discussion of the policy process by which these preferential policies were granted see Jude Howell, *China Opens Its Door: The Politics of Economic Transition*, Boulder, Lynne Rienner Publishers, 1993. For a discussion of many of these benefits, see the Introduction to this volume.

- 23 See Mark Schneider and Paul Teske, with Michael Mintrom, *Public Entrepreneurs: Agents for Change in American Government*, Princeton, Princeton University Press, 1995, pp. 56–7. I borrow several of the ideas in the following paragraph from this book.
- 24 ‘Extra-normal profits’ are short-term profits that result from some innovation which allows a firm to be the sole proprietor of some product. Until competitors emulate that process or product, the firm gets much higher profits. This is distinct from ‘rents’ which involve some administrative constraints which create and or preserve the higher profits, usually by preventing new market entrants.
- 25 These two cities were the key research sites of my 1991–2 investigation into the impact of China’s ‘open policy’. I chose them both because they had harbours and were more likely to be affected by policies which increased interactions between external and internal forces. Initially, I planned to visit only Zhangjiagang, which I knew was a small rural community with an important harbour. But after visiting Zhangjiagang, I wanted a comparative case which could be arranged by Nanjing University’s Department of Foreign Students and Scholars. One of fourteen open coastal cities, with a major harbour on the poorer northern side of the Yangtze River, Nantong was an excellent point for comparison.
- 26 David Zweig ‘Developmental Communities on China’s Rural Coast: The Impact of Trade, Investment and Transnational Alliances’, *Comparative Politics*, 1995, vol. 27, no. 3, pp. 253–74.
- 27 See Matt Forney, ‘Town and Country: A Model City Strives for Spiritual Civilization’, *Far Eastern Economic Review*, 3 October 1996, pp. 28–9.
- 28 For a study of Nantong’s early history, see Samuel Chu, *Reformer in Modern China: Chang Chien, 1853–1926*, New York, Columbia University Press, 1965.
- 29 See Chen Yun, ‘Dui jingji gongzuo jige yijian’ (Some Opinions on Economic Work), cited in David Bachman, ‘Differing Views of China’s Post-Mao Economy: The Ideas of Chen Yun, Deng Xiaoping, and Zhao Ziyang’, *Asian Survey*, 1986, vol. 26, no. 3, pp. 292–321.
- 30 See *Yanhai, yanjiang, yanbian kaifang falu fagui ji guifanxing wenjian huibian* (Collection of Documents Concerning the Laws, Regulations, and Standardization of the Opening of the Coastal, Riverine, and Border Regions), Beijing, Falu chubanshe, 1992.
- 31 *Yanhai, yanjiang, yanbian kaifang*, p. 316.
- 32 Beginning in 1985, this process occurred in seven stages, with 1,199 towns being so recognized by the end of 1991. Initially formal guidelines were established. These included an urban population of 5,000 people, industrial production of RMB50 million, and exports of RMB5 million. But because it would take too long for many towns to attain that level, the standards were dropped. Interview JiaOpPol-91.int.
- 33 For a more detailed discussion of the regional economic issues, see B.Michael Frolic, ‘China’s Second Wave of Development: The Yangtze River Region’, paper presented to the Canadian International Development Agency, 6 January 1994.
- 34 The R^2 between DATE OPENED and industrial production and the number of FDI contracts was 0.81, while that between DATE OPENED plus township and village industrial output and the number of FDI contracts was 0.86.
- 35 *Dangdai Zhongguo de Jiangsu, xia* (Contemporary China’s Jiangsu), Beijing, Chinese Social Sciences Publishing House, 1989, vol. 2, p. 851.
- 36 Shen Wei-cheng, ‘Development and Problems of China’s Ports’, in G.J.R.Linge and D.K.Forbes (eds) *China’s Spatial Economy*, Hong Kong, Oxford University Press, 1990, p. 97.
- 37 Some enterprises control their own 10,000 ton berths, such as the grain bureau, the coal bureau, the oil company and Nantong Shipping Repair.

- 38 See Paul Mooney, 'Spotlight-Jiangsu Province', *JETRO, China Trade Report*, July 1993, pp. 8–10.
- 39 Interview Jiaoppol-91. int.
- 40 While officials in Nantong complained of having too little money, Wuhan had only RMB1.59 billion for local expenditure, which per capita was far less money than that available to Nantong. See Dorothy J.Solinger, 'Despite Decentralization: Disadvantages, Dependence and Ongoing Central Power in the Inland—the Case of Wuhan', *The China Quarterly*, 1996, no. 145, p. 23.
- 41 There is a serious problem here with the data, as all these cities have important 'extra-budgetary funds' which do not show up in the statistical yearbooks. But in many ways, the state may compensate for that when it calculates the 'Local finances passed up', which in the case of Wuxi in 1991 was an amazing 91 per cent of its official 'income' (*shouru*). Wuxi's real income is probably much higher, and the province does not really take away 91 per cent of it. If these data are to be believed, the province must have been taking 'extra-budgetary funds' into consideration when calculating taxes.
- 42 Perhaps as an OCC, Nantong was allowed to reinvest more of its income. Or, perhaps because cities which relied on TVEs were expected to be hiding so much of their income, the province demanded a higher percentage of their visible income.
- 43 *Jiangsu tongji nianjian 1991* (Jiangsu Statistical Yearbook 1991), p. 206.
- 44 *Jiangsu tongji nianjian 1991*, p. 208.
- 45 Interview, Nantong Planning Commission, 1992.
- 46 See Ceng Shougu, 'Nantong gang de xingqi he Nantong shi de fazhan zhanlue' (The Rise of Nantong Harbour and the Development Strategy of Nantong City), *Jingji dili* (Economic Geography), 1988, vol. 8, no. 1, pp. 46–51.
- 47 Based on 1990 data from the *Jiangsu tongji nianjian 1991*, Suzhou's GNI was RMB17.884 billion, while Wuxi's GNI was RMB 13.474 billion. Should Zhangjiagang, whose GNI in 1990 was RMB2.444 billion, shift from Suzhou's to Wuxi's administration, Suzhou's GNI would drop to RMB 15.440 billion, while Wuxi's would increase to RMB15.918 billion. See Jiangsu Statistical Bureau, *Jiangsu tongji nianjian 1991*, Beijing, China Statistical Publishing House, 1991, p. 331.
- 48 See 'Work Report to the Meeting Celebrating the 20th Anniversary of the Establishment of the Harbour', by Wu Zhengxin, Director, Zhangjiagang Harbour Management Bureau (ed.) *Jiaotong bu Zhangjiagang gangwu guanli ju, jian gang ershi zhounian zhuanluo* (Ministry of Transport, Zhangjiagang Harbour Management Bureau, Special edition to celebrate the twentieth anniversary of the establishment of the harbour)—hereafter 'Special edition to celebrate'—May 1988, pp. 10–12.
- 49 See Yang Shoukai, 'Yi gang xing cheng, yi cheng cu gang: ba Zhangjiagang shi jiancheng xiandaihua de gangko chengshi' (Let the Harbour Develop the City, and the City Promote the Harbour: Turning Zhangjiagang City into a Modern Port City), in 'Special edition to celebrate', pp. 23–6.
- 50 Interview with provincial urban planning officials in Jiangsu, 1992.
- 51 For a criticism of Suzhou's 1985 report, see Lu Dazhuang, 'Jiakuai jianshe, chongfen fahui Zhangjiagang gang de youshi he zuoyong' (Speed Up Construction and Fully Utilize Zhangjiagang Harbour's Advantages and Utility), in 'Special edition to celebrate', pp. 13–15.
- 52 This information is based on interviews with officials in the Planning Bureau of the provincial Ministry of Construction, and with geographers at Nanjing University.

- 53 Zhang Chi, 'Nantong shi jingji jigou de tedian yu tiaozheng zhanlue' (The Characteristics and Restructuring Strategy of Nantong City's Economic Structure), *Jiangsu jingji taolun* (Jiangsu Economic Debates), 1990, no. 3.
- 54 In 1991, imports accounted for 13.5 per cent of total industrial production.
- 55 Reportedly, Nantong could pay for only 50–60 per cent of its imports with exports, so it needed loans as well to keep the balance.
- 56 Frieden and Rogowski, 'The Impact of the International Economy on National Policies'.
- 57 See Chen Yue, 'Wo guo jingji jishu kaifa qu jianshe de jige wenti' (Some Problems in Our Country's Economic and Technical Development Zones), *Nankai xuebao: zhe she ban* (Nankai University Journal: Philosophy and Social Sciences), 1989, no. 4, pp. 70–5, in People's University Reference Materials, F14 (SEZ and Open City Economics), 1989, no. 12, pp. 33–8.
- 58 While 12 km may not seem a great distance, and when compared to Qingdao's zone which was 35 km away on an island is not that far, Nantong's zone was psychologically far away and had not been linked to the city by a good road for six years after it opened.
- 59 Interview ERCNT-6/92.
- 60 Most zones in the early period were constructed far away from the city centres.
- 61 Here he was probably referring to the tax rates in the two localities which would go into effect after the initial two years of tax free development and three years of half-taxes in the zone. However, the two years tax-free, three years half-tax opportunity was reserved supposedly only for firms that made a commitment of over fifteen years to the zone.
- 62 Interview ZJGCXGHJS-91.
- 63 Yang, 'Let the Harbour Develop the City', p. 24. This is the author's translation.
- 64 Yang, 'Let the Harbour Develop the City', p. 24.
- 65 Zweig, 'Developmental Communities on China's Rural Coast'.
- 66 Other indicators of internationalization, such as exports as a percentage of GNP, are much more problematic as the data are highly suspect. While the data for Zhangjiagang seemed appropriate to me, there are problems using current RMB for export purchases, even if GNP is also recorded in current RMB. Based on my own calculations, export purchases as a percentage of GNP in Nantong were over 61 in 1993, a figure that is impossible. In fact, MOFTEC reports that exports were only 13.7 per cent of GNP in 1993. Similarly, in 1995, Zhangjiagang's reported purchases of export commodities in current renminbi was *greater* than its entire GNP.
- 67 See various *Ministry of Foreign Economic Relations and Trade Yearbooks* which report Nantong data since it is an OCC.
- 68 Interview in Nanjing with provincial trade officials, 1992.
- 69 Perhaps they were trying to mirror conditions in Beijing where the eight 'immortals' had re-emerged in 1989 to determine the outcome of political and economic events.
- 70 Only in 1993–4 did Shanghai establish the first joint venture harbour with Hutchinson Whampoa of Hong Kong. Since then other cities, including Wuhan and Zhangjiagang, have struck deals with foreign investors for harbour development, but it was only after Deng's southern trip in spring 1992 spurred China's opening that the idea of joint venture harbours could reach fruition.
- 71 Most high-tech zones worldwide do not create new production but instead attract factories from other parts of the country through their new, modern infrastructure as well as the synergy that develops when enterprises are in close proximity. See Doreen Massey, Paul Quiontas and David Wield, *High-Tech Fantasies: Science Parks in Society, Science and Space*, London, Routledge, 1992.

- 72 Interview at Enterprise 3, Nantong Zone, 1992.
- 73 See 'Nantong Shi renmin zhengfu guanyu diu Nantong Shi jingji jishu kaifa qu de neilian qiye shixing youhui de zan xing guiding' (Temporary Regulations of the Nantong City Government Concerning Preferential Policies Given to Domestically Linked Firms of the Nantong City Economic and Technical Development Zone), 20 April 1988, in *Compendium*, pp. 1801–3.
- 74 *Yanhai, yanjiang, yanbian*, p. 1801.
- 75 *Yanhai, yanjiang, yanbian*, p. 1801.
- 76 See Nantong shi jingji jishu kaifaqu jingfaju (ed.) *Nantong shi jingji jishu kaifaqu tongji gongbao, 1996* (Nantong Municipality's Economic and Technical Development Zone's Economic Report).
- 77 *Zhongguo duiwai jingji maoyi nianjian, 1995–1996* (China Yearbook of Foreign Economics and Trade) Beijing, Zhongguo shehui chubanshe, 1995, p. 270.
- 78 See Shen Shuxin and Li Shaobing, 'Jianshe xiandaihua xin chengqu—Nantong kaifa qu tiaozheng fazhan zhanlue liang nian shu yao' (Build a New Modern Urban District: The Two-Year Results of Nantong Zone's Revised Development Strategy), *Waijing daobao* (Foreign Economic Report), May 1995, pp. 14–15.
- 79 Solinger, 'Despite Decentralization.'
- 80 Qingdao, which had many more advantages than Nantong—it became a line item on the national budget—also failed to break out until after Deng's southern trip, when a new leader began to utilize the city's endowments, transformed the investment climate within the city, and pressed the central government for more preferential policies. See Jae Ho Chung's contribution to this volume.
- 81 According to one analyst, the city beside a national-level harbour should always be a provincial or second-level city. No doubt that is why there was pressure to build a new city composed of Zhangjiagang, Jiangyin, and Jingjiang.
- 82 While provincial leaders might have preferred to build up Nanjing harbour, next to the provincial capital, they could not do so. The Nanjing Bridge, constructed during the 1958 Great Leap Forward, is too low to allow ships over 10,000 tons to pass underneath. They must load their cargo on to smaller ships of 5,000–10,000 tons to get their goods upstream. Much of that unloading occurs at Zhangjiagang, not Nantong.
- 83 See Yan Shanping, 'Export-Oriented Rural Enterprises', *JETRO China Newsletter*, 1995, no. 118, pp. 8–23, and David Zweig, 'Internationalizing China's Countryside: The Political Economy of Rural Exports', *The China Quarterly*, 1991, no. 128, pp. 716–41.
- 84 Jean C.Oi, 'Fiscal Reform and the Economic Foundations of Local State Corporatism in China,' *World Politics*, 1992, vol. 45, no. 1, pp. 99–126.
- 85 Zweig, 'Developmental Communities'.
- 86 David Zweig, 'Reaping Rural Rewards: China's Town and Village Enterprises can make Good Investment Partners', *China Business Review*, November-December 1992, pp. 12–17.
- 87 Schneider and Teske (eds), *Public Entrepreneurs*.
- 88 Interview, Jianguo Waimao, 1992.
- 89 Interview with Qin Zhenghua, June 1997.
- 90 Interview, Urban Planning Office, Zhangjiagang, June, 1997.
- 91 His five-point leadership slogan was: praise creative people, support reformers, whip people who just talk idly, punish the corrupt, and bravely stimulate those who carve new paths. During my visit to the city it was abundantly clear that people truly respected but also feared him.

- 92 See Zhangjiagang shi gailan bianweihui (ed.) *Zhangjiagang shi gailan* (A View of Zhangjiagang City), Nanjing, Jiangsu People's Publishing House, 1996, p. 4.
- 93 *Renmin ribao* (People's Daily), 20 October 1995, p. 3; 24 October 1995, p. 3; and 27 October 1995, p. 3.
- 94 Interview Jiangsu Academy of Social Science, June 1997.
- 95 For an argument that China's opening has followed a wave-like pattern see Howell, *China Opens Its Door*.
- 96 Solinger, 'Despite Decentralization'.
- 97 A good example is the relationship between Yantai and Weihai, cities of somewhat comparable endowments and size. Yantai was a municipality with administrative authority over Weihai. Initially, it fought to prevent Weihai from becoming an OCC because it feared the competition for domestic resources and FDI that would result.

