"Decentralisation, Globalisation and the "Creation" of Trans-National Economic Regions in the People's Republic of China "

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Abstract:

The abandonment of China's relatively isolationism from the global economy has given rise to a growing interest in the relationship between political and economic space in contemporary China. In particular, increased economic interaction between Southern China, Hong Kong and Taiwan has promoted interest in the efficacy of concepts such as "growth triangles", "region states" and "greater China" in understanding the emergence of new economic spaces. This paper compares the Southern Chinese experience with attempts to create a transnational economic space in Northeast Asia. It argues that intergovernmental processes have been less effective in facilitating regional economic integration than non-state directed forces. In particular, decentralisation of power in post-Mao China created a situation where the relationship between local state actors within China, and non-state actors outside China, have become a key determinant of how China has re-engaged with the regional and global economy.

Keywords: China, Greater China, decentralisation, globalisation.

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Introduction: Organising Space in the PRC

Almost from the very foundation of the People's Republic of China, the Chinese Communist Party (CCP) has been attempting to find the most efficient formula for organising economic and political space[1]. For much of the period, the issue revolved around the twin questions of how much power should be devolved to which lower level of organisation. Unable to find a satisfactory and conclusive answer to these questions, CCP territorial policy has changed on a number of occasions between 1949 and 1978[2].

This already complex task was further complicated after the death of Mao by the introduction of market reforms and China's re-engagement with the global economy.

Cerny (1995 p.597) argues that:

> "The more that the scale of goods and assets produced, exchanged, and/or used in a particular economic sector or activity diverges from the structural scale of the national state - both from above (the global scale) and from below (the local scale) .... then the more the authority, legitimacy, policymaking capacity, and policy implementing effectiveness of states will be challenged from both without and within"

Building on this understanding, the main argument here is that the structural scale of the nation state in China does not correspond to the exchange and production of goods and assets. The dual processes of decentralisation and globalisation are reconfiguring loci of decision making and

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1 Indeed, ever since the Emperor Qin Shi Huang Di unified China in the second century BC, Chinese rulers have grappled with the complex task of maintaining control over the vast territory that is China.

2 For example, power was centralised, decentralised, re-centralised and re-decentralised. Similarly, the CCP originally grouped provinces together in large regions as the immediate sub-national unit of administration after 1949. The regions were disbanded and replaced by provinces in 1954 and 1955, only to be reconstituted in 1961 for party organisation, and finally disbanded again during the Cultural Revolution. For details, see Goodman (1986) and Donnithorne (1981).

authority, and are both strengthening and weakening the relevance of political administratively defined territories for economic activity.

This apparently contradictory statement is explained by distinguishing between local and national political administrative boundaries. On the one hand, decentralisation has consolidated the importance of provincial boundaries as determinants of economic activity. On the other hand, China's transition from relative isolationism has increased the importance of external economic relations for parts of China, and reduced the importance of national boundaries for economic activity. The consolidation of provincialism suggests the importance of sub-national regions, while the importance of international linkages suggests the declining relevance of national political boundaries for economic exchange. In combination, they suggest that for some elites in some parts of China, transnational alliances are now more significant than domestic political and economic alliances. A key determinant of this changing structure of power is the increased autonomy enjoyed by local elites resulting from the decentralisation of power in contemporary China.

Decentralisation

varieties of decentralisation

Debates over decentralisation in pre-reform China were primarily dominated by an attempt to redistribute power within the party-state hierarchy. Leaders such as Chen Yun did advocate a limited distribution of economic decision making to producers in the countryside. However in general, state-ownership and state-planning meant that power resided within China's bureaucratic structures. As such, economic decentralisation entailed devolving power to different levels within the politically defined and created bureaucratic structure. Furthermore, the state-planned system meant that political-administrative boundaries also largely represented parameters of economic activity, particularly at times when power was decentralised to provincial administrations[3].

Despite further decentralisation of power to provincial authorities in the post-Mao era, defining the best spatial distribution of power has been further complicated by the relationship between two different (sometimes contradictory) types of decentralisation; administrative decentralisation and market decentralisation[4]. Administrative decentralisation, the dominant form of decentralisation in the pre-reform era, entails the transferral of power previously held by the central party-state administration to lower level tiers of organisation (primarily provincial level bureaucracies). In theory, at least, this process should be a zero-sum game - what the central authorities lose, another level of administration should gain.

However, the simultaneous process of "market decentralisation" complicated the process of administrative decentralisation. In incrementally dismantling the state planning and allocation system, party-state elites at all levels lost some ability to direct (let alone dictate) economic activity. It might seem slightly odd to talk about liberalisation and market reforms as "decentralisation", but in the context of a state-planned economy, the loss of central control over the economy does represent a form of decentralisation. The processes involved here on the domestic scale have much in common with Strange's (1994) notions of the distribution of power

[3] Power was decentralised to provincial authorities from 1956-7 to 1961, and provinces gained considerable power during the drive for local self-sufficiency during the Cultural Revolution. See Donnithorne (1972).

on the global level - what one state actor lost was not necessarily at the gain of another state actor. Instead, power flowed outside the previously (relatively) autonomous party-state bureaucracy into the hands of non-state actors (managers, producers and consumers) - from the party-state to markets.

