

Decentralisation, Globalisation and China's Partial Re-engagement with the Global Economy

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There is a tendency for research on processes of regional economic integration to be built on national-based paradigms and levels of analysis. Even those approaches that move away from intergovernmental processes of state-led regionalism and instead emphasise non-state directed regionalisation are often concerned with integration between two or more national economies. But, in many cases, real integration is taking place below the national scale. This is reflected in the growing number of formal agreements between subnational political administrations, and also by the uneven geographic spread of international economic relations in many states.

This notion of partial or microregional¹ economic integration is particularly important in understanding the processes and implications of China's re-engagement with the global economy. Indeed, national-based perspectives of regional integration are all but inapplicable in the Chinese context. This article assesses two case studies of microregional integration involving subnational territories of the People's Republic of China (PRC)—growing economic integration across the border between Guangdong Province and Hong Kong in the south, and the development of the North East Asian microregion (NEA) in the Chinese northeast.

Using wider theoretical concepts and approaches not only facilitates our understanding of the political economy of specific case studies, but also allows us to test the validity of those concepts and approaches themselves. Thus this article has two main aims. On a domestic level, it aims to assess both the importance and implications of microregional integration for economic governance within China. The dual processes of decentralisation and globalisation are reconfiguring loci of decision making and authority and, in combination, are simultaneously strengthening and weakening the relevance of politically 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 provincial² boundaries as determinants of economic activity. On the other hand, China's transition from relative isolationism has increased the

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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 subnational regions, while the importance of international linkages suggests the declining relevance of national political boundaries for economic exchange.

On a wider level, the article explores four key issues of interest to students of regionalism in general. First, the comparison between the two microregional processes draws attention to the efficacy of state-led and non-state directed processes in engendering regional integration. Second, and very much related to this, it also highlights the importance of assessing the relationship between state and non-state directed regionalism, rather than positing the two as mutually exclusive processes. Third, the case study of southern China highlights the relationship between regionalisation and globalisation, suggesting that the former is in many ways contingent on the latter. Finally, the microregional approach draws attention to the uneven impact of globalisation and regionalisation on nation-states. The understanding that only some parts of states are involved in these regional processes also has important implications for national governments. There is a considerable literature on government responses to declining economic sovereignty. Microregional approaches suggest that an equally pressing concern for governments is dealing with the fragmentation of national economic space and the political and economic consequences of partial engagement with the international economy.

Microregional approaches

Microregionalism is not a new phenomenon. There is a case, for example, for understanding the creation of some modern European states as the political spillover from multiple and connected processes of microregional integration.³ In the more recent era, the creation of subnational and cross-national growth triangles within the Association of Southeast Asian Nations (ASEAN) have given a renewed impetus to the study of microregionalism.⁴ So too has microregional integration across national borders in Europe,⁵ across the US–Mexican border,⁶ and between parts of the Caribbean and parts of the United States.⁷

For Kenichi Ohmae, microregional integration in what he termed the ‘region states’ of East Asia is the manifestation of the demise of state borders and state actors as determinants of economic activity:

What defines [region states] is not the location of their political borders but the fact that they are the right size and scale to be the true, natural business units in today’s global economy.⁸

In a similar (though less extreme) vein, Scalapino has referred to cross-national regions as ‘natural economic territories’ (NETs),⁹ suggesting that economic activity would naturally develop its own (economic) space if (political) borders did not exist. Ohmae’s perspective is at one end of a spectrum of understandings of not only microregional integration, but regional processes in general. As the study of microregionalism is essentially part of the wider study of regionalism,

it is appropriate to locate discussions of microregionalism within this broader framework. Thus this article uses the distinction between ‘top-down’ and ‘bottom-up’ regional processes made by Hurrell,¹⁰ and Gamble & Payne.¹¹

‘Regionalism’, then, 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. Such regionalism may well be a response to economic factors and may even have been promoted by non-state actors, but is defined as a political and intergovernmental project. Conversely, ‘regionalisation’ refers to bottom-up processes where ‘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’,¹² rather than resulting from predetermined plans of national or local governments.¹³

Microregionalism

These regions come about primarily as the result of actions by state elites and proceed through intergovernmental dialogue and agreement. Proponents of intergovernmentalism in explaining regional integration tend to emphasise the role of national state actors. However, in the case of microregionalism, we need to distinguish between different types and levels of state actors. In some cases, the key state actors are indeed national state leaders. In others, it is local state leaders that take the initiative and, indeed, a key dynamic in microregional integration is the relationship between different levels of state actors (as well as between state and non-state actors).