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Institutional constraints, leadership and development strategies

Panyu and Nanhai under reform

Lam Tao-chiu

Introduction

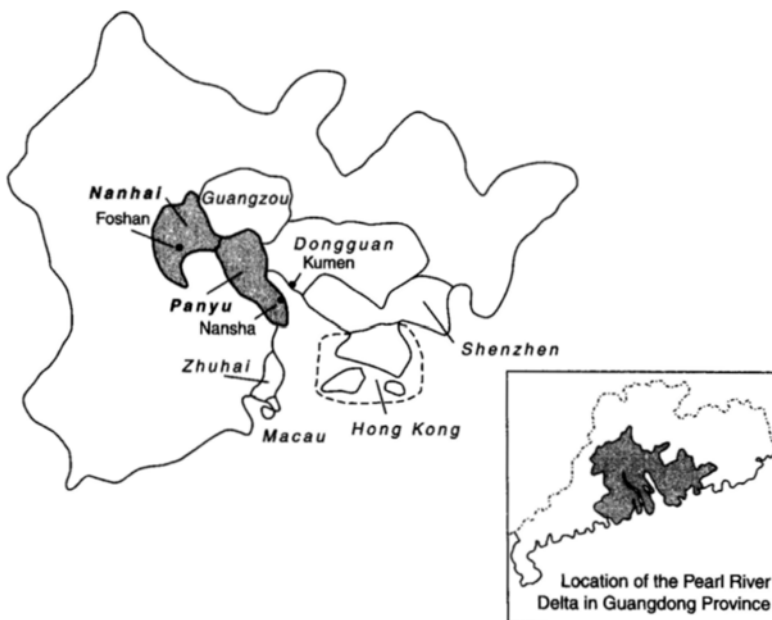
This chapter studies two fast-developing county-level cities, Nanhai and Panyu, in the inner Pearl River Delta (see [Map 8.1](#)) in Guangdong province. They were formerly counties, but following the policy of abolishing counties and establishing cities in the more developed localities, they gained county-level city status in 1992.¹ County-level cities are at the lowest level in China's hierarchy of cities. As more counties in China gain city status, we may have considerable difficulty understanding China's level of urbanization.² However, many of the count-level cities are basically rural communities with substantial rural populations. Nanhai and Panyu are also basically rural communities, but they are different from the average county-level cities in the country in that the rapid industrialization and economic growth in the past two decades have quickly set in train a process of rapid urbanization. This introductory section sets out the rationale behind selecting these two localities for analysis and discusses the analytical foci of this chapter and how this analysis is relevant to understanding local economic development in China in the reform period.

Why Nanhai and Panyu?

Nanhai and Panyu are clearly not average Chinese counties or county-level cities. They are far more industrialized and economically developed than most localities in China. In a survey about the 'integrated strength' (*zhonghe shili*) of the 100 most prosperous counties by the State Statistics Bureau in July 1992, Nanhai ranked fourth nationally (trailing only a few counties in Jiangsu Province) and first in Guangdong Province. Panyu stood at the thirtieth position nationally. Within Guangdong, it ranked only behind Nanhai, Shunde and Chaoyang.³ This survey measured China's counties and county-level cities along a number of indicators, including the degree of industrialization and the development of township and village enterprises, improvement in people's livelihood and other aspects reflecting integrated socio-economic development.⁴ Another measure of the atypicality of the two cases is the rankings of their budgetary revenue both in China and in Guangdong Province. The budgetary revenue of Nanhai has consistently been the highest among all counties in China.⁵ In 1987, Panyu was well within the first hundred richest counties in

Statistical profiles of Nanhai and Panyu, 1996

<i>Indicator</i>	<i>Nanhai</i>	<i>Panyu</i>
Total population (1,000)	1,043	867
GDP (RMB million)	21,487	16,428
GDP as percentage of provincial GDP	3.3	2.5
Gross value of industrial output (RMB million)	43,261	33,887
Gross value of agricultural output (RMB million)	47,266	37,269
Total foreign trade (US\$ million)	881	1,757
Total foreign trade as percentage of provincial total	1.5	3.0
Realized foreign capital (US\$ million)	259	410
Realized foreign capital as percentage of provincial total	1.9	3.1



Map 8.1 Location of Nanhai and Panyu in the Pearl River Delta

China measured by the size of budgetary revenue. As a result of the sharp increase in the county's budgetary revenue in recent years, its ranking shot to the tenth position in 1993 and to third in 1995.⁶

Both Nanhai and Panyu are widely held as successful examples of economic development, and there is little doubt that they are. Therefore, at the first level, this study cannot help but be a study of the common factors contributing to successful local economic development. However, this analysis is also designed to study the differences between these two localities in the initial stage of the reform era. While compared to

average Chinese counties both Nanhai and Panyu are undoubtedly very successful cases of development; the differences between them are also noteworthy. In the first half of the 1980s, Panyu was generally regarded as a laggard, falling behind not only the leaders (dubbed as the four little tigers of Guangdong) in the inner Delta region, but also counties (such as Xinhui and Taishan) further away from Guangzhou and Hong Kong. Ezra Vogel noted that the gross value of industrial and agricultural output (GVIAO) of Panyu registered a lesser rate of growth than a number of inner Pearl River Delta counties for the 1980–5 period.⁷ Centrally located in the fertile inner Pearl River Delta, and being closer to Guangzhou (the provincial capital city with more than 6 million population) than Shunde and Zhongshan, in the mid-1980s Panyu found itself falling behind other counties in the inner Pearl River Delta in economic development. It was only in the second half of the 1980s and particularly in the early 1990s that Panyu managed to narrow the gap between itself and fellow inner Delta localities. Despite its initial sluggish performance, Panyu's economy has performed extremely well in the 1990s, making it the inner Delta's new star. In 1995, Panyu attracted widespread attention when *Nanfang Ribao*, the mouthpiece of Guangdong Provincial Party Committee, published a report on Panyu on its front page and labeled it the fifth tiger in Guangdong.⁸

This chapter seeks to understand both why Panyu and Nanhai had different development experiences in the initial stage of the reform period and also why the former laggard has managed to catch up since the late 1980s. The differences between Nanhai and Panyu may appear to be negligible, but they can be grasped to develop a nuanced understanding of the conditions affecting local economic development in China. These differences, however small compared to the differences between these two localities and the less developed localities in China, are striking in view of their many other similarities. Nanhai and Panyu are both located in the inner Pearl River Delta, share more or less similar traditions and culture, and fall into the region covered by the central government's 'special policies and flexible measures.' They were also part of the Pearl River Delta Open Region (*Zhujiang sanjiao zhou kaifangqu*) created in 1985 and benefited from the preferential measures that come with it. Another similarity of the two counties is their geographical proximity to Guangzhou and Hong Kong, the engine of the economic growth in the Pearl River Delta.⁹ These factors are generally regarded as important to local economic development in China in the reform era. Then, why the differences noted above?

This chapter argues that two factors—different institutional constraints and leadership—are crucial to understanding these initial developmental differences between Nanhai and Panyu. According to the historical institutionalists, institutions are weighty factors in socio-economic and political development in that they present different opportunities and cost structure to actors, and as a result of this, condition and even shape their behavior.¹⁰ Two types of institutional constraint are most pertinent to the present analysis: (1) the relationships between the localities in question and their administrative superiors and (2) the structure of the economy before the reform. China's administrative hierarchy encompasses a chain of relationships between different levels of government. Each of the sub-national governments is linked to one or more administrative superiors. The kind of relationship a locality has with its superior level is an important factor affecting its capacity

to respond to opportunities that have emerged in the reform era, because local initiatives and autonomy are a function of the superior level's willingness and determination to relax its control. This is particularly important for the county governments because, as discussed below, national provisions regarding reform and opening rarely extend explicitly to this level. Under China's multi-layered administrative system, a county is not typically directly placed under the provincial level, but placed under either a prefecture or a prefecture-level city.¹¹ Even when a county gains city status, it is only nominally placed under the provincial level. A prefecture-level city often manages a county-level city on the province's behalf although it is called a *shengxia shi* (a city directly subordinate to the province).¹² Just as each province in China has a distinctive relationship with the central government,¹³ at the sub-provincial level each county also has a unique relationship with its administrative superior.

Moreover, counties are placed under different administrative superiors for different reasons. When a county is placed under a prefecture, the main reason is to reduce the scope of control. However, if a county is put under the administrative leadership of a large municipality, it is mainly for the purpose of providing support and services to the large populations in the big metropolis. As argued below, Nanhai and Panyu had quite different relationships to their administrative superiors at the beginning of the reform era, and these had had considerable impact on their response to the opportunities presented by the reforms. Economic structure is another important institutional factor as it affects both whether a locality can make a quick departure from the pre-existing system and, probably equally importantly, whether it has the incentive or sense of urgency to move ahead with the reforms. This chapter presents evidence that suggest that Panyu's pre-existing economic structure was not very favorable to a fast departure from the past.

No research on China can ignore the role of leadership.¹⁴ Leadership is especially important at the beginning of the reform period, because under conditions of high uncertainty and ambiguity (ideological as well as political) a determined leadership is a key factor differentiating developmental success from failure. A strong and determined leadership is required to overcome the hesitation and doubts among the rank and file cadres and the masses, to creatively circumvent constraints imposed by existing institutions and bureaucratic barriers,¹⁵ and to protect those who dare to move ahead of others. At the same time, leadership is also closely related to the administrative relationship just mentioned. The making of a local leadership is determined by a wide range of factors, some more amenable to manipulation by the superior levels and other less so. In China's leadership appointment system, the superior levels have significant influence (albeit not entire control) on who are appointed to which positions.¹⁶ Therefore, it is not enough to state that leadership is important to local development. We should also examine the institutional contexts within which a particular configuration of leadership has emerged and operated. Moreover, as a locality is constrained by its administrative superiors, the leadership at the levels above is also an important element affecting its capacity to fully exploit the new opportunities.

Apart from explaining why Panyu lagged behind Nanhai in the early 1980s, we also examine the reasons behind Panyu's remarkable catch-up in the second half of the 1980s and especially in the early 1990s.

If the institutional constraints and leadership factor that we use to explain Panyu's initial lagging behind have any validity, they should also help account for its rapid growth in the later period. At least we should be able to find some evidence that the institutional constraints that had tied the county's hands had disappeared, and the leadership configuration was different. We show below that beginning about 1987, the administrative control from Guangzhou was gradually loosened. At about the same time, a group of leaders more committed to local economic development emerged.

Institutional constraints and leadership are viewed as variables intervening between natural endowments and preferential policies on the one hand—or what David Zweig calls segmented deregulation in his contribution in this volume—and developmental performance on the other. The institutional constraints facing these two localities, and leadership, are important factors determining whether and how such preferential policies were actually implemented.

Nanhai and Panyu: background and paths of economic development in the reform era

Both Nanhai and Panyu boast a history of more than two thousand years, tracing their origin to the Qin dynasty.¹⁷ This is believed to be a main source of their distinctive identity. By comparison, Guangzhou and Foshan have only a relatively short history. From the Ming Dynasty to the early Republican period, Nanhai and Panyu jointly ruled Guangzhou. In 1921, Guangzhou gained independent city status, and Nanhai and Panyu were forced to relocate their county seats. Until modern times, Foshan was only a small town under Nanhai's administration, although for a brief period of time during the Republican period it once became a city directly under the provincial government.

For most of the first two and a half decades since 1949, Nanhai and Panyu were placed under Foshan Prefecture (*zhuanqu*),¹⁸ which was first established in the mid-1950s. In 1975, Panyu was transferred from Foshan Prefecture to Guangzhou and, since then, has been under its administrative leadership.

Nanhai and Panyu are located at the heart of the inner Pearl River Delta (refer to Figure 8.1). They are adjacent to each other and lie at the outskirts of Guangzhou—Nanhai to the southwest and Panyu to the southeast. Foshan, which has also been the county seat of Nanhai in recent decades, is only 15 kilometers from Guangzhou.¹⁹ Panyu's county seat, Shiqiao, lies 17 kilometers south of Guangzhou. Both Nanhai and Panyu are close to Hong Kong, but before the Nansha-Kumen vehicle ferry came into operation in May 1991,²⁰ transportation between Panyu and Hong Kong was not convenient. The large number of branches of the Pearl River in Panyu effectively prevented easy movement of goods and people between the county and Guangzhou, Hong Kong and other parts of the inner Delta. Although Panyu lies at the outskirts of Guangzhou and has been under its administrative leadership since 1975, two big rivers had blocked transportation between the county and Guangzhou. Vehicles to and from Guangzhou had to rely on slow and time-consuming ferries. The situation immediately improved when two major bridges were completed in 1985 and 1988. There are also a large number of rivers in Nanhai county, but they do not lie astride major roads. Nanhai's linkage to Guangzhou had also

Table 8.1 Economic growth in Nanhai, Panyu and average Guangdong counties

	<i>Average Guangdong counties</i>	<i>Nanhai</i>	<i>Panyu</i>
Population in 1990 (10,000s)	62.1	93.3	76.8
GVIAO, 1980 (RMB million)	30,270	99,762	60,540
GVIAO, 1990 (RMB million)	96,873	607,070	356,596
Total growth 1980–90 (%)	320	608	586
GVIO, 1980 (RMB million)	13,552	70,112	35,715
GVIO, 1990 (RMB million)	73,184	560,733	316,854
Total growth 1980–90 (%)	540	800	873
Budgetary income, 1980 (RMB10,000)	2,091	7,839	5,991
Budgetary income, 1990 (RMB10,000)	5,648	36,833	21,303
Total growth 1980–90 (%)	270	470	356

Source: Guangdong sheng tongjiju (ed.) *Guangdong xian (qu) guomin jingji tongji ziliao 1980–1990*, Guangzhou, 1991, pp. 3–5, 30–3, 280–3.

benefited from having Foshan in its boundary, because even before the reform, there were a relatively good road and railway linking Guangzhou and Foshan. The Guangzhou-Foshan highway was the first highway to be constructed in Guangdong province in the reform period.

Poor transportation had undermined Panyu’s natural endowments: a central location in the inner Pearl River Delta and a relatively abundant supply of land. As a number of key infrastructure projects are completed, these natural endowments give Panyu clear advantages in the competition among the localities in the inner Delta region.

Geographical location as well as a long historical tradition in industrial production and commercial activities set the counties and cities in the inner Delta region apart from other counties in Guangdong, and still more so, from the rest of China. Table 8.1 presents data on selected aspects of these two counties against the average counties in Guangdong province. In 1980, Nanhai’s GVIAO was more than three times and Panyu’s rather less than twice the figure of the provincial average respectively. The gap in GVIO was even bigger, suggesting the relatively high level of industrial development in these two counties. In 1980, industrial output value was already 70 percent and 59 percent of GVIAO in Nanhai and Panyu respectively, while the figure for the average counties in the province was about 45 percent. The higher share of industrial output value in Nanhai was in part a result of the county’s rapid industrial development in 1978–80.