Initially at least, the transferral of power from the state-plan to the market was only partial. Whilst the planning structure lost control over significant elements of the demand side (with significant consequences in terms of inflation and shortages), the supply side of the equation was much less clear cut. In the rural sector, farmers did increase their autonomy to produce what they wanted and to distribute their produce on the free market, but only after they had met their commitments to grain production, where pricing and allocation remained primarily under state control. In the industrial sector, state control over (primarily) raw material, heavy, and machine building industries gave the central state significant influence over the rest of the economy. On another level, many of the reforms originally aimed at increasing enterprise management and autonomy failed to reach their intended destination. Instead, considerable devolved power became lodged in the hands of local level party-state organisations, newly strengthened by administrative decentralisation.

By the mid-1980s, Chinese academics and policy makers were arguing that the creation of effective and functioning economic areas was being obstructed by the existence – indeed, strengthening – of political control over economic activity in politically organised areas (primarily provinces). For example, inter-provincial trade remains remarkably low, not least

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[4] Schurmann (1968 p.196) distinguishes between these two forms of decentralisation by calling them *decentralisation I* and *decentralisation II*, whereas Eckstein (1977 p.171) prefers the terms *market*

because provincial authorities have erected trade barriers to protect their own local producers. As such, the existence of political boundaries - or what Shen Liren and Tai Yuanchen (1990) called "dukedom economies" - was depicted as obstructing the exploitation of comparative advantage and the creation of a truly national market economy[5]. Economic cores were also separated from their "natural" economic hinterland by provincial boundaries that acted as a break on economic interaction. For example, Shanghai, which has the administrative status of a province, was administratively separated from its economic hinterlands in neighbouring Jiangsu and Zhejiang provinces.

In short, reform of the economic structure created tensions between understandings of "natural" economic space, and existing political space. For some more liberal Chinese academics (indeed, too liberal for the Chinese authorities liking), the solution was to implement a fundamental reorganisation of China's territorial administration to reflect (and in response to) "objective economic laws" (Chen Yizi 1987).

Such a root and branch reform of territorial organisation was never seriously considered, and the government instead tinkered with the introduction of new territorial organisations ranging from vast multi-provincial macro regions to small development and technology zones within cities and towns. Experiments with new regional forms have been designed to both **overcome** existing barriers to inter-provincial economic activity, and to **shape** new loci of economic activity. An example of the former was the establishment of a number of special economic regions aimed at

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decentralisation and *bureaucratic decentralisation*.

5 This was a particularly common and strong line of argument in China in the second half of the 1980s. For examples of Chinese writing on this theme, see Chen Dongsheng and Wei Houkai (1989), Fei Xiaotong (1989), Guan Eguo (1986), Ji Chongwei and Lu Linshu (1988), Li Xianguo (1988) and Shen Liren (1986).

facilitating economic activity that cut across provincial administrative boundaries. For example, the Shanghai Economic Region was established to overcome the political barriers to economic relations between Shanghai and in the neighbouring provinces of Jiangsu and Zhejiang outlined above (Chen Xiyuan 1984). Crucially, these were always overlaid on top of the existing structure, and if anything, merely served to complicate bureaucratic responsibilities rather than facilitate the creation of natural economic regions.

Perhaps the best example of regional initiatives designed to shape economic activity was the creation of the Special Economic Zones (SEZs) established to provide opportunities for interaction with the international economy. Largely inspired by the success of the original four SEZs[6] in generating growth by attracting foreign investment, local authorities throughout China (particularly, but not only, in coastal areas) established their own investment or Special Economic Technological Development zones[7].

<u>Decentralisation and Globalisation</u>

The development of the SEZs brings is to the importance of China's gradual process of (re)integrating China into the global economy. Initially, the main importance of this process for understanding the relationship between political and economic space in China was in the way that external sources of investment (primarily in the four Special Economic Zones) **aided**[8] local authorities (particularly Fujian and Guangdong) to establish significant financial autonomy from the central authorities. However, the importance of China's global re-engagement took on a new

6 Zhuhai, Shantou, Xiamen and Shenzhen. Hainan Island later became the fifth SEZ.

7 Indeed, some cities like Dalian have created special areas for relations with Taiwan, Japan and so on within these zones - zones within zones.

importance in the 1990s. While foreign direct investment (FDI) had been important in some areas in the 1980s, the scale of foreign involvement in the Chinese economy grew enormously after 1992.

The initiative and actions of local governments in forging international economic relations has been a major determinant of China's process of re-engagement with the global economy. This is partly a result of changes in the Chinese political economy and partly a consequence of changing structure of the East Asian regional economy.

China entered the regional economy at a time when the volume of FDI within East Asia was increasing rapidly. Throughout the 1980s, land and labour shortages resulted in steady increases in rents and wages throughout East Asia. In addition, the appreciation of the major East Asian currencies against the US dollar after the Plaza Accord of 1985 reduced the competitiveness of Asian exports to the lucrative North American markets[9].