At the risk of oversimplification, three main reasons can be offered for the establishment of these regions.¹⁴ The first is the desire to exploit economic complementarity and transnational comparative advantage. The second is to facilitate joint development of natural resources, infrastructure and industries in cases where the resources are located on or around international borders. In such cases, the initiatives stem from sharing capital investment, and potentially also from resolving territorial disputes (particularly in the case of offshore resources). The third is where neighbouring local authorities deem that local collective action is the most efficient mechanism for dealing with local transboundary issues. Morata’s analysis of the North-West Mediterranean Euroregion is apropos here.¹⁵ Morata argues that what we term microregionalism was driven by the development of wider European integration. In essence, the authority and efficacy of national governments in dealing with transboundary issues has been undermined fundamentally by dual movement, ‘upwards’ and ‘downwards’: the transfer of some fields of national sovereignty to the European Union (EU) and the concomitant dismantling of national borders as barriers to inter-European trade. Indeed, institutional changes at the EU level, as well as new communication technologies and the development of transportation, have encouraged the formation of regional networks based on common interests in economic development.

Microregionalisation

In analyses of microregionalisation, the emphasis switches from the creation of formal regional structures and the actions of state actors, to informal or soft regional integration and the actions and decisions of non-state actors. The main impulse for microregionalisation is asymmetrical levels of development between different subnational spaces. Drawing largely from the examples of US–Mexico and European sub-regionalisation, these processes are typically characterised as the consequences of ‘growth spillover’. Non-state actors in the more developed region faced with rising land and labour costs will seek to exploit the relatively low production costs in contiguous, cross-border space. In the US–Mexico case the economic core in San Diego has essentially extended its economic influence over the border—hence the process is often referred to as ‘metropolitan spillover’ or the creation of an ‘extended metropolis’,¹⁶ a concept that is particularly pertinent in assessing microregional integration between Hong Kong and southern China.

Chinese case studies of microregional integration

This distinction between microregionalism and microregional integration provides the framework for the discussion of the two examples of microregional integration in this article—southern China–Hong Kong as a case study of microregionalisation and the NEA project as a case study of microregionalism. This typology is in many ways over-stark. As Gamble and Payne note, even where non-state actors are the prime movers, processes of regionalisation are ‘seldom unaffected by state policies’.¹⁷ It is important, then, to recognise that it is somewhat artificial to distinguish between regional processes that result from the actions of *either* state or non-state actors (and actions). Rather, whilst acknowledging that one group or the other might provide the main dynamic, we need to focus on the relationship between the two different types of actors and the two different processes.

While this holds true in all cases, it is particularly pertinent in the Chinese case. This is not to suggest that China is ‘unique’—far from it. But it is important in applying theory to case studies to recognise specific circumstances and factors. In particular, we need to acknowledge that, while China may no longer have a state-planned economy, this does not mean that the only alternative is a market economy. In particular, the separation of state and non-state in industry is still in the process of evolving.¹⁸ While we have witnessed the emergence of new entrepreneurial classes, even theoretically private enterprises often have a hand-in-glove relationship with the local government.¹⁹ As Walder 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’.²⁰ As such, distinctions between state and business actors in the Chinese case are not always as clear cut as might appear at first sight.

Distinctions between the role of state and non-state actors in microregional processes in China are worth making. But perhaps a more worthwhile distinction

is between national state and local state actors.²¹ Decentralisation of power in the post-Mao era has been a key determinant of China's re-engagement with the global economy and provides a starting point for considering not only microregional integration, but also the implications of transnational economic relations for domestic economic governance and domestic economic (re)integration.

Decentralisation and reconfiguring economic space

Before the onset of fundamental economic reform in 1978, debates over decentralisation in China were primarily dominated by an attempt to redistribute power within the party–state hierarchy.²² 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.²³

Despite further decentralisation of power to provincial authorities in the post-Mao era, defining the best spatial distribution of power was complicated by the relationship between two different (sometimes contradictory) types of decentralisation: administrative decentralisation and market decentralisation.²⁴ Administrative decentralisation, the dominant form of decentralisation in the pre-reform era, refers to the transfer 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. ‘Market decentralisation’ refers to the way in which incrementally dismantling the state planning and allocation system resulted in party–state elites at all levels losing some ability to control 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 Susan Strange's notions of the distribution of power on the global level—what one state actor lost was not necessarily at the gain of another state actor.²⁵ Instead, power flowed outside the previously (relatively) autonomous party–state bureaucracy into the hands of non-state actors—managers, producers, consumers and increasingly also to external economic actors.