Nanhai and Panyu have experienced rapid economic growth since the beginning of reform in 1978 and this is clearly reflected in Table 8.2.²¹ Taking the period 1980–94 as a whole, Panyu seems to have performed as well as Nanhai. However, the growth rate for the entire post-Mao period tends to obscure important variations in different phases of development. For the period before 1985, Panyu’s development was significantly slower than Nanhai’s on several scores. In the period 1978–80, Nanhai’s GVIAO increased a total of 36 percent, about one-third faster than Panyu. For the next period, Panyu also

Table 8.2 Economic growth rates in Nanhai and Panyu, various periods

	1978-80	1980-5	1985-90	1990-4	1980-94
Nanhai					
Total domestic output value (%)		165	156	257	232
GDP (%)		159	152	230	206
GVIAO (%)	36	154	139	420	2,552
Export (%)		231	1,869	246	22,500
Actual foreign investment (%)			120	711	
Budgetary revenue (%)		70	176	173 ^a	1,180 ^a
Year-end saving balance (%)		640	427	171 ^a	9,954 ^a
Panyu					
Total domestic output value (%)				279	
GDP (%)		160	143	244	217
GVIAO (%)	27	109	170	600	3,417
Export (%)		96	578	610	9,300
Actual foreign investment (%)		678	211	808	21,850
Budgetary revenue (%)		40	154	248 ^a	883 ^a
Year-end saving balance (%)		412	467	190 ^a	8,305 ^a

Sources: *Zhujiang sanjiaozhou jingji kaifanqu touzhi zhinan*, Hong Kong, Xinhua chubanshe, 1986, pp. 35-6; Guangdong sheng tongjiju zonghechu (eds) *Zhujiang sanjiaozhou jingji qu tongji ziliao 1980-1994*, Guangzhou, 1995, pp. 11-22, 37-39, 88-90.

Note

a 1990-1993 or 1980-1993. 1994 budgetary revenue was not comparable because of the implementation of new tax sharing system in 1994.

lagged behind. While Nanhai's GVIAO grew a total of 154 percent in 1980-5, Panyu was only able to increase its GVIAO by 109 percent. Similarly, there are considerable differences in terms of the growth of budgetary revenue and year-end saving balance for the same period.

Panyu's economic development has accelerated since the second half of the 1980s. In the 1985-90 period, it had either overtaken Nanhai in term of growth rate in some areas (GVIAO and year-end saving balance) or narrowed the gap between them in others (budgetary revenue). In the early years of the 1990s, the momentum of growth in Panyu continued. By the mid-1990s, the extremely rapid growth in recent years placed Panyu on a par with the four little tigers in the region.

Explaining development and developmental differences

This section seeks to explain the developmental experiences of Nanhai and Panyu outlined above. Although this chapter emphasizes the impact of institutional constraints and leadership, more broadly development can be viewed as being affected by three sets of factors.²² The first set refers to factors such as geographical location, topography, external

links to Hong Kong, Macau and the external world in terms of either geographical proximity or having a large number of natives residing in these places. These factors are immutable, in the sense that they are given by either nature or history. The second set of factors concerns the institutional and policy arrangements provided by the central, provincial and prefecture-level governments. They range from the preferential policies granted by the national and provincial governments, to more subtle institutional constraints embedded in the hierarchical relationship of the administrative system. The third set of factors is concerned with local political leaders, and the policies and choices they have made. It is the complex interplay of these different sets of factors that account for the success or failure of development.

Location and historical legacies

The first set of factors refers to history and location. It is clear that Nanhai and Panyu share considerable similarities in these respects, with the exception that poor transportation had been more a problem to Panyu than to Nanhai. Being close to a big city, and particularly being close to Hong Kong is probably among the most important reasons for the stunning success in these two localities.²³ In many accounts of the rise of the inner Delta, it is also often argued that the rich tradition of commercialization and the relatively high level of industrialization have helped the people in this region to grasp the opportunities in the reform era.

Like other localities in the inner Delta area, Nanhai and, in particular, Panyu, have benefited greatly from having a large number of out-migrants to Hong Kong and overseas. While Overseas Chinese from Nanhai and Panyu each stood at around 60,000, out-migrants to Hong Kong and Macau were each about 250,000. Together they constitute more than a fourth of Nanhai's population and a third of Panyu's. The contribution by the out-migrants, particularly in Panyu, can hardly be exaggerated. From 1978 to 1991, out-migrants to Hong Kong and Macau, and Overseas Chinese from the county donated a total of more than HK\$500 million to various infrastructure and charitable projects in Panyu. A significant portion of this (HK\$212 million), went to financing the building of bridges and roads.²⁴ The scale of these donations can be best appreciated considering the fact that before 1984, the annual budgetary expenditure of the county government was less than RMB30 million.

The major bridges linking Panyu and Guangzhou were made possible because of the financial support from rich out-migrants to Hong Kong and Macau.²⁵ In particular, rich tycoons like Henry Fok Ying-dong and Ho Yin have made the greatest contribution. Henry Fok, a rich Hong Kong businessman, has very good connections to the central and provincial leaders and, because of close associations with China dating back to the 1950s, has enjoyed their confidence and respect.²⁶ He is currently a deputy chairman of CPPCC (probably the highest position a person from Hong Kong can ever dream of attaining in China) and (in 1997) a Deputy Chairman of the Preparatory Committee responsible for the taking over of Hong Kong. Ho Yin, who died in 1983, was a high-powered businessman based in Macau and a member of the NPC's standing committee. Like Fok, he also had very good connections in Beijing. Both men had been actively involved in pushing

Table 8.3 Percentage of GVIAO by enterprises owned by super-county levels in Nanhai and Panyu, various years

<i>Year</i>	<i>Nanhai</i>	<i>Panyu</i>
1970	–	17.80
1975	–	18.00
1980	–	13.10
1985	–	14.90
1990	–	8.30
1991	–	7.30
1992	3.42	–
1993	2.85	6.23
1994	2.85	8.50

Sources: *Panyu xianzhi*, pp. 176; *Panyu shi guomin jingji he shehui fazhan de tongji ziliao 1994*, pp. 4–5; and *Nanhai nianjian 1994*, pp. 231, 241.

for Panyu's economic take-off. Making use of these connections in the provincial and central governments, they actively solicited support for key infrastructure projects and initiatives in the county. Fok's involvement in Panyu, particularly since the late 1980s, has been extensive, ranging from property development to infrastructure projects, to the development of an entire region of about 22 square kilometers at Nansha (see more on Nansha and Fok's role below).

While the importance of location and external links is obvious, other less obvious legacies should also be noted. Panyu and Nanhai had inherited different economic structures at the beginning of reform. Before examining this, let us first explain why pre-reform economic structure should affect a locality's response to reforms. Economic structure presents peculiar opportunities and cost structures for the local leaders to adapt to the new conditions. Several aspects of the pre-reform economic structure are relevant. First, a greater share of Panyu's GVIO on the eve of reform was from enterprises 'owned' by the province and Guangzhou, probably due to the fact that there were several large Guangzhou-run sugar plants in the county.²⁷ Table 8.3 presents the percentage of GVIAO accounted for by enterprises 'owned' by the higher levels in Nanhai and Panyu. Although no comparable information exists for Nanhai for the earlier period, in 1992 and 1993 only 3.42 percent and 2.85 percent of its industrial output value were accounted for by enterprises owned by the center, province and Foshan, significantly lower than the percentage in Panyu.²⁸ The presence of more enterprises belonging to the superior levels of government naturally constrained Panyu's freedom to respond to reforms.

Panyu's economy on the eve of reform was also marked by the preponderant importance of the sugar industry in the county. Before the 1980s, industrial and commercial taxes from the sugar industry accounted for more than 60 percent of the industrial and commercial taxes collected in the county, and more than 50 percent of the county's budgetary income.²⁹ The importance of the sugar industry has declined in recent years as a result of the growth of other industrial sectors and the almost stagnant

development of the industry itself. But in 1986, Panyu's sugar production still accounted for 3.8 percent and 10.5 percent of the country and province's total sugar output,³⁰ and it still topped any other county in terms of sugar output in the whole country.

The importance of the sugar industry and, even more important, the nature of the industry itself (it was covered by state planning to a greater extent and more regulated than other light industries) might have had a strong negative impact on Panyu's performance in the reform period. For a long period of time after the beginning of economic reform, the majority of the sugar produced by the sugar plants in Panyu was purchased by selected agencies at set prices, i.e. still controlled by the state plan. Both the backward and forward processes of the sugar industry were not conducive to economic reform and decentralization. For example, in order to guarantee that the sugar plants were provided with adequate supplies of sugar cane, the county government found it necessary to maintain more control over the peasants and to proceed with agricultural reform more cautiously.³¹ In 1985, more than 270,000 hectares, or 34.1 percent of all planted land, were still planted with sugar cane.³²

Still another part of its legacy that might work to Panyu's disadvantage was the relatively high target of grain procurement set for the county. The total volume of mandatory grain procurement for Panyu was about 140,000 tons, or about 45 percent of grain production.³³ In 1987, Panyu's total grain procurement was lower than only Dongguan, Xinhui and Zhongshan in all of Guangdong province, and these counties³⁴ had substantially greater populations than Panyu. The percentage of grain procurement in total grain production in Panyu was also lower than only Dongguan, Xinhui and Huaxian. Another measure of the high target of grain procurement in Panyu is that while in terms of the total volume of procurement it ranked 124th nationally, in terms of the percentage of procurement in total production, Panyu ranked 48th.³⁵ Why this was the case is not clear, but the presence of a higher mandatory procurement target, like sugar production, had made tighter control necessary.

Institutional arrangements and policies

Central policies: special policies and flexible measures, coastal open cities, and the Pearl River Delta open economic zone

The starting point for studying local economic development in Guangdong and the Pearl River Delta area should of course be the 'special policies and flexible measures' (*teshu zhengce, linghuo chuoshi*) granted to Guangdong and Fujian provinces by the central government since 1979. As this aspect has been documented in great detail in the literature,³⁶ we shall discuss them only briefly and focus on how they have affected the sub-provincial levels.³⁷ The first and supposedly the most important part of the central policies is the five-year fiscal contract between Guangdong and the central government. Under the fiscal contract, Guangdong was required to turn over a lump sum of RMB1.2 billion to the central government for the first two years, and was allowed to keep the surplus and have a high degree of autonomy in arranging revenue and expenditure. At the

beginning, this arrangement was not particularly appealing to Guangdong, because the amount set by the central government was higher than what the province had sent to the center in previous years.³⁸ It was only in later years when Guangdong's revenue rose rapidly that the benefit of the arrangement became evident.

The second important feature was the arrangement that allowed Guangdong to share foreign exchange with the center and expanded Guangdong's power in conducting foreign trade. Third, Guangdong was granted more autonomy in areas such as planning, banking and finance, labor, commerce and price policy. The fourth major area was the setting up of special economic zones, which permitted foreigners and business people from Hong Kong and Macau to set up factory plants in designated regions. The special economic zones would also enjoy tax concessions for imported goods and exported commodities.

Subsequently, the provincial government decentralized some of these new powers to the sub-provincial levels. In 1980, the provincial level entered into fiscal arrangements (called *shouzhi guagou, zengshou fencheng*) with the prefectures, which allowed the prefectures to keep the surplus in expenditures and share the increase in revenue with the provincial level. The prefectures then entered into a basically similar system with the counties under their administrative supervision.³⁹ This fiscal system fell short of the fiscal contract system between the central government and Guangdong, and was viewed as not sufficient to motivate the sub-provincial levels. In 1981, a fiscal contract system (called *huafen shouzhi, fenji baogan*) was adopted. This system was different from the central-provincial arrangement in that rather than fixing the amount of revenue submitted by the sub-provincial levels, it fixed the ratio of revenue submission for five years. The provincial government also entered into fiscal arrangements directly with the counties, but the prefectures still had a key role to play in the process because the details of the arrangements were worked out between the province and prefectures.⁴⁰

This system was changed again in 1985, as a result of the mergers of prefectures and cities and the introduction of the system of putting counties under the supervision of cities (*shiguan xian*). The prefecture cities, Foshan, Jiangmen, Shaoguan, Shantou, Zhanjiang and Maoming, were required to hand over to the province a fixed portion of their revenue above the base revenue.⁴¹ These cities then worked out the fiscal arrangements with the counties under their supervision.

The provincial government also gradually decentralized foreign-investment-approving authorities to the sub-provincial levels. In 1980, the counties in the province were given authority to approve import of facilities under US\$300,000 for processing and assembling plants. The ceiling set for the prefecture level was US\$500,000. The maximum amount that the sub-provincial levels could approve was adjusted in 1981, with US\$500,000 for counties and US\$3 million for prefectures. However, this decentralization led to a loss of control and attracted criticism from the central leaders and bureaucracies. As a result, the provincial government later withdrew the enlarged powers given to Guangzhou and the prefectures. But the maximum value of foreign projects that the counties could approve remained unchanged at US\$500,000.⁴²

Economic reforms in Guangdong were heavily affected by the national climate. As a result of Zhao Ziyang's emphasis on further opening to the external world in 1984, Guangdong again expanded the authorities to approve the foreign investment projects of

prefectures and counties.⁴³ The powers of the sub-provincial levels in approving foreign investment were increased again in 1988.⁴⁴ Another expansion of the power of the sub-provincial levels occurred in 1988. This time, the provincial level relaxed all control over projects whose products were entirely for export and with 100 percent foreign capital.⁴⁵

In addition to increasing the powers of the sub-provincial levels with respect to approving foreign investment, the provincial government also announced provisions to help the lower levels to overcome bureaucratic red-tape in dealing with foreign economic contracts. Bureaucratic agencies at the provincial level were required to act on the requests from the lower levels in a month. If they failed to do so, the requests would be deemed approved.⁴⁶

The sub-provincial levels also gradually gained considerable powers in granting tax exemptions. In 1980, counties could give exemptions of industrial and commercial taxes to new collective enterprises.⁴⁷ The provincial government also specifically provided a number of favorable tax treatments to foreign and infrastructure investments.⁴⁸

However, these decentralizations did not aim at particular localities. While it is true that Guangzhou, Foshan and Jiangmen sometimes enjoyed greater autonomy than other localities in the province,⁴⁹ on the whole the policies introduced by the provincial government were not targeted on specific prefectures and counties. Panyu and Nanhai had not enjoyed greater autonomy or had more favorable treatments than other localities in the province.

If the province-wide policies did not provide greater autonomy to some localities than others, two central policies did. One was the policy to open fourteen coastal cities in 1984. Two Guangdong cities, Guangzhou and Zhanjiang, were included in these coastal open cities. The Coastal Open Cities policy has two main elements: expanding the powers of these cities in undertaking foreign economic activities, particularly the power to approve foreign investment, and setting up economic and technological zones within designated areas in these open cities.⁵⁰ Guangzhou benefited greatly from its inclusion in the coastal open cities. First, from 1985 it could keep more revenue at the city level by reducing the revenue submitted to the provincial government. Another benefit was that the economic and technological development zone could keep all the revenue above the 1984 level. In 1985, a new fiscal arrangement was created between the province and Guangzhou, in which Guangzhou could keep 60 percent of the revenue above the 1983 level.⁵¹

Second, Guangzhou could now approve foreign investment up to US\$10 million, up from US\$5 million in 1982. However, as noted above, this decentralization was not confined to the coastal open cities.⁵² Other prefectures and counties also gained more powers with regard to foreign investment. Finally, Guangzhou also gained central economic city (*jihua danlie*) status in December 1984.⁵³

However, while Guangzhou did benefit significantly from the Coastal Open Cities policy, Panyu and other lower level localities in the inner Delta region did not benefit directly from it, except that the provincial government did seize this opportunity to introduce greater decentralization. Although Panyu, as a suburban county under Guangzhou's administrative supervision, fell under the scope of coastal open cities, it did

not gain directly because the policy was primarily designed for the urban areas and the economic and technological development zones.