Along with other regional states like Thailand, Malaysia and Indonesia, China was an attractive option for those searching for new low cost production sites. Land was cheap and often subsidised as China tried to attract new jobs and technology; there was an abundant, cheap and well disciplined labour force; and the low value of the Chinese renminbi against the US dollar (particularly after the 1994 devaluation[10]) stood in contrast to currency appreciation elsewhere.

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8 The major source of provincial financial autonomy in the 1980s came from domestic structural changes - particularly in the centre-province revenue sharing arrangements.

9 Bernard and Ravenhill (1995 p.180) calculate that the Japanese Yen appreciated by roughly 40 per cent from 1985-87; the New Taiwanese Dollar by about 28 per cent from 85-87; and the Korean Won by approximately 17 per cent from 1986-88.

10 From RMB 5.7 to the dollar to RMB 8.7 to the dollar.

The vast majority of the new FDI into China has been located in China’s coastal provinces, with Guangdong Province the single biggest recipient. In some areas, the local economic structure has been totally transformed as foreign investment has become the major source of investment, and production for export in foreign funded enterprises has become the dominant mode of production. In other areas like Shenzhen, it is not so much a case of transforming an existing economic structure, as creating a totally new one (and creating a new city in the process).

The economies of these areas are increasingly oriented around export processing industries. With the majority of the components used in factories imported rather than provided by industries in China, these areas are in many ways more firmly locked into the international economy than they are part of the domestic Chinese economy. As Lardy (1995 p.1080) notes:

> “rapid export growth from foreign invested firms, a large share of which is export processing, has limited backward linkages and the domestic content of exports is very low. To some extent export industries appear to be enclaves”

Lardy’s observation’s echo Bernard’s and Ravenhill’s argument that “foreign subsidiaries in Malaysia's EPZs were more integrated with Singapore's free-trade industrial sector than with the ‘local’ industry” (Bernard and Ravenhill 1995 p. 197).

The suggestion, then, is that these enclave economies do not form part of what Jin Bei (1997 p.65) calls the “national economy” as the enclave economies:

> “do not primarily involve the actualisation of China’s productive forces, but the actualisation of foreign productive forces in China, or the economic actualisation

achieved by turning Chinese resources into productive forces subject to the control of foreign capital owners."

The key phrase here is "the control of foreign capital owners", which brings our attention to those actors that are shaping the emergence of new transnational economic spaces. These spaces or regions are not conceived as including all of China. Rather, the focus of analysis is on how some parts of China are becoming integrated into new economic spaces. They are both sub-national and cross-national economic spaces.

Organising Transnational Space: Regionalisation and Regionalism

In assessing the growth and importance of sub-regional cross national regions for understanding to political economy of contemporary China, it is important to distinguish between different forms of international economic integration. The term "economic integration" has been used to refer to the creation of formal cooperation between states (a free trade area, customs union, common market, economic union, or complete economic integration) as argued by Ballasa (1961) and others[11]. But this emphasis on state action and inter-governmentalism ignores the reality of economic integration in East Asia and elsewhere. Thus, "regional economic integration" here is used to refer to the process of reducing the economic significance of national political boundaries within a geographical area, **either** as a result of inter-state dialogue, **or** through non-state directed forces[12].

11 It is also used by economists to refer to the movement toward one price for any single piece of merchandise, service, or factor of production in different states. See Drysdale and Garnaut (1993 p.289).

12 See, for example, Anderson and Blackhurst (1993 p.1).

In essence, then, we can observe two, not necessarily mutually exclusive, processes at work leading to the creation of transnational economic regions. Using the terminology of Payne and Gamble (1996 p.250) and Hurrell (1995 pp.334-5), "regionalism" is used here to refer to top-down processes – the conscious and deliberate attempts by national states to create formal mechanisms for dealing with common transnational issues. "Regionalisation" refers to bottom-up processes which:

> "Although seldom unaffected by state policies, the most important driving forces for economic regionalization come from markets, from private trade and investment flows, and from the policies and decisions of companies" (Hurrell 1995 p.334)

rather than resulting from predetermined plans of national or local governments[13].

Transnational Economic Regionalism

Transnational economic regionalism, then, refers to regions that result from deliberate and conscious inter-state collaboration, either at the national or local level. In the Chinese case, perhaps the clearest example of such state-directed regionalism is found in the initiatives to establish a new form of regional collaboration in the north-east. It is notable that despite high level involvement from a number of regional states, the plans to establish a "North East Asian" (NEA) region and the "Tumen River Delta" project have to date generated little in terms of real regional integration and collaboration. Or more correctly, the plans have failed to come to fruition **because** of high level involvement by regional states.

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13 Different terms are used by different authors to make the same distinction. Earlier writing on regional integration tended to use the terms "informal integration" or "soft regionalism". Higgott (1997) prefers the terms *de jure* and *de facto* regionalism to describe the two different processes in East Asia.

At first sight, the NEA region[14] had much to commend it. Abundant raw material from the Russian Far East would combine with the ample and cheap labour in the heavily industrialised North-East of China, and benefit from the advanced technology and investment capital of South Korea and Japan. Furthermore, cross border trade between Russia's eastern regions and (in particular) China have increased as political relations between the two powers warmed (Kerr 1996).

But one of the first and major problems encountered in building this North East Asian state-led regional project was defining the parameters of the region. In addition to the inherent problem of deciding which states should participate in the construction of any new regional organisation, the situation is complicated by then deciding which parts of participating state fall within the regional boundaries.