Initially at least, the transfer of power from the state-plan to the market was 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.

Political space and economic space

Provincial authorities had gained considerable power and autonomy even before the death of Mao. The policy of encouraging local self-sufficiency during the Cultural Revolution provided a degree of provincial autonomy that the administrative and market decentralisation reforms of the post-Mao era merely strengthened.²⁶

In many ways, the extension of decentralised control during the reform period was beneficial for China, in that it allowed for flexibility and local initiative in defining new economic strategies. But the strength of provincial authorities was also considered to be an impediment to the development of a more market-oriented economy. A key issue here remains the conflict between politically organised areas (primarily provinces) and functioning economic areas. For example, inter-provincial trade remains remarkably low as a result of provincial authorities acting to protect their own local producers. As such, the existence of political boundaries (or what Shen Liren and Tai Yuanchen called ‘dukedom economies’²⁷) was depicted as obstructing the exploitation of comparative advantage and the creation of a truly national market economy.²⁸ Economic cores were also separated from their ‘natural’ economic hinterland by provincial boundaries that acted as a brake 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 allow market forces to flourish. 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 first proposed in 1984²⁹ to small development and technology zones within cities and towns in the 1990s.

Experiments with new regional forms have been designed both to *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 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 the neighbouring provinces of Jiangsu and Zhejiang outlined above.³⁰ 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—and the most pertinent for this study—designed to shape economic activity was the creation of the Special Economic Zones (SEZs). Xiamen in Fujian Province, and Zhuhai, Shantou and Shenzhen in Guangdong Province were, in conception, designed to facilitate interaction with the international economy³¹—but to ensure that this interaction was strictly geographically limited. However, the success of the original SEZs in generating growth by attracting foreign investment led to the extension of the concept to other parts of the country as local authorities (particularly, but not only, in coastal areas) established their own investment or Special Economic Technological Development zones.³²

Decentralisation and globalisation

The development of the SEZs brings us to the importance of China's gradual process of re-engagement with 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 SEZs) helped³³ 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 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 the 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.³⁴ 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 devaluation³⁵) stood in contrast to currency appreciation elsewhere.

Crucially, China's international economic relations have not been spread evenly across the entire country. Table 1 shows the extent to which nine provinces dominated China's international economic relations in 1998. These provinces more or less cover the eastern coastal seaboard of China from Macao in the south to the Bohai rim in the north.³⁶ The figures presented in this table need some annotation. First, we need to disaggregate the provincial figures themselves. In the case of Liaoning, for example, provincial investment and trade is concentrated in one city, Dalian. The

TABLE 1. Partial engagement with the global economy?

	Percentage of exports	Percentage of imports	Percentage of contracted FDI	Percentage of FDI utilised	Per capita GDP (RMB)	Per capita GDP as % of national average	Percentage of national population
Guangdong	41.6	40.8	15	25.9	10428	171.5	5.7
Shanghai	8.1	9.3	10.4	9.3	25750	423.6	1.2
Jiangsu	7.9	7.8	18	12	9344	153.7	5.8
Shandong	6.4	6.1	0.6	5.5	7590	124.9	7.1
Fujian	6.0	5.9	8.9	9.3	9258	152.3	2.7
Zhejiang	5.9	5.0	2.4	3.3	10515	173	3.5
Liaoning	4.4	4.5	8.6	4.9	8525	140.2	3.4
Beijing	3.2	4.8	3.3	3.5	16735	275.3	1.0
Tianjin	2.8	3.3	7.5	5.5	13796	226.9	0.8
Coastal Provinces	86.3	87.5	74.7	79.2	12438	204.6	31.2

Source: *Zhongguo Tongji Nianjian, 1999 (China Statistical Yearbook, 1999)*.