Compared with the Coastal Open Cities policy, the policy to open the three river deltas affected the prefecture and county levels more directly.⁵⁴ The Pearl River Delta Economic Open Region initially included two prefecture cities and fourteen counties, including Panyu and Nanhai. The region was further expanded in 1986 and 1987, bringing the total number of prefecture cities and counties to twenty-nine.⁵⁵

According to the central policy, the localities falling within the Open Region could approve foreign investment of no more than US\$5 million, but the provincial governments would set their own limits.⁵⁶ In Guangdong, prefectures and counties had powers only to approve investment well below the maximum set by the central government. In 1984, only Foshan and Jiangmen, two prefecture cities in this region, had the authority to approve foreign investment up to the centrally prescribed maximum. Other counties could approve investment only up to US\$1.5 million.⁵⁷

A crucial element of this central policy was the designation of key industrial satellite towns in the Open Region. In Guangdong, initially a total of 59 towns were designated as key industrial satellite towns. Together with the urban areas of Foshan, Jiangmen and Zhongshan, and the county seats of thirteen counties, these fifty-nine towns were granted a range of preferential treatments not available to other towns. The first of these was that imported facilities and equipment for technical renovation and expanding export capacity would be exempted from custom taxes. Another preferential treatment concerned reduction and exemption of other taxes. Equity joint ventures, contractual joint ventures and wholly foreign owned enterprises would receive a 20 percent reduction of profit taxes, and exemption or reduction of local profit taxes. The joint ventures were also granted the privilege of importing office facilities, equipment and raw materials free of custom taxes.⁵⁸

These preferential treatments were by no means strictly limited to the towns designated as key industrial satellite towns. In 1986, the provincial government determined that even enterprises falling outside the key industrial satellite towns could enjoy these preferential treatments if prior approval was obtained from the provincial government.⁵⁹ Furthermore, another fifty-four towns were designated as key industrial satellite towns in December 1986.⁶⁰ By then 60 percent of the towns in the Pearl River Delta Economic Open Region had gained the status of key industrial satellite towns.⁶¹ The total number of key industrial satellite towns continued to expand in subsequent years. For example, in August 1987, another fourteen towns in Panyu were designated industrial satellite towns.⁶² By the end of 1987, there were 242 key industrial satellite towns in the expanded Pearl River Delta Open Economic Region.

Central and provincial preferential policies, and Nanhai and Panyu

Did Nanhai and Panyu enjoy more or less preferential policies compared with other localities in Guangdong and the inner Delta region? Or did one have more preferential policies than the other? The above discussion on central and provincial preferential policies suggests that compared with the majority of the counties in the province, Nanhai

and Panyu (and other inner Delta counties) did enjoy more preferential policies. While provincial provisions resulting from the special policies to the province seemed to apply to all localities in the province, starting from 1984 some important preferential treatments were restricted to the inner Delta localities. Only in later years when the Pearl River Delta Economic Open Region was expanded were more localities in the provinces able to enjoy the same preferential treatment.⁶³ Moreover, initially the preferential policies were granted to selected towns and the county seats in the rural counties. In the case of Panyu, only a few towns gained the status of key industrial satellite towns in 1985.

Of the three policies examined above, the Coastal Open Cities policy seemed to be least directly related to the autonomy of the county level.⁶⁴ For example, only two large industrial cities in Guangdong were selected as coastal open cities. Second, although this policy was important to Guangzhou (and to a lesser extent Zhanjiang) and helped it win considerable autonomy from the provincial government, there was little evidence that more autonomy was granted to the county level below it. However, this policy contributed to Panyu's development indirectly by creating a favorable environment in which Guangzhou was in a better position to relax control over its subordinate counties.

It is also evident from the discussion above that there were few differences in the preferential treatments that Nanhai and Panyu had in the 1980s. Because the central special policies applied to the whole province, Nanhai and Panyu neither benefited nor suffered more than the other. Although Panyu fell into the coastal open cities category by virtue of its attachment to Guangzhou, it did not benefit much from it. Both counties were parts of the Pearl River Delta Open Region when it was created in 1985, and received the same preferential treatment under this policy. The policies provided by the central and provincial governments were undoubtedly important, but they do not explain why Panyu did not do as well as Nanhai. In this sense, preferential policies by central and provincial governments were not as important as the more enduring institutional constraints that the local actors had to deal with. The relationship with administrative superiors is one of these constraints.

Relationships with administrative superiors

This section discusses how Nanhai and Panyu's different relationships with their administrative superiors help account for their developmental differences in the first phase of the reform era. It also examines how Panyu's problem was in part related to the unique position occupied by Guangzhou in Guangdong province.

At the beginning of the reform period, the majority of the counties in Guangdong were placed under a number of prefectures. Two features of this system are relevant to our analysis. First, the prefecture did not constitutionally constitute a level of government; a prefecture administration was just a 'dispatched organ' (*paichu jigou*) of the provincial government intended to help manage the counties. Second, a prefecture administration was often given a large number of counties to supervise. At the beginning of the reform period, Foshan Prefecture supervised thirteen county-level units (two county-level cities and eleven counties).⁶⁵

Why the layer of prefectures was needed is obvious. An average Chinese province has more than seventy counties (more than 180 in Sichuan and over seventy in Guangdong), which are simply too many for the provincial administration to manage effectively. An intermediate level was therefore created. The prefecture level had been established in Guangdong before 1949, and after 1949 continued to stand between the provincial level and the counties.⁶⁶ However, because the prefecture was not a formal level of government, it normally did not have complete control over the counties below it. For example, there had been a persistent pressure to keep the prefecture level as simple and lean as possible. The prefecture administration was equipped with relatively few party and government departments, some times even fewer than the county level.⁶⁷ Second, the provincial government did not give full authority to the prefecture level. In Guangdong, provincial leaders sometimes dealt directly with the county level. In 1980, the provincial level entered into fiscal arrangements with the prefectures and left matters at the sub-prefecture level to the prefectures.⁶⁸ As this system was criticized as not being conducive to motivating the counties, it was replaced in 1981 by a new arrangement whereby the provincial level, with the help of the prefecture level, entered into fiscal arrangements directly with the counties. In order to encourage the prefectures to exercise more supervision over the counties in revenue collection and expenditure savings, prefectures were awarded 5 percent of the counties' surplus revenue as a bonus.⁶⁹ In the late 1970s and early 1980s, it was common for prefecture and county leaders to attend important provincial meetings together, reflecting the fact that the provincial level communicated directly with the counties.

Foshan Prefecture's headquarters was located in Foshan, which was also the county seat of Nanhai. Before 1983, there were three administrative entities in Foshan: Foshan Prefecture, city of Foshan (which administered the city proper), and Nanhai. The prefecture administration did not have its own industrial enterprises and independent sources of revenue, and therefore was only an empty shell. By comparison, the city of Foshan was a much stronger entity. During the Maoist era, it had developed a relatively strong industrial base. Within a small city proper and with less than one-third of Nanhai's population, the city of Foshan had more GVIO and collected more budgetary revenue than Nanhai. Its GVIO and budgetary revenue were 123 percent and 142 percent of Nanhai's.

In 1983, following the central policy of placing counties under cities (*shiquan xian*), Guangdong merged a number of prefectures and cities to form a new system of administration. Basically, there were two main features in Guangdong's implementation of this new system. One was to create a new formal level of administration. This was an eventual recognition of what had been a *de facto* level of state administration. However, by merging with the cities where the prefectures' headquarters were originally located, this new level now had more resources at its disposal. As a result, the prefecture-level cities were no longer empty shells. Second, the provincial government also reduced the number of counties under the new prefecture-level cities. Therefore, Foshan only managed two districts in the urban area and four counties (Nanhai, Shunde, Sansui and Gaoming).⁷⁰ At the beginning, it also managed Zhongshan on behalf of the provincial government, but this was only a temporary measure, because Zhongshan itself was elevated to become a

prefecture-level city in 1988.⁷¹ Other counties originally under Foshan Prefecture were assigned to Jiangmen. This system was extended to the whole province in 1988.⁷²

The *shiguan xian* system was meant to enhance the prefecture level's control over the subordinate counties, but the actual impact of the system depended on other factors as well. Because the new prefecture-level cities were now a formal level of government between the province and counties, and had strong support from central leaders, they might be in a better position to control the counties. In Guangdong, for instance, the new fiscal contracts in 1985 were not negotiated directly between the provincial level and counties, but between the provincial level and prefecture-level cities, which then entered into arrangements with their subordinate counties.⁷³ However, the actual control over the counties by prefecture-level cities was also affected by such factors as relative economic strength, the need for control, historical tradition and leadership orientation.

Even after the merger of the prefecture and city of Foshan in 1983, economically Foshan was only slightly stronger than Nanhai. It did not have a large population to support. The prefecture level leaders were also widely regarded as very supportive of greater decentralization and adopting flexible measures to develop local economies.⁷⁴

The situation was substantially different in Panyu's relationship with Guangzhou. Panyu had been under Foshan Prefecture for most of the post-1949 period, but since 1975, together with Zengcheng, Xinfeng and Longmen, it was assigned to Guangzhou. The system of placing counties under cities introduced widely in 1983 was in fact not a novel administrative arrangement. It had existed in post-1949 China intermittently in some regions.⁷⁵ Most often, this system was only introduced to cities with a large urban population to support. For example, since the 1950s a number of counties had been ceded from Jiangsu to Shanghai as an effort to guarantee the latter a stable supply of grain, vegetables and other basic necessities.⁷⁶ In the command economy, the inevitable gaps in economic planning often drove different units to produce and offer a wide range of things and services they needed, a phenomenon best captured by the term '*daer quan, xiaoer quan.*' The tendency for a big metropolis to incorporate rural counties under its direct control was but a phenomenon of '*daer quan*' writ large. This phenomenon reflected the force of necessity that worked against the apparent hostility to big cities and urbanization in Maoist development ideology.⁷⁷ Another purpose the suburban counties were often expected to serve was to help solve unemployment in the urban area, particularly accommodating sent-down youths (those sent out into the countryside to work). In a very significant sense, the old system of putting suburban counties under the administrative leadership of a big metropolis resulted in exploitation of the suburban counties by the big cities. By intent as well by effect, this system ensured that the priority and interests of the urban sectors took precedence.

Unlike the *shiguan xian* system in Foshan, the practice of putting surrounding counties under Guangzhou's administrative leadership had a long history, dating back to as early as 1960, when Huaxian and Conghua, two relatively poor counties to the north of Guangzhou, became Guangzhou's suburban counties. In 1975, another four counties, including Panyu, were added. Cadres in Guangzhou thought that Guangzhou had not got a very favorable deal from the province, because Huaxian, Conghua, Xinfeng, Zengcheng and Longmen were all relatively poor counties. Panyu was the only rich suburban county

under Guangzhou. Its GVIAO, GVIO and budgetary revenue were substantially higher than those of other suburban counties. An interviewee likened Panyu to meat and the other poor counties to bone: Panyu was handed over to Guangzhou to compensate for its acceptance of the poor counties. Cadres in Panyu viewed Guangzhou as exploitative and thought that Guangzhou needed to extract heavily from the county to support the urban areas and other poor counties. The official reasons given for transferring Panyu and other three counties in 1975 to Guangzhou were: providing the city's population with a better supply of agricultural and non-staple foods, and helping to accommodate the city's sent-down youths.⁷⁸ In the same year it was transferred to Guangzhou, Panyu stopped purchasing such items as pigs, poultry, eggs and bananas for export in order to guarantee supplies to Guangzhou.⁷⁹ Even before 1975, Panyu had helped Guangzhou accommodate the sent-down youths. In 1978, there were more than 23,000 sent-down youths in Panyu, a sizable number of them from Guangzhou.⁸⁰ Whether the high quota of grain procurement in Panyu noted above was also due to its subordination to Guangzhou was not clear, but Huaxian, another county under Guangzhou, also had a relatively high percentage of grain procurement.⁸¹

The structural relationship between Guangzhou and Panyu was very different from that of Foshan Prefecture (and Foshan City since 1983) and Nanhai. Before significant reforms were carried out in the urban sector and a relatively free market for basic necessities had emerged, Guangzhou, like other big metropolises, had a strong incentive to keep the suburban counties under tight control. At the same time, it also had the capacity to do so. As a provincial capital city and a major provincial political, economic and industrial center, the bureaucracy in Guangzhou was considerably more developed than in Foshan, and Guangzhou's economy was significantly larger. In 1980, Guangzhou's GVIO and budgetary revenue were respectively 2,361 percent and 2,412 percent of Panyu's.

The analytical distinction between the resource and governance dimensions in inter-governmental relations drawn by Jae Ho Chung is useful for discussing how the administrative environment discussed here affected the lower level.⁸² As shown in [Table 8.4](#), both Nanhai and Panyu are surplus counties, turning over a large portion of their revenue to the upper level. Administrative arrangements did not affect the percentage of revenue retained and used locally. [Table 8.4](#) shows that Nanhai turned over a higher percentage of its revenue to the upper levels than Panyu: in 1980, for example, Nanhai turned over 77 percent of its revenue while Panyu turned over 66.4 percent. Both counties had gained substantially during the reform era, particularly since the mid-1980s, as they could retain more revenue for local use. As the fiscal sharing scheme is the most important area of inter-governmental resource allocation, Nanhai had not received favorable treatment in resource allocation as a result of the weak administrative control from Foshan. This was probably due to the fact that, before 1985, the provincial level at times insisted on dealing with the county directly in matters concerning fiscal arrangements.⁸³

The main difference between Nanhai and Panyu was in the governance dimension. However, even in this dimension, not much difference could be found in formal provisions, as suggested by the examination of the preferential policies above. What set one apart from the other was how flexible policies had been implemented and the overall

Table 8.4 Budgetary revenue and expenditure, Panyu and Nanhai, 1980–93

	1980	1983	1985	1987	1989	1990	1993
<i>Nanhai</i>							
Revenue (RMB10,000)	7,839	10,191	13,322	20,833	32,508	36,833	100,388
Expenditure (RMB10,000)	1,806	2,853	6,226	11,780	22,057	24,525	80,065
Expenditure as a percentage of revenue	77.0	72.0	53.3	43.5	32.1	33.4	79.8
<i>Panyu</i>							
Revenue (RMB10,000)	5,991	7,672	8,402	10,646	18,543	21,303	52,883
Expenditure (RMB10,000)	2,013	3,405	4,442	6,641	13,715	13,687	44,097
Expenditure as a percentage of revenue	66.4	55.6	47.1	37.6	26.0	35.8	83.4

Sources: Guangdong sheng tongjiju (ed.) *Guangdong sheng xian (qu) guomin jingji tongji ziliao 1980–1990*, pp. 32–282; Guangdong shengwei bangongting zonghechu, Sheng tongjiju zonghechu (eds) *Zhujiang sanjiaozhou jingji qu tongji ziliao 1980–1994*, Guangzhou, 1995, pp. 39–90.

environment for local initiatives and economic activities. Cadres in Panyu often complained of more bureaucratic red tape in Guangzhou. The bridge at Luoxi, for example, was delayed for several years as a result of the need to resolve the conflict with Guangzhou.⁸⁴ In the early 1980s, some major foreign investment projects in Panyu were also reportedly opposed by officials from Guangzhou, who insisted that Panyu should stick to its traditional role of providing support to Guangzhou. In the early 1980s, in order to protect the state-owned enterprises in the urban areas, Guangzhou decided to abolish the tax exemption and deduction treatments to village and township enterprises. In 1982, the same concern for competition led the municipal government to withdraw the powers of approving compensation trade investment that it had decentralized to the suburban counties.⁸⁵

This difference in the governance dimension in Nanhai and Panyu could be understood in the context of the different paces of reform in Foshan and Guangzhou. Foshan was famous for pursuing a very aggressive approach to reform. Its leaders often maintained that local cadres should pursue policies suitable to the local situations even if this meant violating central policies or initiating programs not explicitly approved by the central leaders. This was clearly reflected in the crisis in 1982 when some central leaders (notably Chen Yun) scathingly attacked Guangdong for corruption and involvement in the smuggling of imported goods. Just as Ren Zhongyi strongly encouraged the local cadres to keep up the momentum of reform while trying to do everything to pacify the central leaders at the provincial level, Foshan's leaders also gave similar support to local leaders in the prefecture. They supported Nanhai and the counties under their leadership to go

ahead with economic expansion when the central government emphasized economic adjustment in 1981.