Part of the problem here is the lack of any firm and shared awareness of the region's "historicity and spatiality" (Bernard 1996 p.655). The suggestion here is that there is no historical or cultural basis for defining the region as a discrete entity, or that there is any historical or cultural rationale for excluding other areas from membership. In Adler's (1994) terms, the North-East Asian region is not an "imagined community", or a "cognitive region".

Furthermore, notwithstanding the desire to build a multinational region, significant tensions remain in bilateral relations amongst regional states. For example, the inclusion of North Korea into the project makes geographic sense, and was also seen as a means of dealing with poverty

[14] Or as Christoffersen (1994-5) calls it, "The Greater Vladivostok Project" reminding us that national interests very much shape perceptions of the core area in cross-national regions.

and encouraging reform in North Korea. But North Korea's inclusion in the project has not only increased the number of state actors, but introduced a state actor that is largely hostile to the dominant economic paradigms underpinning the project. It is also a state actor that has extensive bilateral disputes with Japan[15], and is still technically at war with another of the state actors, South Korea. Even where participation in the project has led to warmer bilateral relations, this has not always reduced tension in the region as a whole. Indeed, Park argues that agreements between Russia and North Korea over border and maritime disputes in some ways increase Japanese and South Korean concerns over territorial claims in the region (Park 1993)[16].

Even without the Korean complication, there was still the question of whether Siberia was involved – or which bit of Siberia? What of Mongolia? And does the project include all of Japan, or simply the "back-side" of Japan. The main problem here is that the regional parameters were politically constructed based on perceptions and hopes of future economic interaction, rather than on existing levels of economic interaction. It was an attempt to **shape** rather than Indeed, it is notable that, as Rozman (1998 p.7) argues that "The Tumen River delta plan for building a multi-national city reminiscent of Hong Kong has been emasculated into an agreement on transit trade through existing ports". In short, where some concrete progress had been made, it was where economic contacts and interaction already existed, and mechanisms of interaction were already in place.

The project also suffered from the conflicting priorities of the interested parties – both conflicting national state objectives, and conflicts between national and local interests within

15 For more details, see Hughes (1999).
16 See also Dzurek (1992).

individual states. To quote Rozman (1998 p.2) again "Unaware of how much their plans clashed with each other and how realities in other countries defied their own logic, these territories …. actually left plans for NEA regionalism in tatters by 1994".

On a very basic level, each state developed plans that were designed to protect their own perceived state interests. For example, Russian fears that Japan would exert too strong an influence in the Russian Far East resulted in a sceptical attitude to full liberalisation and full and reciprocal market access for each party. China too was wary of developing a project that gave Japan too much power, and attempted to reduce Japan's influence wherever possible. In combination, the Russian and Chinese fear of Japanese domination all but created a Beijing-Moscow axis designed to reduce Japanese influence in the region – a process that not surprisingly cooled Japan's enthusiasm for the project. However, even this shared Sino-Russian approach to region building could not prevent bilateral tensions over different paces of reform, and mutual distrust of each other's motives. It seems, then, that confidence and mutual trust were not exactly the foundations on which the NEA project were built.

In the Chinese case, the interests of the national state also conflicted with the interests of local state actors. While the provincial governments in the North-East pushed the project as a high priority means of generating regional development (Cotton 1996), the national government's priorities lay elsewhere. In an attempt to offset internal pressures resulting from lop-sided growth (ie: the rapid development of southern China), the national government targeted Shanghai, the Bohai Rim around Dalian, and the three gorges project on the Yangtze as its major regional initiatives. Relegated to the national government's fourth strategic objective, government finances, incentives and preferential treatment aimed at developing the north-east rapidly dried up after 1992 (Rozman 1998).

Indeed, while the Tumen River Delta project remains alive, formally at least, the main focus of Japanese and South Korean interest in North-east China has moved to Dalian, and the Liaodong Peninsular. The Dalian authorities in particular have taken a very proactive attitude to attract foreign investment, including establishing special development zones for investment from Taiwan, Singapore and Japan. Dalian received 6.5 per cent of all FDI into China in 1996, and over two-thirds of all South Korean FDI to China went to Dalian. The comparable figure for Japanese investment in Dalian was 15.5 per cent of all FDI to China, down from a high of 39 per cent in 1995 (Cassidy 1997).

State Actors, Non-State Actors and Regionalisation Processes

state initiatives and regionalisation

The large-scale influx of Japanese and South Korean investment into Dalian draws our attention away from state-directed regionalism, and towards the role and significance of regionalisation. Crucially, in the Dalian case, development has been facilitated by the relationship between Japanese corporate investors and local state elites in China. Thus, rather than looking for formal state to state contacts and negotiations, we should turn to the role of those that Strange (1990) terms the “international business civilisation” or Cox (1990) would describe as the “transnational managerial class” that “play an major role in almost all levels of the regional policy-making process” (Higgott 1997 p.173).