Decentralisation, Globalisation and China

TABLE 2. Foreign direct investment in China by source country or region, 1979–97 (amount contracted in US\$ million)

Country/Region	1979–89	1990	1991	1992	1993	1994	1995	1996	1997
Hong Kong	20 879	3 833	7 215	40 044	73 939	46 971	40 996	28 002	18 220
Japan	2 855	457	812	2 173	2 960	4 440	7 592	5 131	3 400
USA	4 057	358	548	3 121	6 813	6 010	7 471	6 916	4 940
Taiwan	1 100	1 000	3 430	5 543	9 965	5 395	5 849	5 141	2 810
Others	4 569	1 948	3 405	7 241	17 759	19 864	29 374	28 086	22 410
Hong Kong and Taiwanese FDI as % of total	67.9	63.6	88.9	78.4	75.3	63.3	51.3	45.2	40.6

Source: *Zhongguo Tongji Nianjian (China Statistical Yearbook)* various years.

Dalian authorities have taken a very proactive role in attracting foreign investment, including establishing special development zones for investment from Taiwan, Singapore and Japan. Indeed, Dalian received 6.5 per cent of all FDI into China in 1996, which included two-thirds of all South Korean FDI and 15.5 per cent of all Japanese FDI (which was down from an all-time high of 39 per cent of all Japanese investment in 1995).³⁷ Even in Guangdong, the most ‘integrated’ of all Chinese provinces, there is no even spread across the entire province. For example, according to the mayor of Shenzhen, exports from Shenzhen SEZ accounted for 14 per cent (by value) of all national exports in 1997.³⁸

Second, the 1998 figure for FDI into Guangdong is low by historical comparison, with the province alone receiving around 40 per cent of all foreign investment since 1978. While there has been a distribution in the provincial shares of trade and investment over time, this distribution has occurred within the (broadly defined) coastal area rather than from coast to interior. That there is a very close relationship to the location of FDI and regional disparities in trade should not be unexpected. The FDI–trade linkage has been a driver of ‘economic globalisation’ in many parts of the world, and the fact that FDI location is a motor of trade growth in China only conforms with general patterns elsewhere. Nevertheless, the importance of the FDI–trade linkage in the process of China’s global re-engagement is particularly striking and warrants particular attention here. In essence, imports and exports of foreign-funded companies account for roughly half of provincial trade in the nine ‘coastal’ provinces.³⁹ As Table 2 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.⁴⁰

Microregionalisation: 'Greater China' as economic space

The above figures point to both the uneven spatial impact of China's international economic relations and also the importance of Hong Kong (and to a lesser extent Taiwan) as a trade partner and source of investment. In combination, this brings us back to the efficacy of microregional approaches for understanding China's re-engagement with the global economy.

It is clear that the political border between Hong Kong and the PRC has become 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. FDI is the main source of investment in Guangdong and around 80 per cent of this FDI comes from Hong Kong. Furthermore, production for export is by far the major source of growth in Guangdong, with around 80 per cent of all provincial foreign trade conducted with Hong Kong and around 68 per cent of Guangdong's trade being the re-exports of goods assembled using imported components—the vast majority of them imported from Hong Kong. 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'.⁴¹ On the face of it, the Guangdong–Hong Kong microregion is a classic (almost defining) example of metropolitan spillover. This understanding 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.

The state as facilitator

While the actions of external non-state actors have clearly played a significant role in microregional integration, we should be careful not to relegate the state to a passive or even irrelevant role. 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 SEZs 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 zones⁴² were located in Guangdong (nor 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 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.⁴³

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 undertaken 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;⁴⁴ but, at the risk of over simplifying the issue, we can identify three points which 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 their 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 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.⁴⁵

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 in providing the mechanisms and incentives to facilitate contact with external non-state economic actors.

Microregional integration and globalisation

In assessing microregional integration, we need to take care not to concentrate simply on relations within the microregion. Rather, we need to assess 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. Indeed, in the case of southern China–Hong Kong, microregional integration is contingent on wider processes of globalisation and the microregion's relations with extra-regional areas.

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. 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.⁴⁶ Hong Kong thus acts as a conduit through which extra-regional actors can engage with the Chinese economy, and in particular, access the cheap labour and land available in southern China. Essentially, therefore, Hong Kong today is still performing the same role that facilitated its very emergence as a major economic centre in the first place.