The environment for Panyu was very different before the late 1980s. In sharp contrast to Foshan, Guangzhou adopted a cautious approach to reform. However, this was not merely because the municipal leaders in Guangzhou were particularly conservative. We have to understand the phenomenon with reference to Guangzhou's strategic importance to the provincial economy and the inherent difficulties of reforming an old industrial center.

Reforms in Guangzhou and changes in urban-suburban relations

In his pioneering book on Guangdong in the reform era, Ezra Vogel quoted an economic official as saying, 'compared to the counties of the Pearl River Delta, Guangzhou is like a tired old man.'⁸⁶ A perceptive reporter in China made a similar observation, stating that while the localities in the Pearl River Delta were running fast, Guangzhou was walking slowly.⁸⁷ Reform in Guangzhou was more problematic, partly because of the strategic importance of the provincial capital city in the provincial economy.

In the early 1980s, only Guangzhou and four other prefectures in Guangdong provided net revenue to the provincial government. The largest share was borne by Guangzhou, which provided about RMB1.2 billion, or more than 50 percent of all the revenue turned over from the sub-provincial levels, and close to one-third of total provincial revenue. Of the remaining four localities that provided net revenue, Foshan (RMB433 million) and Zhanjiang (RMB231 million) contributed a sizable part. The contribution of the other two localities (Shaoguan and Shantou) was meager.

Just as the central government's dependence on revenue from Shanghai restrained Shanghai's development in the 1980s, so the provincial government's dependence on Guangzhou also added more complexities to the reform in Guangzhou. The provincial government had long recognized that Guangzhou should be given greater autonomy and more resources to match its strategic position in the province, and in 1981 it decided to give Guangzhou greater powers and more flexible policies. But for a few years not much significant progress was made. When the special policies and flexible measures were still on the drawing board, provincial cadres debated whether more favorable measures should be given to Guangzhou or to the special economic zones (Shenzhen and Zhuhai) at the fringe of the province. Some cadres argued that the branches should be pruned to protect the trunk. Here, the trunk obviously referred to Guangzhou.⁸⁸

Several reasons accounted for the slow progress of reform in Guangzhou. First, because there were more state-owned enterprises in Guangzhou reform was more complicated and more difficult. Second, provincial control over Guangzhou was greater and so loosening such control simply took longer time.⁸⁹ Third, because the provincial level was heavily dependent on Guangzhou for revenue, it was more difficult to translate the general policies into concrete measures. The conflict between Guangzhou and the provincial government over Guangzhou's central economic cities (*jihua danlie*) status illustrates clearly the large discrepancy between general principles and specific measures. While agreeing to give the status of central economic cities to Guangzhou, the provincial

government was opposed to its separate listing in such areas as finance and foreign exchange. It was only after considerable bargaining that Guangdong finally agreed to give its reluctant consent to Guangzhou's demand for more fiscal autonomy from the provincial government.⁹⁰

The overall environment for accelerating reform in Guangzhou gradually improved in the mid-1980s. Two developments provided the impetus. First, Guangzhou was included in the coastal open cities, and partly as a result of this, succeeded in gaining the status of central economic cities. These developments have greatly expanded Guangzhou's autonomy and allowed it to deal directly with the central ministries.⁹¹ Second, beginning in 1985, the provincial level decided to adopt a modified version of the fiscal contract with the surplus prefecture-level localities. The contracted revenue to be turned over to the provincial level should rise at the rate of 7 percent annually for Foshan, Jiangmen, Shaoguan and Maoming cities, and 6 percent for Zhanjiang. Guangzhou was still left out of the fiscal contract system, but it got a much better deal whereby it was able to obtain 60 percent of the revenue collected above the 1983 base.⁹² As a result of this new fiscal arrangement, Guangzhou's budgetary revenue and local budgetary expenditure rose sharply in 1985, from RMB 1,999 million and 623 million in 1984 to RMB2,736 million and 952 million, representing a sharp rise of 36.8 percent and 52.8 percent respectively.

It was against this context of accelerated reform in and greater decentralization to Guangzhou that the overall environment for Panyu's development gradually improved. Starting from about 1984, a series of changes in urban-suburban relationships was implemented. In 1984, following the change of the 'nomenklatura' system at the central level,⁹³ Guangzhou also decentralized cadre management powers to the county level. As a result, the suburban counties could determine the appointment of leading cadres to their functional bureaus.

However, a more important change was in the underlying philosophy concerning the role of the suburban counties and urban-rural relations. While previously the suburban counties were assigned a supporting role to the urban areas, now they were treated at their own right, and it was increasingly recognized that the urban areas and the rural counties should grow and prosper together.⁹⁴

Preferential policies to foster the growth of village and township enterprises in the suburban counties began to emerge. Initially the emphasis was placed on developing urban-rural economic collaboration, and the dissemination of economic activities from the urban industrial sector to the suburban counties, but the county cadres viewed these measures with suspicion, fearing that the urban areas would dump old and environmentally polluting enterprises on the suburban counties. The municipal government also provided tax reductions to new village and township enterprises. In 1985, new village and township enterprises were given tax exemptions for one year, and starting from July 1986, all village and township enterprises could deduct 20 percent from their taxable profits for supporting agriculture. In October 1986, foreign enterprises and enterprises with a high technological level were given still more favorable treatments: exemption from profit taxes for the first two years they started to make a profit; and for the third to eighth years, 50 percent reduction of profit taxes.⁹⁵

The development of village and township enterprises in Guangzhou received a further boost in 1987 when the municipal government extended more preferential treatments to this dynamic sector. In the 'Decision on Strengthening the Works on Cities Leading Counties and Promoting Rural Economic Development,' encouragement was not only extended to collective, but also to partnership and private enterprises. New village and township enterprises were exempted from profit taxes for the first two years of operation.⁹⁶ The strong encouragement for village and township enterprises in this period was in sharp contrast to the earlier fear that this small and backward sector would compete with state-owned enterprises in the urban areas.

While the overall environment for the development of the suburban counties had gradually improved in the second half of the 1980s, more decisive changes occurred after Li Zhiliu was appointed the mayor of Guangzhou in 1990. Before his appointment to Guangzhou, Li Zhiliu was the party secretary of the city of Jiangmen, and before that, party secretary of Shunde, one of four little tigers.⁹⁷ He was described as a cadre 'coming from the Pearl River Delta,' and therefore held the developmental experience (stressing flexible local initiatives) of the lower level localities in the inner Delta in high regard. According to an economist at the Guangzhou Academy of Social Sciences, one of Li's main concerns after taking over Guangzhou's mayorship was to improve the '*shiquan xian*' system. He faulted the old arrangements between Guangzhou and the suburban counties for stifling the initiatives and growth of the subordinate counties. Immediately after his appointment, he led a group of cadres to tour the counties in the inner Delta region, and urged Guangzhou to learn from them. Li also ordered research on the problems in the relationships between Guangzhou and its suburban counties, and subsequently decentralized a range of powers to the suburban counties.⁹⁸

The autonomy of the counties was greatly expanded. For example, they could approve foreign investment up to US\$10 million. Formerly, the bureaucracies in Guangzhou had considerable powers over the setting up of village and township enterprises in the suburban counties. Now the counties' bureaus of village and township enterprises could make decisions on this matter. To foster urban-rural collaborations, Guangzhou also continued the practice of granting tax exemptions and reductions to economic activities jointly invested and operated by the urban and rural entities. Moreover, from the moment of making a profit, export-oriented urban-rural collaborative enterprises would be exempted from profit taxes for five years, and after that, their profit tax would be deducted for 50 percent for the next five years.⁹⁹ Preferential policies were also extended more specifically to Panyu in the early 1990s. An eighteen-point decision to speed up Panyu's development was released by Guangzhou municipal Party Committee and government in 1992.¹⁰⁰ Moreover, extensive preferential policies and decentralizations were given to Nansha.¹⁰¹

Significant autonomy was given to Nansha Economic Zone in September 1991, even before the zone was awarded the status of economic and technological development zone by the State Council in 1993. In addition to enjoying all the preferential treatment contained in the Coastal Open Cities policy and Pearl River Delta Economic Open Region, Nansha could also enjoy the preferential policies enjoyed by Guangzhou's existing economic and technological zone at Huangpu. It also had powers to grant exemptions to a

range of taxes to foreign enterprises established in the zone. Moreover, with the approval of the People's Bank of China, joint-venture financial institutions or wholly owned financial institutions could be established to provide financial services. For five years from 1991, the zone was exempted from revenue remission to both Guangzhou and Panyu. All other powers enjoyed by an economic and technological development zone were extended to Nansha as well. It was listed separately (from Panyu) in Guangzhou's plan, and was given authority to approve projects up to RMB20 million and foreign investment up to US\$30 million. Nansha also gained considerable powers in determining the use of non-agricultural lands. As a result, Nansha had even greater powers than the county government, though it was only a part of Panyu.¹⁰² The municipal government's interest in Nansha had created some suspicion among Panyu cadres, who feared that they might lose control over this region to the municipal level. After prolonged negotiations with Panyu county government, Guangzhou agreed in 1990 that Panyu should play a dominant role in Nansha's development.¹⁰³

Leadership

The contribution of Li Zhiliu underscores the importance of leadership in local economic development. Considerable differences also existed in county leadership in Nanhai and Panyu at the beginning of the reform period. We focus on the early 1980s in this discussion of leadership because it was during this period that leadership differences were most significant.

The most important leader who steered Nanhai into the reform era was Liang Guangda. Liang spent his entire career in Nanhai before being appointed in 1983 as deputy party secretary of Zhuhai, the Special Economic Zone at the southern tip of the Pearl River Delta adjacent to Macau. Liang Guangda's promotion to Zhuhai and the reputation he has made in Zhuhai speak highly of him as a very entrepreneurial reformer.¹⁰⁴

Liang had held Nanhai's leadership position long enough when opportunities for reform emerged in the late 1970s.¹⁰⁵ As a result of Nanhai's relatively early success, Liang Guangda also caught the attention of provincial, and sometimes even national leaders.¹⁰⁶ This in turn helped protect Nanhai from ideological and political attacks. Provincial leaders also commended Liang Guangda as 'capable of uniting cadres.' Liang's performance in Nanhai earned him a good reputation at the provincial and prefecture levels. As early as 1982, he was considered for promotion several times. Foshan Prefecture promoted him to the position of deputy prefecture commissioner and head of the prefecture's finance office in June 1982. With the support of provincial leaders Liang declined the promotion and stayed as Nanhai's party secretary.¹⁰⁷ Several months later, he was once again considered for the position of the provincial government's deputy secretary-general, which he declined again.

Panyu had party secretaries of very different character. While Liang Guangda was famous for his strong commitment to local industrial growth and to getting rich quickly, Panyu's leaders had remained fastened to the old doctrines. Panyu's party secretaries from the second half of the 1970s to 1982 were Li Zhenqing (May 1974–February 1977) and Miao

Shuanzhu (February 1977–June 1982). Both were not natives of Guangdong; Li is from Henan, Miao from Shanxi. They were also concurrently Chairmen of the county revolutionary committee for the periods May 1974–February 1977 and February 1977–November 1979 respectively. While Li's tenure in Panyu was outside the reform period, Miao was in charge when the new era began. Like Liang Guangda in Nanhai, Miao had spent a long time in Panyu before being appointed party secretary: from 1972–7 he was deputy party secretary. Huang Weining, still considered an outsider as he was a native of Zhongshan county, succeeded Miao as party secretary in June 1982. Before that he had been the county magistrate when the revolutionary committee was renamed the county People's government in 1979. Huang was also not favorably regarded, because, like his predecessors, he was seen to be too cautious and conservative.¹⁰⁸

The first real native to assume a county leadership position was Liang Weisu who was first appointed deputy party secretary in 1979 and later acting county magistrate in 1982, when Huang Weining was promoted to the position of party secretary. However, a more decisive leadership change occurred only in 1987, when Liang Weisu was promoted to the position of party secretary, and He Tao, another native of Panyu and a long time cadre in the county establishment, was appointed county magistrate. Both Liang and He remained in these two key positions till 1996 and 1995 respectively, when they were replaced by Liang Guowei and Liang Bingkun, the former a native of Guangdong's Gaoyao county and the latter a native of Panyu.¹⁰⁹ As will be discussed later, this leadership change heralded a new era in the county's enthusiastic pursuit of economic growth and prosperity.

The pre-1987 leaders, in particular Miao, did not push for industrial growth as strongly as other inner Delta counties. When Nanhai and Foshan tacitly resisted the nationwide economic adjustment policy in 1981, Panyu openly embraced it and stressed the importance of political and ideological works.¹¹⁰

The importance of leadership in the early years of the reform era can hardly be exaggerated, because what was required when uncertainties abound was the courage to take political risks by stepping into uncharted territories. The county party secretary was therefore in a crucial position to determine the locality's approach to reform and development. Liang Guangda was known for boldly appointing people with problematic political backgrounds to be enterprise managers and supplying and marketing sales. County cadres in Nanhai also made great efforts to dispel the remaining doubts among cadres and peasants about the policy of encouraging the peasants to get rich. For example, the county cadres went to the rich communes, brigades and households to congratulate them for becoming rich (called *hefu*).¹¹¹

Not surprisingly, Liang Weisu did exactly the same things in Panyu when he became Panyu's party secretary in 1987. He emphasized that in order to achieve the county's ambitious objectives, cadres 'should have guts (*danliang*) and courage (*yongqi*).' He urged them to replace 'three fears' (*sanpa*)—i.e. fear for risks, inputs, and blame on mistakes—with 'three dares' (*sangan*)—dare to take responsibilities, to put in resources, and to overcome hindrances to productivity growth.¹¹² While these certainly were not sufficient qualities for economic success, and if exercised without restraints, would easily lead to disastrous results, they were nevertheless crucial to overcome the remaining doubts prevalent among the rank and file cadres.¹¹³

The relevance and importance of these qualities are also likely to be contingent on the stage of development. At the beginning of the reform period, when the main barriers were primarily political and ideological, and when there were obvious opportunities to be exploited and choices were simple, these leadership qualities were critically important. These conditions were present in the first years of the transitional period, particularly when the transition was orchestrated from above. However, when political and ideological constraints are already dispelled (as now), not only more sophisticated leadership qualities but also institutional changes are required.

The role of leadership should also be viewed hand in hand with the institutional constraints discussed above. They both help to account for differences in strategies and policies. While the manner in which institutional constraints, leadership, and developmental strategies were related cannot be precisely determined, the discussion so far gives us some background about why some growth-oriented policies were pursued in one locality but not in another. The following section tries to link these factors with the economic development strategies and policies in Nanhai and Panyu.

Strategies and policies in the early 1980s

When economic reform began in the late 1970s, for the localities in the inner Delta region the strategies and policies that contributed to fast economic development seemed to be surprisingly simple and similar. But Nanhai and Panyu had not embraced such policies with the same degree of enthusiasm. At the heart of the issue was the determination to repudiate and desert the ideologically driven attitude to economic prosperity, and to adopt a more pragmatic approach in keeping with one's comparative advantage. Two questions had loomed large and had defined the main differences between Nanhai and Panyu: what to produce and how to produce. The question of what to produce was at the heart of the Maoist rural development strategy: only agriculture and grain production were emphasized while other types of economic activities were treated as capitalistic in character, and were therefore suppressed and prohibited. Another defining feature of the Maoist approach was its strong enmity towards household production and an irrational belief in the benefits of collectivization.