The extreme interpretation of the role of non-state actors in the global political economy is found in the work of Kenichi Ohmae (1995). In “The End of the Nation State” he describes a world where political boundaries are no longer important, and where nation states are irrelevant to the functioning of the global economy. But at the outset, we should be careful not to relegate the state to a passive or even irrelevant role. The growth of sub-national and cross-national regionalisation in China, for example, owes much to the actions of state elites at the national and sub-national level, even though the process of regionalisation has not resulted from state to state dialogue and diplomacy.

The decision to re-engage the southern part of China within the regional economy was a conscious and deliberate strategy of China’s state elites. The establishment of the Special Economic Zones as a mechanism of enhancing, while controlling, China’s external economic relations is an excellent case in point here. It was no mere coincidence that three of the original four economic zones were located in one province, Guangdong, which borders Hong Kong and Macao. Nor was it a coincidence that the fourth zone, Xiamen, is located across the strait from Taiwan.

The creation of the Special Economic Zones, and the preferential treatment afforded to them were explicitly designed to facilitate interaction with non-state economic actors in the rest of Asia – and particularly in Hong Kong, Macao and Taiwan. The subsequent extension of some privileges to other coastal cities was also a deliberate and conscious state policy, not to mention the result of intense political bargaining between national state elites and representatives of local interests (Hamrin 1990 p.83).

Furthermore, the decentralisation of power that characterised the Chinese reform process in the 1980s was a crucial component in facilitating international economic relations. Crucially, central state elites deliberately treated provinces unequally during the process of decentralisation. In addition to the location decisions during the creation of the SEZs, coastal provinces were extended rights to seek foreign partners much earlier than their counterparts in the interior. Even when these rights had more or less been extended to the whole country by the end of the 1980s, coastal provinces were given autonomy to approve projects up to the value of US$30 million without referral to the central authorities, while interior provinces faced a ceiling of only US$10 million.

This greater autonomy over international economic relations was supported by the increased financial autonomy granted to the southern provinces of Guangdong and Fujian. The logistics of the reform of revenue sharing arrangements between centre and province are quite complex[17], but at the risk of over-simplifying the issue, we can identify three points that characterised the deliberately uneven impact of the revenue sharing reforms. First, there were variations in the target amount of income that different provinces had to remit to the central authorities. Second, there were variations in how often these targets were reviewed. Those areas subject to annual reviews (Tianjin, Beijing and Shanghai) found targets increased if they were doing well, whilst those on non-index linked five-year cycles (including Guangdong and Fujian) not only found it increasingly easy to meet initial targets, but were also able to plan ahead with more certainty of financial obligations. Finally, provincial authorities were given varying degrees of autonomy to

[17] For good in depth analyses of the revenue sharing reforms, see Donnithorne (1981), Tong (1989) and Ferdinand (1987).

retain any excess income once the target for remittances to the centre had been met. Some provinces, notably the “municipal provinces” of Beijing, Shanghai and Tianjin, were expected to turn large proportions of any locally collected revenue to the central authorities. Fujian and Guangdong, however, were given a flat rate over a five year period, and allowed to retain any income over and above that target for local use[18].

It is true that the local governments used their new-found autonomy to develop economic strategies that frequently were at odds with central policy and objectives. China’s developmental trajectory has in many ways been dysfunctional, in that the type of development that has been attained has not always been what the central government intended. Indeed, at times, it appears that developmental processes have occurred as a result of local initiatives that were developed in direct contravention to central government strategies. But that should not blind us to the role of central state elites in deliberately and consciously locating China in the regional economy and of providing the mechanisms and incentives to facilitate contact with external non-state economic actors.

State actors, non-state actors and local state actors

It is difficult, then, to make a clear distinction between those regional integration processes that are generated by the state, and those that are wholly independent of state initiatives and actions. Moreover, notwithstanding the growth of new entrepreneurial classes in China, the distinction

[18] Local financial autonomy was also increased by the 1984 decision to transfer investment spending from central government grants to bank loans. As local banks were often under close *de facto* control, or at least influence, by local governments, they were pressured to extend loans to support local projects. During 1984 to 1985, investment in state planned projects recorded a mere 1.6% increase, whereas investment in unplanned projects increased by a 87 per cent. The majority of the increase came from an expansion in local spending. On average, there had been an 86.8% increase in local spending, with investment spending in eight coastal provinces more than doubling. See Huang Da (1985).

between state and non-state economic actors is still difficult to make in China for four main reasons.

First, private entrepreneurs in China find it difficult to make headway unless they have a good relationship with the party-state elites. Even those who have no formal contacts with the party-state are essentially dependent on strong support from local authorities in order to survive. Krug (1997 p.21) notes that local entrepreneurs and local enterprises face low transaction costs and have considerable freedom of action when they operate solely in their own locality. However, this situation changes radically as soon as “private exchange exceeds the jurisdictional boundary”. Local barriers to trade abound in China, and anybody that wants to transport goods across local administrative boundaries has to gain the cooperation of the local administrative authorities. Indeed, successful “private” local enterprises frequently, more correctly usually, succeed thanks to the protection and aid afforded to them by local state elites. In an economy where land, raw materials, transport and finance capital are still in relatively short supply, occupying a gatekeeper role (or knowing somebody who does) has an important economic premium. As such, a form of business-local state is an essential pre-requisite for successful economic activity.