China's trade relationship with the United States is particularly important here. The proportion of Chinese exports to Hong Kong that are re-exported to the USA increased from 4.86 per cent in 1979 to 41.6 per cent by 1994.⁴⁷ In addition, just over half of all Hong Kong exports to China in 1994 were goods of US origin.⁴⁸ What appears at first sight as a clear example of regional economic integration in reality owes much 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, Jardine Matheson, and Swires, 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 Hong Kong acts as a world economic city in that it provides a mediating level of economic governance between the PRC and the global economy. This is not to suggest that regional integration is not occurring, but that regional processes are a result of globalised production.

Commodity-driven production networks

This understanding of the importance of extra-regional areas for regional integration is further enhanced by an analysis of the nationally fragmented nature of production in East Asia (and elsewhere). Here we have to consider the extent to which Taiwanese and Hong Kong investment and trade represents the penultimate link in a chain or network that goes beyond the confines of narrow definitions of 'Greater Chinese' regionalisation.

As Bernard and Ravenhill,⁴⁹ Hollerman,⁵⁰ Crone⁵¹ and, perhaps most forcefully, Hatch and Yamamura⁵² have argued, many Taiwanese and other East Asian producers are tied into a position of 'technological dependence' on Japan. They are either dependent on key technology components in production, or trade using Japanese brand names, or both. Bernard and Ravenhill use two examples

that are particularly pertinent here. The first is the case of Tatung computer screens. They carry a Taiwanese brand name, but the key technological component—the cathode ray tube—is imported from Japan and accounts for 40 per cent of the value of the screens. Note that Tatung is now assembling some of its screens in the PRC for onward sale to the USA and Europe, as well as back to Japan. The second example is the case of Sharp pocket calculators produced in Malaysia. The calculators are produced in a Taiwanese funded factory in Malaysia under Taiwanese management. They utilise Japanese components and are sold exclusively in the North American market. FDI figures show a Taiwanese investment in Malaysia; trade figures show a Malaysian export to North America, and the goods carry a ‘Made in Malaysia’ stamp; yet the brand name and the majority of the value added are Japanese.

The suggestion, then, is that even those investments into the PRC by non-PRC Chinese actors may have more to do with Japan’s ‘network power’⁵³ than appears at first sight. When we add this to direct Sino–Japanese trade and direct Japanese FDI into China, then the case for a Greater-China economic space, rather than a wider Japan-centred regionalisation process, appears to diminish in force. At the very least, Greater Chinese regional integration should be viewed in the light of wider regional processes.

We should also focus more directly on the role of the USA. Here I take an example used by the Chinese authorities themselves in the White Paper ‘On Sino–US Trade Balance’ in 1997,⁵⁴ and originally raised in a *Los Angeles Times* report in 1996.⁵⁵ Barbie dolls on sale in the USA at around US\$10 each carried the ‘Made in China’ stamp. The unit import cost of each doll was US\$2, which the Chinese authorities argued was an unfair representation of the real value of these exports to China. The raw materials for the plastics were imported into Taiwan from the Middle East and the hair similarly exported to Taiwan from Japan. The goods were semi-finished in Taiwan and only then exported to China for the final stages of production. They were then exported from China to Hong Kong, and then onwards to the USA. The real value to the Chinese economy was a mere 35 cents, with the remainder of the US\$2 either already accounted for in raw materials and assembly before the doll reached China (65 cents) or in the cost of transportation at various stages of the production process (US\$1).

The example was used by the Chinese authorities as an example of how the USA ‘unfairly’ calculates trade with China, and the way in which World Trade Organisation (WTO) country of origin rules discriminated against countries like China. There are, indeed, interesting implications from this and other cases for assessments of the Chinese economy. Lardy has calculated that the value of imported components typically account for 90 per cent of the value of exports from foreign enterprises operating in China.⁵⁶ As the processing trade now accounts for around half of all Chinese trade, the implication is that around half of the value of Chinese exports is in fact the value of goods imported from other states. However, the main relevance of this for us here is in going beyond the bilateral and moving towards a more complex understanding of the international division of production. Table 3 represents an attempt to factor re-exports through Hong Kong into the destination of exports from China. While the figures are not

TABLE 3. Readjusted Chinese direction of trade statistics
(percentage of total trade)

	Exports to (%)	Imports from (%)	Total (%)
USA	22.6	12.9	17.2
Japan	26.1	23.4	24.1
EU states	16.7	15.9	15.9

Source: IMF Direction of Trade Statistics (various years) and Kui-yin Cheung, 'Hong Kong's outward processing investment in China: implications for Hong Kong economy', in: J. Chai., Y.Y. Kueh & Clive Tisdell (Eds), China and the Asia Pacific Economy (Nova Science, 1997).

exact, they give a fairly accurate indication of the importance of markets in the developed world for Chinese exports.