Nanhai had earned a reputation earlier on for quickly deserting the Maoist strategy of rural development. It lost no time repudiating the emphasis on grain, and encouraged planting of cash crops and other more profitable economic activities.¹¹⁴ An even more important step in Nanhai's development was its early promotion of rural industrialization. As early as 1979, the county party committee had started to encourage the development of rural enterprises run by communes, brigades, production teams and even individuals or partners, resulting in rapid growth in the number of such enterprises and their total output value. Nanhai put strong emphasis on the growth of individual, partnership enterprises, and enterprises operated by production teams. In a report to the provincial government in 1981, Nanhai's party committee stated that 'the county's emphasis had shifted from commune and brigade enterprises to enterprises operated by production teams,' and whenever possible, the county gave the management of new enterprises to production teams.¹¹⁵ The emphasis on industrial enterprises at all three levels of cooperatives in

Nanhai—communes, brigades and production teams—was popularly dubbed as pulling the cart with three horses.

Nanhai's leadership was not only known for providing a generally supportive policy environment for the growth of rural enterprises, but also for its ability to garner sufficient resources to finance rapid industrialization. As the county's revenue was heavily taxed—more than 70 percent of its revenue in the early 1980s was turned over to the upper levels (Table 8.4, p. 273)—and given that the county government had many commitments, not much of the budgetary revenue was left for financing industrial development. Since the beginning Nanhai's leadership had attached great importance to making good use of the huge and rising savings in the countryside. Total loans to the rural areas using rural savings rose several times from RMB41 million in 1979 to 182 million in 1980 and 253 million in 1981.¹¹⁶ Since 1979, a significant portion of this went to rural industrial enterprises: in 1980 and 1981 respectively, RMB164 million (90 percent) and RMB230 million (91 percent) of total loans to the rural areas went to rural industrial enterprises.¹¹⁷ This substantial rise in loans was made possible in part by the fast rise in savings in Nanhai: the year-end balance of rural savings rose from RMB96 million in 1976 to 150 million in 1979 and 245 million in 1980.¹¹⁸

As mentioned before, Panyu pursued a different approach at the beginning of the reform period. The county leadership emphasized agricultural production, which should probably be understood with reference to the county's high target for grain procurement. The preponderant importance of the sugar industry had also locked the county into sugar cane planting—an industry that was, by nature, more regulated and controlled than others. In the early 1980s, Panyu made heavy investment in several county-owned sugar factories. By 1986 the largest of the county-owned sugar factory had surpassed all other plants owned by the upper levels in production capacity.¹¹⁹

The effect of the differences in policies had affected the development of rural enterprises in the two localities. Although Panyu had more rural enterprises than Nanhai in 1978, it was overtaken by the latter. The number of enterprises in Panyu was less than doubled by 1982 (from 1,319 in 1978 to 2,158 in 1982), while in Nanhai rural enterprises grew more than four times from 900 in 1978 to close to 3,800 in 1981.¹²⁰ As a result of the cautious attitude of Panyu's leaders, significant measures to encourage the development of rural enterprises in Panyu did not emerge until as late as 1987.¹²¹ Similar measures for encouraging village and township enterprises had long existed in Nanhai.

Not surprisingly, the cautious attitude to rural industrialization in Panyu was reflected in the scale of financial support in terms of loans to rural industrial enterprises. Panyu had been more conservative concerning making use of the savings in the rural areas to support industrial development. The total amount of rural loans, most of which going to rural industrial enterprises, for 1980 was about RMB38 million, several times less than Nanhai's figure. While Nanhai's yearly loans to rural enterprises had well exceeded RMB200 million in the early 1980s, the yearly average of loans to rural enterprises in Panyu for the 1978–87 period was only RMB61 million.¹²²

Improving infrastructure and the role of local government

Besides an emphasis on rural industrialization and flexible local initiatives, another common strategy that the inner Delta localities has pursued with great success was the emphasis on developing infrastructure first (dubbed as *jijian shidu chaoqian*). Because improvement of infrastructure is the prerequisite of economic development and a key condition for attracting foreign investment, local governments in the inner Delta region have put a strong emphasis on improving infrastructure. An important factor affecting a locality's potentials for economic growth and its attractiveness to foreign investment is its accessibility and convenient linkage to major economic centers. It is suggested above, that initially Panyu's relative inaccessibility to Guangzhou, Hong Kong and other parts of the inner Delta had clouded its natural endowments. In more recent years, Panyu has invested immensely to improve its accessibility. Similarly, Nanhai has strongly emphasized improving its infrastructure. The following analysis focuses on this common emphasis on developing infrastructure and the risks inherent in a heavy local state involvement.

Because Panyu is located at the central position of the inner Delta (refer to Map 8.1, p. 257), convenient transportation linking it to other parts of the inner Delta would bring enormous benefits. In recent years, the improvement in Panyu's linkage to Guangzhou and Hong Kong was partly a result of the county's own effort and also partly a result of the overall improvement of the transportation network in the inner Delta with investment from the provincial government and other parties.

The road transportation in the inner Delta region has been greatly improved with the completion of two highways, one linking Guangzhou and Shenzhen (and therefore Hong Kong), and the other linking Guangzhou and Zhuhai (and Macau). Both highways were constructed with investment from Hong Kong's Gordon Wu and strong support from the Guangdong provincial government. Now a journey from Guangzhou to Shenzhen and Zhuhai takes less than two hours, while previously the same trip easily took twice the time. While the Guangzhou-Shenzhen highway does not pass through Panyu, the eastern section of the Guangzhou-Zhuhai highway is within the county. However, both highways have contributed to 'shortening' Panyu's distance to the two special economic zones and Hong Kong and Macau. First, with the completion of the vehicle ferry between Nansha and Kumen in 1991, Panyu benefited directly from the Guang-Shen highway. The vehicle ferry was constructed with investment from the Panyu county government, Henry Fok's Hong Kong company, Hong Kong Henderson, and Guangdong Corporation, Guangdong's flagship company listed on the Hong Kong stock exchange.¹²³ Vehicles from Panyu and the eastern section of the inner Delta did not have to go around Guangzhou. The distance between the localities in the west Delta and the east Delta was shortened by 40 to 110 kilometers. Second, in 1997 a bridge linking Dongguan's Kumen and Panyu's Nansha was completed, which further improved the transportation between the east and west Delta. In 1992, the total investment in the bridge was estimated to be RMB1.6 billion, which was jointly financed by the provincial government and Gordon Wu.¹²⁴ Because of its central location, Panyu has become the transportation hub in the inner Delta region.

The improvement of Panyu's accessibility has also been due to its own efforts. It has already been stated that the Nansha-Kumen vehicle ferry was constructed with investment from the county government and three Hong Kong companies. The Luoxi Bridge was also constructed with considerable local investment, although investments from Guangzhou and the provincial level were also present.¹²⁵ Another example of local effort was the series of projects to support the eastern section of the Guangzhou-Zhuhai highway. These projects, costing RMB289 million from the county, linked a number of towns of the county to Zhongshan and Zhuhai, and carry vehicles from the west inner Delta to the vehicle ferry (and later the bridge) at Nansha. Another key project, the Panyu Bridge, the second major bridge between Panyu and Guangzhou, was started in 1994. The project, estimated to cost RMB700 million in 1995, was constructed with money from the county government, Henry Fok, the provincial Transport Bureau, Guangdong Corporation and elsewhere.¹²⁶

In addition to land transportation, Panyu has also made a considerable effort to improve its sea transportation to Hong Kong. Before 1992, Panyu had only one river port at Lianhua shan, which is 64 nautical miles from Hong Kong and about two hours by hydrofoil. From January 1986, it began to run a direct ferry service to Hong Kong. However, the most important effort in improving the county's sea link has centered on the development of Nansha. At the conjunction of the Pearl River and the ocean, Nansha is only 45 nautical miles from Hong Kong and 53 from Macau. What is more important, fast ferries to Hong Kong take only about one hour or so because they are free from the limits to ferry speed imposed on navigating the river. In January 1992, the State Council approved Nansha to be an open port, making Panyu the only county in Guangdong to be blessed with two open ports. Nansha's long waterfront (7 kilometers) with deep water also makes it possible to built cargo terminals for vessels over 10,000 tons. By the end of 1995, one terminal for vessels of 10,000 tons and two for vessels of 25,000 tons were completed. These were a significant improvement to the county's sea links, as the biggest terminal at Lianhua shan could accommodate vessels only up to 2,000 tons.¹²⁷

Compared with Panyu, Nanhai had not undertaken such grandiose infrastructure projects, because it is not as centrally located as Panyu. The major transportation construction in Nanhai focused on improving transportation within the county proper. Two main trunk roads with a total investment of RMB1.1 billion were completed in 1995.¹²⁸ Unlike the projects in Panyu, the major infrastructure projects in Nanhai were primarily financed with investments from within the county.¹²⁹ From 1991 to 1995, Nanhai invested RMB3.9 billion on constructing roads and bridges. In 1995 alone, RMB436 million was invested on roads and bridges. As of the end of 1995, the average length of road per square kilometer was 82.6 kilometers,¹³⁰ substantially higher than Panyu's 50 kilometers.¹³¹ Although Nanhai made great efforts to attract foreign companies to invest on its infrastructure projects, it did not have much success. Twelve joint ventures were set up in Hong Kong to attract foreign investment, but in 1995 these companies invested only a mere US\$3.69 million on the county's road and bridge construction.¹³² This was a pale comparison with the amount of foreign capital attracted to the infrastructure projects in Panyu. The new Panyu Bridge alone was estimated to cost

RMB700 million in 1995, a sizable portion of the investment coming from Hong Kong companies.

Like Panyu, Nanhai also sought to improve its sea links. However, there was little it could do here due to the limitation of its natural endowments. While Panyu has succeeded in turning a previously barren area into an open port and a national economic and technological development zone, what Nanhai could do was very limited. Sanshan, Nanhai's only major river port, has very limited potential. Local cadres view the absence of a large port as a key weakness in Nanhai's future competition with other localities in the inner Delta region.

There is no doubt that these governments played an important role in laying down a sound infrastructure for economic development and attracting foreign capital. There is also little doubt that the strategy of developing infrastructure first is a sensible one. As an example, a journey from Hong Kong to the remotest towns in these two counties normally now takes no more than four hours, while ten years ago it might take a whole day. Active participation of local governments in major infrastructure projects was necessary either because their benefits were not evident to potential users or were very uncertain in the beginning; even when their benefits were certain, the private sector did not have the huge amount of capital to invest in them. In China's state-led development,¹³³ the local governments are often the only actors that are willing, and have the capacity, to overcome the tremendous barriers to investing in infrastructure.

In a historical perspective, the unprecedented emphasis on improving infrastructure in Panyu and Nanhai in recent years demands an explanation. When the reform first started, local governments across China did not have much interest in investing in infrastructure. They directed their resources to building factories and projects that could earn quick money, leaving such sectors as energy development and transportation to the central government, resulting in what was called energy and transportation bottlenecks.¹³⁴ In recent years, these bottlenecks have been eased as a result of immense investments from the local level. In many places, there are even criticisms that infrastructure provision has gone too far ahead of needs. Why?

One reason for the oversupply of infrastructure is that local governments stressed the long-term pay-off of a good infrastructure to local economic development. However, the enthusiasm for infrastructure was also related to the provincial policy that allows investors to charge users for using the facilities. Dubbed as '*yilu yanglu, yiqiao yangqiao*' (using the tolls collected from the completed roads to support the construction of other roads, and using the tolls from the completed bridges to support the construction of new bridges), this policy emphasized that whoever makes the investment shall collect the tolls (*shui touzhi, shui shouqian.*) While previously investment in infrastructure had been a heavy financial burden to the local governments, now it has become a profitable undertaking. Panyu collected net revenue of RMB100 million per annum from tolls alone.¹³⁵

This of course is not meant to deny the entrepreneurial role that the local governments have played in improving the overall investment in these two localities. In both Nanhai and Panyu, the county governments have performed both the role of a direct investor and that of attracting the resources of other investors. Panyu's many infrastructure projects had investments from the upper level governments and bureaus, Hong Kong companies,

and the towns within the county. When the construction of a road brought benefits to the county as a whole and one or more towns, the county level would persuade (or force) the town governments to invest in it. Moreover, in Panyu the land along the newly built roads would be appropriated, and the revenues from it was used to improve infrastructure further. The county government also provided a subsidy of up to 30 percent of the construction cost to the towns and villages to encourage them to build high quality roads.¹³⁶

Panyu's fast rise in the 1990s has obviously owed a great deal to Henry Fok Ying-dong. Fok made considerable donations to his native county in the early 1980s, but did not make a significant investment there until the late 1980s. Since then, he has made a huge investment. Reportedly, the idea of developing Nansha originated with Fok.¹³⁷ He has not only invested a huge sum of money in the region, but has also been instrumental in bringing the region to the attention of provincial and even national leaders.¹³⁸ He introduced the project in the National People's Congress meeting in March 1993, and it was not a coincidence that Nanhai was granted the status of a national economic and technological development zone in May. In return for his great contribution, Fok was given extensive interests in the county and in particular in Nansha. For example, he was given the right to develop together with the county government an entire region of 22 square kilometers in Nansha.¹³⁹ He also had extensive interests in a number of property development projects in the county.¹⁴⁰

Fok's involvement in Panyu was portrayed as entirely for altruistic purposes: according to a Liaowang report, he pledged to donate all income from his interests in Nansha to supporting local welfare and other charities.¹⁴¹ While the truth of this remains to be decided,¹⁴² his active involvement had nevertheless contributed to Panyu's rise in recent years in two significant ways. First, his political influence helped Panyu gain some preferential treatment and attract investment. It was largely due to Fok's influence and persuasion that Nansha gained strong support from the central government, at the provincial level as well as Guangzhou. However, Fok's greatest contribution derived also from his role as a far-sighted business tycoon. A combination of his acute business sense, connections in Hong Kong, and access to capital allowed him to make an immense contribution to his homeland's development.

Conclusion

This chapter has made two main arguments. First, we have argued that local governments and leaders have played important roles in Nanhai and Panyu's rise to economic prosperity. At the beginning of the reform period when political and ideological constraints were the main hindrance to local economic development, a political leadership that was brave enough to desert the old political and ideological dogmas was a key factor. There was perhaps not much risk that the local leaders might choose a wrong development strategy or make wrong decisions, given the abundant opportunities in existence. What was needed were just political courage, an open mind and policy flexibility. In such a context, there is a close connection between leadership qualities, the policies, and economic performance. However, such a situation for simple leadership

action does not always exist. The history of the socialist command economy suggests that not everything a government does necessarily brings good results. Heavy involvement of governments in economic activity are inherently fraught with two problems: first, government actors are often constrained by non-economic considerations, and second, they usually do not have the information and experience (nor do they have the necessary incentive to acquire them) to make sound decisions.