Second, Goodman (1995, p.135) notes that many of the non-party economic elites owe their new positions to the old elites. Wong and Yang’s (1995) survey of the growth of township and village enterprises in southern China found that the new managers and directors had previously served as party officials and state administrators. Crucially, in all cases in Wong and Yang’s survey, these new “private” actors retained close personal and institutional relations with their former colleagues within the state sector, and many of the new enterprises had come into being through the initiative of local state actors. Third, in order to guarantee this close hand in glove relationship, it is common for state officials to take a seat on the board or a management position in theoretically independent economic enterprises. Thus, as Walder (1992 pp.331-2) puts it, businesses in China cannot be considered to be independent economic entities, but should instead be more accurately described as “quasi-autonomous divisions within a corporate structure”.

Fourth, in many cases, the relationship between external non-state actors and Chinese local state actors is more clear cut. Anita Chan (1996) has shown that many of the Chinese partners in Joint Ventures with foreign capital in southern China “are actually local government organs and departments”.

So, one of the most significant features of the Chinese reform process is the transformation of relationships between existing state actors, and the changing basis of their power. On one level, we can identify the beginning of the transformation of political power into economic power. Particularly at the local level, power holders are switching the prestige, influence and wealth that came from forming part of the political structure for the wealth that comes from being a factory manager, or a member of the board. To be more accurate, they are not so much swapping one source of power for another, but using their political positions to increase their economic potential and bargaining power.

Furthermore, Krug and Goodman’s research has shown that new entrepreneurial elites are trying to stabilise their positions by joining the party. There is a symbiotic relationship (at the very least) between state elites and new economic elites. They have co-opted each other into an alliance that mutually reinforces each other's power and influence, not to mention personal fortunes. What we see, then, is a process of reformulation of class alliances within China that has both created the opportunity for external actors to become involved in the Chinese economy, and has been reinforced by interaction with external economic actors. The resulting trans-national class alliance between external non-state actors and domestic state and state-related actors has been a major driving force in the integration of southern China (at least) into the regional and global economy. Thus, distinctions between the role of state and non-state actors in regionalisation processes are not always that useful in the Chinese case, where a more worthwhile distinction is between national state and local state actors[19]

Regionalisation in Southern China and the creation of a "Greater China" Economic Space

Recent changes in the political and economic landscape of Southern China have generated intense interest in the relationship between "Chinese" political and economic spaces. On one level, we see the re-establishment of Chinese sovereignty over Hong Kong accompanied by the retention of some form of local independence and sovereignty (albeit not as much as some in Hong Kong would like). While internal changes in the PRC have brought the two economic systems closer together, Hong Kong still operates a very different economic system than even

[19] This division is a difficult one to make. To start with, the linkages between the two remain structurally intact. Provincial and other local level leaders remain part of the central elites themselves through membership of the Chinese Communist Party (CCP) central committee, and the National People's Congress. Many central leaders also cut their teeth in provincial politics – note that the current Chinese party leader and President, Jiang Zemin, and the current Premier, Zhu Rongji, were both elevated to national leadership after serving as local leaders in Shanghai. Finally, the central party leadership retains the ability to remove and appoint local leaders. Nevertheless, the divergence between national economic goals and priorities and those followed in some provinces is large enough to make the distinction a valid one.

that operating in the neighbouring Shenzhen Special Economic Zone. Hong Kong might be formally part of the PRC, but it is not (yet) part of the same political or economic space.

It is clear that the political border between Hong Kong and the PRC is an extraordinarily porous one. For example, the Hong Kong dollar is in wide use in Southern China, and anybody who has crossed the bridge at Luohu between Shenzhen and Hong Kong will also attest to the massive reciprocal flow of people between the two areas on a daily basis. Indeed, some would argue that the resumption of Chinese sovereignty over Hong Kong disguises the real expansion of Hong Kong's economic influence over neighbouring territories – it is not so much the creation of a "Greater China" as of a "Greater Hong Kong" (Taubman 1996).

Cross border trade between southern China and Hong Kong is just one example of the massive increase in economic linkages between Hong Kong, Taiwan, Macao and Southern China in recent years. State led initiatives like the establishment of the SEZs might have facilitated the growth of investment and trade, but the dynamics of economic integration owe more to the interaction between local state elites, and international capital classes

FDI and Trade

At first sight, FDI and trade data support the notion that increased economic interaction China, Hong Kong and Taiwan is creating a "greater China" economic space. As Table One shows, investment from Hong Kong and Taiwan accounts for nearly two-thirds of all FDI into China since 1978 (although that proportion is declining). Trade with Hong Kong also accounts for around 15-20 per cent of all Chinese trade, and trade between China and Hong Kong is now the world's third biggest bilateral trade relationship (Dale 1997 p.76).

Table One about here

We should also note the uneven geographic spread of international economic relations in China[20]. For example, in 1996, the two southern provinces of Guangdong and Fujian received 32.2 per cent of all China's contracted FDI, and 39.8 per cent of utilised FDI. Guangdong Province alone attracted 22.7 per cent and 29.5 per cent of the national totals respectively, and accounts for 40 per cent of all utilised foreign investment in China since 1979. Of this total, 82.5 per cent of Guangdong's contracted FDI, and 76.4 per cent of utilised FDI, comes from Hong Kong. As FDI is the main source of investment in Guangdong, we can see the importance of Hong Kong based investment for the development of Guangdong.

Furthermore, there is a strong correlation between the unequal distribution of investment, and provincial variations in trade. As noted above, those investors who see China as an offshore production site for export oriented industries tend to import components into China as well as exporting finished goods out of China. For the country as a whole, the import-export activities of foreign funded enterprises now account for more than half of all Chinese trade. Not surprisingly, the proportion of this "processing trade" in total trade is largest in those provinces that have been the major recipients of FDI. For example, around 68 per cent of Guangdong's trade is the re-exports of goods assembled using imported components – the vast majority of them imported from Hong Kong. In 1996, Guangdong accounted for 37.9 per cent of all Chinese trade (39.3 per cent of exports and 36.4 per cent of imports). Shenzhen SEZ alone accounts for around 13-14 per cent of Chinese trade[21]. Production for export is by far the major source of growth in Guangdong, and while the national trade dependency rate is 35.1 per cent, the figure for Guangdong is 140.2 per cent, with around 80 per cent of all Guangdong's foreign trade conducted with Hong Kong.

Economic Integration in Southern China: The Defects of Regionalisation Perspective

What we appear to have here, then, is an economic space that spans the residual political border between Hong Kong and the PRC, and extends into Taiwan. This cross border relationship is far more important for development in southern China, and particularly Guangdong and Fujian Provinces, than for the country as a whole. Moreover, those parts of China that are most integrated with the global economy have low levels of economic linkages with other parts of China. Guangdong, for example, engages in far more international trade than domestic trade with other Chinese provinces. China's re-engagement with the global economy remains geographically uneven, and as a result, we see partial integration.

The notion of "economic integration" used here does not imply convergence. Investment into China has been predicated on cheap labour and land in the PRC, and the divergent levels and dominant types of economic activity within the region. Core-periphery relations not only remain important, but also may even be strengthened by the processes of integration and regionalisation.

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[20] Unless otherwise cited, the information is taken from the 1997 *Zhongguo Tongji Nianjian*.

[21] Information from a speech by the Vice Mayor of Shenzhen, at the Second EU-China Higher Education Cooperation Programme Conference, Shenzhen, July 1998.

The emphasis on Hong Kong-Guangdong relations above raises a question mark over the role of Taiwanese interests in the SNCN region. This is partly a result of concentrating on trade and investment in Guangdong. For example, an analysis of FDI and trade from Fujian Province would heighten the importance of relations with Taiwanese capital[22]. But it is also a result of the continued importance Hong Kong as a conduit for economic relations between the PRC and the ROC. Despite the fact that it is now much easier to conduct direct bilateral trade between China and Taiwan, around half of Taiwanese exports to Hong Kong are transited on to China, and between a quarter and a third of all Chinese exports to Hong Kong are re-exported to Taiwan[23].

But does expanding the analysis from Guangdong to Fujian and other provinces areas really lead to the identification of a **single** economic region, or "growth triangle" or even of "greater China"? Whilst the linkages between Hong Kong and Taiwan and individual Chinese provinces might be strong, the horizontal linkages between Chinese provinces are underdeveloped and weak. Indeed, rather than interaction, we see intense competition between elites in Guangdong and Fujian and other coastal areas to attract inward investment. Indeed, it is not pushing a point too far to argue that Guangdong is more integrated with Hong Kong than it is with Fujian – or even the rest of China.

The issue here, then, is the level of horizontal integration between different parts of the region. Do we see one process of regionalisation and one region weak levels of horizontal integration on the PRC side, or multiple processes and overlapping regionalisation processes?

22 For example (and details) see Ash and Kueh (1995).

As significant as Hong Kong is as the hub in these regionalisation processes, we must be careful not to over-state its importance. Hong Kong's role as the major source of FDI into, and trade with, China, is built on Hong Kong's own position within the wider international economy. Indeed, the importance of third party involvement in Hong Kong's economic links with the PRC are so great that they question the salience of deploying regional rather than global perspectives to understand China's international economic relations. At the very least, any notion of regionalisation or "Greater China" must locate the "region" within its wider global context.

A key issue here is that looking at bilateral trade and investment figures disguise the importance of other markets, other exporters, and other sources of FDI for. During its relatively isolated years, China remained somewhat dependent on Hong Kong as an outlet of its exports – both as a market for Chinese exports, and as a means of re-exporting to other markets. Interestingly, the importance of re-exports from Hong Kong has increased massively in the reform era. The percentage of Hong Kong's imports from China that are subsequently re-exported to other states increased from 30 per cent in 1979 to over 85 per cent today. Furthermore, 84.1 per cent of Chinese imports from Hong Kong are re-exports from other states (Cheung 1997 p.105).

Hong Kong acts as a conduit through which extra-regional actors can engage with the Chinese economy, and in particular, to access the cheap labour and land available in southern China. For example, the proportion of Chinese exports to Hong Kong that are re-exported to the US increased from 4.86 per cent in 1979 to 41.6 per cent by 1994. In addition, just over half of all Hong Kong exports to China in 1994 were goods of US origin (Kueh 1997 p.40). What appears

[23] Note that when the new Hong Kong airport faced what the airports Chief Executive called "teething problems" in July 1998, Taiwan's imports dropped by 79 per cent.

at first sight as regional economic integration in fact owes more to globalisation and extra-regional economic interests.