Thus, the heavy involvement of county governments in the development of infrastructure projects in Nanhai and Panyu above should be viewed in perspective. Even if we accept the argument that the fast development of infrastructure projects in these two counties has contributed greatly to their economic growth, this does not prove beyond doubt that such heavy involvement, even in just basic infrastructure, is necessarily a good thing. After all, we have seen many other localities in China wasting enormous resources on infrastructure that does not make much economic sense. Zhuhai is clearly a case in point. The SEZ now boasts the biggest airport in China, but only a few planes land there and the airport is running a huge deficit.¹⁴³ Many people believe that Zhuhai's infrastructure has surpassed its needs for many years by too big a margin.¹⁴⁴ How to prevent local governments from making reckless and irresponsible decisions such as these are major challenges confronting China scholars who hold the intimate state-economy nexus in China in high regard.¹⁴⁵

The second argument that we have made is that government strategies and the choices of political leaders do not grow out of an institutional void. As Stephan Haggard suggested, a distinctive contribution that a political and institutional analysis can make to development studies is its focus on the conditions affecting the making and sustaining of particular development strategies, as opposed to the study of the intrinsic merits of the strategies.¹⁴⁶ This chapter analyses the immutable factors such as location and historical tradition, semi-given factors such as preferential policies and the institutional arrangements embedded in China's multi-layered administrative system, leadership, and their development strategies. We have shown how different institutional constraints and different types of leadership help explain Nanhai and Panyu's developmental differences in the early 1980s, and how the changes in the institutional environment in the second half of the 1980s and the leadership in Panyu had made possible a shift of development strategy.

The main institutional constraint we have emphasized is Panyu's administrative subordination to Guangzhou. With the benefit of hindsight, it seems that the best strategy for development for the counties in the Pearl River Delta in the early years of the reform era was surprisingly simple. A crucial element was a determination to desert an ideologically driven approach to rural development and to adopt more pragmatic policies to developing industrial enterprises and agricultural activities other than grain production. Another element was to let loose the energy of the cadres and peasantry in pursuit of economic prosperity and material well being.

This argument, focusing on the impact of administrative subordination is particularly germane to an endeavor to understand the role of cities as agents of economic development in another sense. While in the post-Mao era cities have certainly become 'key corridors' for provincial and nation-wide growth, as suggested by the editor in the

Introduction to this volume, an interesting angle is to examine how they have helped or hindered rural development, particularly that of the suburban counties under their administrative leadership. This question has acquired additional importance in view of the introduction of the system of putting counties under the administrative leadership of cities (*shiguan xian*) since 1983. This system was founded on the belief that cities, by virtue of their economic strength, their higher level of industrialization, and as the centers of commercial activities, would benefit the development of the suburban counties under their administrative leadership. Whether this objective has been achieved has been a question of considerable debate in China since the inception of the policy. Above all, in spite of the alleged objectives of the policy, administrative boundaries were often not drawn to coincide with natural economic regions and the natural flow of economic resources.¹⁴⁷ As a matter of fact, in many cases administrative boundaries are necessarily at odds with the free flow of economic resources.

Panyu's subordination to Guangzhou, and the negative impact this had on the county's economic development, also cast considerable doubt on the alleged benefits big metropolises are always expected to bring to suburban counties, and on the conventional view of the urban-suburban relationship in contemporary China. A big metropolis certainly provides many benefits to its adjacent areas (market opportunities and greater access to different types of resources, including physical inputs, financial resources and technology). But it is one thing being close to a big metropolis and benefiting from its so-called radiation effects; it is quite another being linked to the metropolis administratively and encountering demands to serve its economic and political interests.

The fast economic growth in Nanhai and Panyu in the reform era has also created considerable tension in the administrative system in which these cities are located. Of the four little tigers, two (Zhongshan and Dongguan) are prefecture-level cities. Nanhai and Shunde have openly campaigned for a higher administrative status for several years. Panyu also made it clear that it sought to become a prefecture level city in the year 2000.¹⁴⁸ These ambitions are bound to give rise to important conflicts in this region. In this sense, China's existing administrative landscape is set to change dramatically amid rapid economic changes.¹⁴⁹

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Notes

- 1 Nanhai was granted city status in September 1992, and Panyu in May 1992. *Nanhai nianjian 1994* (Nanhai Yearbook 1994), Guangzhou, Guangdong nianjian chubanshe, 1994, p. 3 and *Panyu bao* (Panyu Post), 29 May, 1992, p. 1. They both got this status much later than their counterparts in other parts of China. Zweig points out in his chapter that Zhangjiagang was

- given city status as early as in 1986. For another example, in 1990 17 counties gained city status in China, but none of these counties was from Guangdong. See *Zhongguo xianzhen nianjian 1991* (Yearbook of Counties and Towns in China 1991), Beijing, Zhongguo xianzhen chubanshe, 1992, pp. 36–7. From 1991 to May 1994, 28 counties in Guangdong province gained city status. See *Xianggang jingji ribao* (Hong Kong Economic Times), 30 May 1994, p. A9.
- 2 L. Zhang and Simon X.B. Zhao, 'Re-examining China's "Urban" Concept and the Level of Urbanization,' *The China Quarterly*, 1998, no. 154, pp. 331–40.
 - 3 Zhongshan and Dongguan became prefecture-level cities in 1988, and therefore were not included in this survey.
 - 4 *Renmin ribao* (People's Daily) 7 July 1992, p. 1.
 - 5 This phenomenon demands explanation. Nanhai, and other prosperous Guangdong counties, fall behind the southern Jiangsu counties in terms of the extent of industrialization, GVIAO and GVIO, but the budgetary revenue of the former tends to be higher. On the ranking of counties on such dimensions as total social output and GVIO in 1992, see *Zhongguo xianzhen nianjian 1993*, Beijing, Zhongguo xianzhen nianjian chubanshe, 1993, pp. 123–30. Whether, and how, this is related to the different patterns of development in these regions is not immediately clear.
 - 6 *Nanhai nianjian 1994*, p. 14; *Panyu xianzhi* (Panyu Gazette), Guangzhou, Guangdong renmin chubanshe, 1995, pp. 184–5; *Panyu nianjian 1995* (Panyu Yearbook 1995), Guangzhou, Guangdong renmin chubanshe, 1995, p. 6; *Panyu nianjian 1996*, Guangzhou renmin chubanshe, 1996, p. 25.
 - 7 Ezra Vogel, *One Step Ahead in China: Guangdong Under Reform*, Cambridge, Harvard University Press, 1989, p. 193.
 - 8 *Nanfang ribao*, 7 November 1995, pp. 1–2.
 - 9 For the importance of Hong Kong, see Vogel, *One Step Ahead in China*, pp. 426–49; Liu Pak-wai, Wong Yue-chim, Sung Yan-wing and Lau Pui-king, *Zhongguo gaige kaifang yu zhujiang sanjiaozhou de jingji fazhan, yanjiu baogao* (A Research Report on China's Reform and Economic Development in the Pearl River Delta), Hong Kong, Nanyang Commercial Bank, 1992.
 - 10 Kathleen Thelen and Sven Steinmo, 'Historical Institutionalism in Comparative Politics,' in Sven Steinmo, Kathleen Thelen and Frank Longstreth (eds) *Structuring Politics: Historical Institutionalism in Comparative Analysis*, New York, Cambridge University Press, 1992, pp. 1–32.
 - 11 In cities directly under the State Council and Hainan province, the prefecture level does not exist between the provincial and the county levels.
 - 12 Therefore, when Nanhai and Panyu gained city status in 1992, they were not independent from Foshan and Guangzhou respectively, although it was common knowledge that they desperately wanted to have independent status. This seems to be different from what David Zweig described about Zhangjiagang in his chapter in this volume.
 - 13 Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China: Leaders, Structures and Processes*, Princeton, Princeton University Press, 1988, p. 341.
 - 14 Ezra Vogel attributed great importance to leadership in his analysis in *One Step Ahead in China*.
 - 15 On the importance of this practice in Guangdong, see Yeung Siu-fai, 'Shengji zhengfu de zhizu xingwei: kaifang gaige shiqi de guangdong zhengfu' (Provincial Government's Autonomous Behavior: Guangdong Government During the Reform Period), unpublished M.Phil. thesis, 1990, Division of Government and Public Administration, The Chinese University of Hong Kong.

- 16 In Guangdong, even after the 1984 reform of nomenklatura, county level party and state leaders continued to be managed by the provincial level. On the 1984 Nomenklatura reform, see John Burns, 'China's Nomenklatura System,' *Problems of Communism*, September/October, 1987. On an example of the provincial power on the appointment of county level leaders, see *Panyu bao*, 23 January 1987, p. 1.
- 17 As a saying goes, 'weiyou guangzhou, xianyou panyu.' *Panyu xianzhi*, p. 707.
- 18 *Zhuanqu* was renamed *diqu* in 1970. See Pan Lixin, Chao Hongbin and Yu Yongzhe, *Guangdong Zhengqu yanbian* (The Evolution of Administrative Units in Guangdong), Guangzhou, Guangdong ditu chubanshe, 1991, p. 72.
- 19 In 1985, Nanhai moved its county seat to the fringe of Foshan. This was seen as a step which would culminate in the eventual independence of the county from Foshan. The county seat is now called Guicheng, which dovetails with Foshan and therefore is a constant source of conflict.
- 20 *Panyu bao*, 10 May 1991, p. 1.
- 21 Until very recently, only figures about gross industrial and agricultural output value, gross industrial output value, budgetary revenue, and year-end saving balance were available. Information about GDP and total domestic production value has become available in recent years, but it is not adequate for discussing economic growth in different periods of time. At the same time, the figures on export (including total purchase for export) and total actual foreign investment seem to have different definitions that render them barely useful. The only useful categories are those that have been used consistently. However, categories such as GVIAO and GVIO quickly become inadequate as a result of the rise of the tertiary sector in recent years. Officials in Guangdong often emphasized that such categories as budgetary revenue and year-end saving balance more correctly measures development of a particular locality than others. They implied that although counties such as Nanhai and Shunde were behind Wuxi in terms of GVIAO and GVIO, they were in fact much more prosperous: both the government and the people have got more money.
- 22 See the editor's introduction.
- 23 The importance of Hong Kong was not limited to direct investment. As often noticed, there was considerable difference between the structure of the economy of Dongguan and Baoan, which from earlier on had become a manufacturing base for Hong Kong's companies, and that of localities like Nanhai, Zhongshan and Shunde which were further away from Hong Kong. To the latter, Hong Kong served both as an easily accessible market for exports, and a source of factors of production.
- 24 *Panyu xianzhi*, pp. 709, 936.
- 25 For example, the total investment in Dashi Bridge was RMB9.72 million, of which less than a half came from the county's budgetary investment. Henry Fok, Ho Yin and his brother Ho Him, donated a total of RMB5 million.
- 26 On Fok's involvement in China's economic opening and other areas, see Zhuang Zhao, Wang Weixin and Yuan Guangda (eds) *Aiguo aixiang de huoyingdong* (Huo Yingdong: the Man Who Loves His Country and His Homeland), Guangzhou, Zhongshan daxue chubanshe, 1991.
- 27 Before 1982, all of the three largest sugar plants were not owned by the county. In 1982, Panyu established its own large sugar plant using self-raised funds. By 1986, this plant's capacity had surpassed that of any single plant owned by the provincial level and Guangzhou. See *Panyu xianzhi*, pp. 312–3.
- 28 *Nanhai nianjian 1994*, pp. 231, 241.
- 29 *Panyu xianzhi*, p. 314; *Panyu xian tangyezhi*, Panyu, 1990, pp. 141–3.
- 30 *Panyu xian tangyezhi*, p. 145.

- 31 This is a factor attributed to the relative slow development of Panyu in the reform era in the general introduction to Panyu in *Panyu xianzhi*, p. 174; the agricultural responsibility system was implemented more slowly in Panyu than other counties under Guangzhou's administrative leadership. See Feng Ping (ed.) *Guangdong dangdai nongye shi*, Guangzhou, Guangdong renmin chubanshe, 1995, p. 388.
- 32 *Panyu xianzhi*, pp. 224, 226.
- 33 Figures on Nanhai's grain procurement target are not consistent. In a report to the provincial Party committee by a key policy advisor, it was reported that in 1981, Nanhai supplied 32,129 million jin of grain to the state. This was more than the volume procured from Panyu. At another point, it was suggested that Nanhai supplied a total of 43,228 jin over a period of three years (1979–81). If the latter is true, Nanhai's procurement figure was only about half of Panyu's.
- 34 Dongguan and Zhongshan were elevated to prefecture-level cities in 1985 and 1988 respectively.
- 35 *Panyu xianzhi*, p. 185.
- 36 Peter Cheung, 'Relations Between the Central Government and Guangdong,' in Y.M. Yeung and David Chu (eds) *Guangdong: Survey of a Province Undergoing Rapid Change*, Hong Kong, Chinese University Press, pp. 19–51; Yeung Siu-fai, *Shengji zhengfu de zhizu xingwei*; and Ezra Vogel, *One Step Ahead in China*.
- 37 The following synopsis is based on Peter Cheung, 'Relations between the Central Government and Guangdong.' The full document is available in Zhonggong guangdong shengwei bangongting (ed.) *Zhongyang dui guangdong gongzuo zhishi huibian 1979–1982* (A Selection of Central Instructions to Guangdong 1979–1982), Guangzhou, 1986, pp. 18–40.
- 38 Guangdong insisted that, after some careful calculation, the amount transferred to Beijing should be RMB0.8–0.9 billion. The bargaining result was that Guangdong should submit RMB1 billion.
- 39 Guangdong Provincial government 1980 no. 77 document, summarized in Guangdong sheng renmin zhengfu bangongting diaoyanshi, *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, Guangzhou, 1988, pp. 5–6.
- 40 Guangdong Provincial government 1981 no. 27 document, summarized in *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, pp. 6–10.
- 41 Guangdong Provincial government 1985 no.57 document, summarized in *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, pp. 13–14.
- 42 *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, pp. 21–5.
- 43 Prefectures could approve projects up to US\$5 million and counties up to US\$1.5 million. See *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, pp. 29–31.
- 44 When foreign capital constituted more than 50 percent of the total investment and export more than 70 percent of total production, prefectures and counties could approve investment up to US\$30 million and 5 million respectively. For other projects, prefectures could approve investment up to US\$15 million and counties up to US\$3 million.
- 45 *Guangdong sheng duiwai kaifang zhengce zhaibian, April–December 1988*, vol. 3, pp. 87–9.
- 46 *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, p. 26.
- 47 *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, pp. 87–8.
- 48 *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, pp. 88–99.
- 49 For example, in 1984, Foshan and Jiangmen could approve foreign investment up to US\$5 million, while other prefecture cities could only approve investment up to US\$3 million. Guangzhou will be discussed under the section concerning coastal open cities.