Furthermore, just as inter-regional trade is largely shaped by and contingent upon extra-regional trade, so bilateral investment figures do not tell the whole story. Hong Kong has long served as a management and financial centre for East Asia. Through buying shares on the Hong Kong stock exchange, through the establishment of subsidiaries, and through using major investment managers like Inchcape and Jardine Matheson, foreign capital has always been an important component of the Hong Kong economy.

The importance of Hong Kong brings our attention to the importance and notion of “global cities” as facilitators (or perhaps even agents) of globalisation. In many ways then, Hong Kong acts as a world economic city in that it acts as it provides a mediating level of economic governance between the PRC and the global economy.

The importance of third party investment is also increasingly significant in Taiwanese investment in China. China is now one of the world’s biggest producers of sports shoes – many of them in the giant Yu Yuan factory in Guangdong Province which producers Nike, Reebok and Adidas shoes in the same factory. The factory is a joint venture between the local government and the Taiwanese Yu Yuan corporation and the shoes are produced exclusively for export, and carry foreign brand names. In a microcosm here we have an excellent example of the processes of SNCN regionalism in southern China. We see a trans-national class alliance between Taiwanese non-state actors and Chinese local-state actors that are producing “foreign” goods within China for an external market. Moreover, Chan (1996) notes that work conditions in the factory are appalling, and workers are forced to break China's less than stringent rules on overtime, suggesting that the China's workers are not gaining as much from the process of regionalisation as other class interests are[24].

Furthermore, we should also consider the extent to which Taiwanese and Hong Kong investors represent the penultimate link in a chain or network that goes beyond the confines of narrow definitions of "Greater Chinese" regionalisation. As people like Bernard and Ravenhill (1995) Hollerman (1988), Crone (1993), and perhaps most forcefully, Hatch and Yamamura (1996), have argued, many Taiwanese and other East Asian producers are tied into a position of technological dependence on Japan. As such, even those investments that are made directly by non-PRC Chinese actors in the PRC may have more to do with a wider Japan-centred regionalisation than with the creation of a distinct and discrete greater Chinese economic space.

Conclusion: Beyond Regional Perceptions

While it is correct to look for perspectives that move away from traditional state centred notions of economic "space" or "territory", in doing so, we should not simply create new notions of space that are equally constrained by ideas of boundaries – even if these are not state boundaries.

When we question the porous nature of state borders and boundaries, we should be careful in finding new ways of re-drawing borders and boundaries. Even one of the architects of the

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[24] For example, corporal punishment is part and parcel of the regime; new recruits have three days of military training; only 10-15 minutes are allowed for meal breaks; 12 hour day shifts and longer shifts at night; workers have to work unpaid overtime if they haven't met their daily quota; ½ days wage penalty if late; workers live ten to a room in the dormitory; etc.

“hyper-globalisation” thesis, Kenichi Ohmae (1995) falls into this trap. As noted early in this paper, Ohmae argues that maps obstruct our understanding of how the global economy works by placing political boundaries in the way of perceptions of economic activity. Yet he too relies on cartography as the boundaries of his “region states” are drawn around geographically proximate territories – they are still geographically conceived.

It is for this reason that the value of the notion of “Greater China” should be seriously questioned. On one level, it does serve a useful purpose, in that it draws our attention to the importance of external actors in the PRC economic, and how the PRCs economic fortunes are inextricably linked with those of its neighbours. But “Greater China” is both too large and too small to give a real understanding of the dynamics of regional integration.

First, too often, “Greater China” is now simply being used as a short-hand way of aggregating the Hong Kong, PRC and Taiwanese economies. This “inclusive” definition is misleading. While some areas of the country are indeed closely integrated into the regional and global economy, other areas (and economic sectors) aren’t. While some parts of the country and economic sectors are oriented towards the global economy, the old domestic oriented state-owned structures remain dominant elsewhere.

Second, Greater China is too often used to refer to a discrete economic entity. As I hope I have shown above, if we simply concentrate on relations within the region (whatever parameters we choose for that region), then we ignore the crucial issues of the role of external actors within the region, and the position of the region within wider regional and global economic contexts.

States are still important, and the actions and the initiatives of the Chinese state in creating the conditions for local authorities to engage in international economic relations were crucial in determining the pace, scope and nature of China's global re-engagement. But state led attempts to create new economic spaces within China, and more important, to create new transnational economic spaces have been less than successful. What they have achieved is to reconfigure the bases of elite power in parts of China. The relationship of these new Chinese elites and international capital classes (often acting through agencies in Hong Kong), is a key determinant of China's international economic relations – relations that are not confined to "greater China". Rather than look for new perceptual boundaries to replace political boundaries, the alternative is to follow Bernard's (1996) suggestion and deploy a network-centred approach which, drawing us even further away from the map than Ohmae, conceptualises a more complex structure built on buyer commodity driven chains of decentralised production networks (Gereffi 1996).

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