- 50 'Yanhai bufen chengshi zuotanhui jiyao (Summary of the Discussion Meeting Among Some Coastal Cities),' in Guojia tigaiwei bangongting (ed.) *Shiyijie sanzong chuanhui yilai jingji tizhi gaige wenjian huibian* (Collection of Documents Related to Economic System Reform Since the Third Plenum), vol. 3, Beijing, Gaige chubanshe, 1990, pp. 452–7.
- 51 *Shiyijie sanzong chuanhui yilai jingji tizhi gaige wenjian huibian* vol. 2, pp. 19–21.
- 52 *Guangdong sheng duiwai kaifang zhengce zhaibian, 1979–1988*, vol. 2, pp. 30–1, 38.
- 53 *Shiyijie sanzong chuanhui yilai jingji tizhi gaige wenjian huibian*, vol. 3, pp. 465–6.
- 54 *Shiyijie sanzong chuanhui yilai jingji tizhi gaige wenjian huibian*, vol. 2, pp. 159–62.
- 55 *Dangdai zhongguo de guangdong* (Contemporary China's Guangdong), vol. 2, Beijing, Dangdai zhongguo chubanshe, 1991, p. 62.
- 56 *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 1, pp. 24–5.
- 57 *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, p. 30.
- 58 *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, pp. 100–3.
- 59 *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, pp. 102–3.
- 60 Guangdong sheng renmin zhengfu tizhi gaige bangongshi (ed.) *Jingji tizhi gaige wenjian huibian 1986–1988*, July 1988, Guangzhou, 1988, pp. 118–19. This second batch of industrial satellite towns included six counties from Nanhai and five from Panyu.
- 61 *Dangdai zhongguo de guangdong*, vol. 2, p. 63.
- 62 *Panyu bao*, 28 August 1987, p. 1.
- 63 By the end of 1987, although the Open Economic Region constituted slightly less than 50 percent of the province's land, it accounted for more than 74 percent of the total population, about 85 percent of total GIAOV, more than 92 percent of total budgetary revenue, about 85 percent of total exports and 70 percent of total foreign investment. See *Dangdai Zhongguo de Guangdong*, vol. 2, pp. 62–3.
- 64 However, a key element of this policy—economic and technological development zone—provided Panyu's Nansha with significant autonomy in the early 1990s when it was granted the status of an economic and technological development zone in 1993 by the State Council.
- 65 Pan Lixing, Chou Hongbin and Yu Yongzhe (eds) *Guangdong zhengqu yanbian*.
- 66 Pan Lixing, Chou Hongbin and Yu Yongzhe (eds) *Guangdong zhengqu yanbian*.
- 67 Zhongyang jigou bianzhi weiyuanhui bangongshi (ed.) *Zhongguo xingzheng daqushi* (Major Trends in China's Administration), Beijing, Jingji kexue chubanshe, 1993, pp. 67–72.
- 68 *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, pp. 5–6.
- 69 *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, p. 10.
- 70 The two districts are Chengqu and Shiwan. The establishment of these two districts was an attempt to provide the new city of Foshan with some lower level units under its full control. This seemed to flow from the recognition that Foshan did not have too much control over the four counties under it. Interview with a cadre in Foshan, 28 February 1997.
- 71 Guangdong had wanted to make Zhongshan a prefecture-level city in 1983, but this was vetoed by the central government. In addition, Guangdong also requested permission to establish two new prefecture-level cities (in addition to Shaoguan) to lead the counties originally under Shaoguan Prefecture. This was also vetoed by the center.
- 72 Pan Lixing, Chou Hongbin and Yu Yongzhe (eds) *Guangdong zhengqu yanbian*, p. 80.
- 73 *Guangdong sheng duiwai kaifang zhengce zhaibian 1979–1988*, vol. 2, pp. 13–14.
- 74 On Yu Fei, Foshan's mayor in the first half of the 1980s, see Ezra Vogel, *One Step Ahead in China*, pp. 182–6.
- 75 'Guanyu diqu shezhi zhou zhengquan de sikao,' in Renshibu xingzheng guanli kexue yanjiusuo (ed.) *Difang jigou gaige yanjiu* (Study of Local Administrative Reform), Beijing,

- Zhonggong zhongyang dangxiao chubanshe, 1992, pp. 225–35; and Pan Lixing, Chou Hongbin and Yu Yongzhe (eds) *Guangdong zhengqu yanbian*, pp. 74–5.
- 76 Lynn White, ‘Shanghai-suburb relations, 1949–1966,’ in Christopher Howe(ed.) *Shanghai: Revolution and Development in an Asian Metropolis*, New York, Cambridge University Press, 1981, pp. 241–68.
- 77 Chan Kam Wing, *Cities with Invisible Walls: Reinterpreting Urbanization in Post-1949 China*, Hong Kong, Oxford University Press.
- 78 *Panyu xianzhi*, p. 1069.
- 79 *Panyu xianzhi*, p. 441.
- 80 *Panyu xianzhi*, p. 663.
- 81 *Panyu xianzhi*, p. 185.
- 82 Jae Ho Chung, ‘Studies of Central-Provincial Relations in the People’s Republic of China: A Mid-Term Appraisal,’ *The China Quarterly*, 1995, no. 142, pp. 497–500.
- 83 However, in 1982 when the provincial level entered into fiscal arrangements directly with the counties, the counties under Guangzhou were not included.
- 84 This bridge links Panyu with Guangzhou. In view of the bridge’s obvious importance to Panyu and Henry Fok’s strong support for its early construction, it was quite a surprise that it was completed as late as August 1988. The construction plan was approved in December 1983, but construction did not start until September 1985. See *Panyu bao*, 9 December 1983, p. 1; and *Panyu xianzhi*, p. 83.
- 85 *Guangzhou shizhi* (Guangzhou City Gazette), vol. 8, Guangzhou, Guangzhou chubanshe, 1996, p. 584.
- 86 Ezra Vogel, *One Step Ahead in China*, p. 196.
- 87 Wang Zhigang, *Zouxiang shichang jingji de zhongguo* (China that Moves Toward Market Economy), Guangzhou, Guangdong liyou chubanshe, 1993, pp. 45–63. Wang wrote the article and published it in 1991 in Guangzhou’s *Yuegang xinxiobao*, just after Guangzhou’s new Mayor, Li Zhiliu, led a group of Guangzhou officials to tour the counties in the inner Delta region.
- 88 *Zhongyang dui guangdong gongzuo zhishi huibian, 1979–1982*, vol. 2, p. 12.
- 89 For example, in October 1984 Guangzhou complained to the provincial party committee that many powers the provincial level had agreed to hand down to it (such as the power equivalent to the provincial level in approving exports and imports, separate listings in foreign trade, and decentralization of management of state-owned enterprises) were not implemented.
- 90 The State Council agreed to grant Guangzhou the central economic city status on 25 September 1984. But when the State Planning Commission informed Guangzhou of this decision later, it suggested that, in view of Guangdong’s peculiar situation, Guangzhou’s fiscal responsibility and foreign exchange sharing would not be listed separately from those of Guangdong in the state plans. Guangzhou’s leaders went to Beijing to negotiate with the provincial leaders who were then in Beijing discussing this matter with the central bureaucracies. Although the provincial level finally agreed to Guangzhou’s request, it refused to go into the details. The main barrier was obviously the province, because Guangzhou quoted the central bureaucracies as saying that ‘as long as the provincial level agreed, we would immediately issue the formal documents.’ When Liang Lingguang, then governor of Guangdong province, replied to the State Planning Commission’s inquiry concerning this matter later, he stated that Guangdong agreed only to Guangzhou’s separate listing in fiscal responsibility in principle. He also refused to use a document or a telegraph to reply to the enquiry. He merely replied by phone. In December, the State Council

- formally announced that Guangzhou would be granted the central economic city status. See *Shiyijie sanzhong chuanhui yilai jingji tizhi gaige wenjian huibian*, vol. 3, pp. 465–6.
- 91 Liang Lingguang finally agreed that Guangzhou could deal directly with the Ministry of Finance in November 1984.
 - 92 Liang Guiquan, Shen Guijin, Chen Zhuwang, *Qifei de guiji* (The Path of Economic Take-off), Guangzhou, Guangdong renmin chubanshe, 1992, p. 39; and Ezra Vogel, *One Step Ahead in China*, pp. 216–17.
 - 93 John Burns, 'China's Nomenklatura System.'
 - 94 *Guangzhou shizhi*, vol. 8, p. 20.
 - 95 *Guangzhou shizhi*, vol. 8, p. 585.
 - 96 *Guangzhou shizhi*, vol. 8, p. 585.
 - 97 *Who's Who in China: Current Leaders*, 1994 edition, Beijing, Foreign Language Press, 1996, pp. 338–9.
 - 98 Interview, Guangzhou, 4 April 1997.
 - 99 *Guangzhou nianjian 1992*, Guangzhou, Guangzhou nianjian chubanshe, pp. 689–91.
 - 100 Unfortunately, details of this decision are not available. See *Panyu bao*, 8 May 1992, p. 3.
 - 101 See *Panyu xianzhi*, pp. 1082–4.
 - 102 *Panyu xianzhi* p. 1084.
 - 103 *Panyu xianzhi*, p. 86.
 - 104 Wang Zhigang, *Zouxiang shichang jingji de zhongguo*, pp. 91–105.
 - 105 Wang Zuo noted in his report that the same county party committee had led the economic stagnation in the pre-reform period and the rapid growth between 1979 and 1981. Wang Zuo, *Nanhai xian jingji gongzuo lingdao jingyan de diaocha baogao* (Report on the Local Leaders' Experiences with Economic Work in Nanhai County), unpublished report, p. 3.
 - 106 Wang Zuo said in his report that Hu Yaobang mentioned Nanhai several times. Liang Guangda was also famous for his ability to obtain strong central support for his grandiose projects in Zhuhai. The construction of Zhuhai airport, for example, was reportedly carried out in spite of the opposition of the functional bureaucracies on economic grounds because of the support of the veteran leaders and Premier Li Peng.
 - 107 He did take the position of deputy prefecture commissioner, but continued to be Nanhai's Party secretary until moving to Zhuhai in late 1983.
 - 108 While Liang Guangda was promoted to Zhuhai after leaving Nanhai, Li and Miao both continued to serve in Guangzhou's party bureaucracy: Li as deputy secretary of the party core group of the municipal agricultural commission, and later head of the municipal organization department; Miao succeeded Li's position in the municipal agricultural commission in the period between 1982 and 1985. On his departure from the position of party secretary in January 1987, Huang had been in Panyu for twentyseven years. See *Panyu bao*, 23 January 1987, p. 1.
 - 109 *Panyu bao*, 2 October 1996, p. 1; *Panyu nianjian 1996*, p. 37.
 - 110 See, for example, *Panyu bao*, 23 January 1981, p. 1; 11 December 1981, p. 1; and 19 March 1982.
 - 111 Foshan Prefecture's report to the provincial party committee in July 1980 and Nanhai party committee's report on its rural economic growth in September 1981.
 - 112 *Panyu bao*, 6 May 1988, p. 1.
 - 113 What Ezra Vogel described as statesmen and scramblers all had these qualities. See Vogel, *One Step Ahead in China*, pp. 309–18.
 - 114 Wang Zuo's report quoted in note 105.
 - 115 Nanhai Party Committee's report dated 12 September 1981.

- 116 *Nanhai shi nongchun jinrongzhi 1840–1990* (Nanhai's Gazette on Rural Finance 1840–1990), Guangzhou, Guangdong renmin chubanshe, 1995, pp. 269–70; Wang Zuo's report quoted in note 105, p. 15.
- 117 *Nanhai shi nongchun jinrongzhi*, pp. 269–70.
- 118 *Nanhai shi nongchun jinrongzhi* pp. 147–8.
- 119 *Panyu xianzhi*, pp. 312–13.
- 120 This is only one measure of the growth of rural enterprises, as the size of these enterprises is also an important matter. Compared to other localities such as Wuxi and Shunde in Guangdong province, Nanhai's rural enterprises were marked by a greater proportion of enterprises owned by villages (formerly brigades), production teams, and individuals and enterprises. See Jan Svejnar and Joseph Woo, 'Development Patterns in Four Counties,' in William Byrd and Lin Qingsong (eds) *China's Rural Industry*, New York, Oxford University Press, 1990, p. 68.
- 121 'Panyu xian guanyu jiakuai cunzhen qiye fazhan de youhui zhuoshi (On Panyu County's Measures to Develop Village Enterprises),' (7 April 1987), in *Panyu xianzhi*, pp. 1074–6. The chronology of *Panyu xianzhi* contains few activities and policies made by the county party committee and government concerning rural enterprises before 1987, suggesting that no important decisions were made in this period.
- 122 On Nanhai, see *Nanhai xian nongcun jinrongzhi*, pp. 269–70; On Panyu, see *Panyu xianzhi*, p. 486.
- 123 *Panyu xianzhi*, p. 352.
- 124 *Panyu bao*, 29 May 1992, p. 1.
- 125 *Panyu bao*, 9 December 1983, p. 1.
- 126 *Yuegang xinxi bao*, 7 October 1993, p. 6; *Nanfang ribao*, 7 November 1995, p. 2.
- 127 *Panyu nianjian 1996*, p. 81.
- 128 *Nanhai nianjian 1995*, p. 5.
- 129 *Nanhai nianjian 1994*, pp. 6–7.
- 130 *Nanhai nianjian 1996*, p. 75.
- 131 *Panyu nianjian 1996*, p. 16.
- 132 *Nanhai nianjian, 1996*, pp. 74–5.
- 133 Andrew Walder, 'Local Governments as Industrial Firms: An Organizational Analysis of China's Transitional Economy,' *American Journal of Sociology*, 1995, vol. 101, no.2, pp. 263–301; Wu Guoguang and Zheng Yongnian, *Lun zhongyang—difang guanxi*, Hong Kong, Oxford University Press, 1995, pp. 19–32.
- 134 Barry Naughton, 'The Decline of Central Control over Investment in Post-Mao China,' in David Lampton (ed.) *Policy Implementation in Post-Mao China*, Berkeley, University of California Press, 1987, pp. 51–80.
- 135 *Nanfang ribao*, 7 November 1995, p. 2. The total revenue from tolls in 1991 was RMB48 million, a bit less than a fifth of budgetary revenue and 28 percent of budgetary expenditure. See *Panyu xianzhi*, p. 360.
- 136 *Nanfang ribao*, 7 November 1995, p. 1.
- 137 *Liaowang* (Outlook), 1996, no. 14, pp. 8–10.
- 138 From 1991 to 1994, Qiao Shi, Tian Jiyun, Yang Shangkun, Zhu Rongji, Zhou Jiahua, Li Lanqing and Li Tieying visited Nansha. Tian Jiyun went there twice. *Nanfang ribao*, 6 December 1994, p. 1.
- 139 *Nanfang ribao*, 6 December 1994, pp. 1–2; *Yuegang xinxi bao*, 28 January 1993.
- 140 *Yuegang xinxi bao*, 3 February 1994.
- 141 *Liaowang*, 1996, no.14, p. 9.

- 142 Many cadres in Panyu perceived that Fok secured very favorable terms for his investment.
- 143 For a report on part of the airport departure and arrival lounge being turned into an electronic game room, see Pingguo ribao (*Apple Daily*) (Hong Kong), 11 May 1997, p. A13.
- 144 Interview with a cadre at the Policy Research Office, Guangdong provincial committee, 16 June 1996.
- 145 Walder argues that the budgetary constraints on local governments in China have been hardened in the reform era. See Walder, 'Local Governments as Industrial Firms.'
- 146 Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*, Cornell University Press, 1990.
- 147 There are abundant examples of administrative boundaries that do not coincide with the natural flow of economic resources. In 1983, when Foshan Prefecture was split into Foshan and Jiangmen Municipalities, Guangdong provincial government decided to annex Yangjiang and Yangchun counties to Jiangmen. Cadres in Jiangmen argued that these two counties were more a part of Maoming and Zhanjiang than part of Jiangmen. Another example of violating the principle of natural economic flow in pursuit of administrative expediency is the decision to include Fogang and Qingyuan in Guangzhou Municipality.
- 148 *Panyu bao*, 8 May 1992, p. 7.
- 149 In both Nanhai and Panyu, there is now a deputy-county level set up. In 1994, Nanhai decided to establish a deputy-county level government at Xiqiao, a famous tourist area. Nansha's management committee is headed by a deputy county magistrate, and therefore is a deputy level unit. However, Nansha's position is fraught with an unresolved conflict between Guangzhou and Panyu. Formally speaking as an economic and technological development zone, Nansha should be placed directly under Guangzhou's management, but, owing to Panyu's resistance, a compromise was made. While the Nansha Management Committee is placed under Panyu government, the small group is headed by the mayor of Guangzhou. See *Panyu xianzhi*, p. 87.

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