Microregional integration and national economic integration

What we appear to have here, then, is an economic space that spans the residual political border between Hong Kong and the PRC. It is also an economic space that is acting as a mechanism through which southern China is becoming integrated into wider East Asian regional and global commodity-driven production networks. 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. As such, the internal parameters of the microregion are relatively easy to identify and largely correlate with provincial administrative boundaries. The retention and indeed strengthening of internal political barriers to economic activity has facilitated the decline in significance of international political barriers to economic activity within the microregion.

The major dynamic of microregional integration has been the growth of export processing industries in Guangdong. 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 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.⁵⁷

This observation echoes Bernard 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'.⁵⁸ These 'enclave economies' do not form part of what Jin Bei calls the 'national economy' as they

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.⁵⁹

Thus microregional integration appears to act less as a mechanism of integrating the Chinese national economy with the regional and global economy than as a mechanism of further national economic fragmentation. The challenge for national elites in China is reintegrating the national economy—a challenge that has been in no small part generated by calls from local leaders in less developed provinces to redress the uneven balance of development. It is this attempt consciously to alter the national wave of economic development that in part inspired China's national state leaders to participate in the NEA microregional project.

Microregionalism: China and the North East Asian microregion

In the Chinese case, the clearest example of state-directed microregionalism is found in the initiatives to establish a new form of regional collaboration linking the Chinese north-east with neighbouring territories. The NEA project has entailed considerable dialogue between high level representatives from national elites in a number of regional states. However, in contrast to the example of the southern China microregion, plans to establish a 'North East Asian' region and the 'Tumen River Delta' project have to date generated little in terms of real regional integration and collaboration. Indeed, real regional integration has largely failed to emerge *because* of high level involvement by regional states.

At first sight, the NEA region⁶⁰ 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 has increased as political relations between the two powers have lately warmed.⁶¹ 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 was complicated by then deciding which parts of participating states fell within the regional boundaries. Part of the problem here was, and is, the lack of any firm and shared awareness of the region's 'historicity and spatiality'.⁶² 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 terms, the North East Asian region is not an 'imagined community' or a 'cognitive region'.⁶³

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 in the project makes geographic sense and

was also seen as a means of dealing with poverty and encouraging reform in North Korea. But its inclusion 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 Japan⁶⁴ 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.⁶⁵

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* a new economic space in a politically constructed microregion where no existing patterns of economic interaction existed. It was also a project that was not supported by the investment decisions of regional non-state actors. Indeed, it is notable that, as Rozman argues, ‘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’.⁶⁶ In short, where some concrete progress has been made, it has been because 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 individual states. To quote Rozman 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’.⁶⁷ On a very basic level, each state developed plans that were designed to protect its 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. In short, confidence and mutual trust were not exactly the foundations on which the NEA project was 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,⁶⁸ the national government’s priorities began to move elsewhere. In an

attempt to offset internal pressures resulting from lop-sided growth, the national government moved its attention to 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 1992.⁶⁹

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 the attraction of 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 into China. 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 1995.⁷⁰ The growth of Dalian as a key centre for Japanese and other East Asian investment has occurred with the blessing of the national government, but has largely proceeded through the local government facilitating inward investment by external non-state actors. As with the southern China microregion, the local government in Dalian has located the local economy as a low-cost production site for regional investors seeking to produce for export. As with the southern China microregion, Dalian appears more integrated in many ways with other regional states than it is even with its own province, Liaoning. Rather than microregional integration in north-east China occurring through intergovernmental dialogue in the NEA project, it is instead occurring through microregionalisation processes where the key dynamic is the relationship between the local state and external non-state actors linked to a global chain of production.

Conclusion

An assessment of two case studies from one country will clearly generate more case-specific conclusions than universally applicable truths. In this respect, this article probably says more about processes of regional integration in China than it does about regional processes in general. Nevertheless, the Chinese case studies do generate conclusions that have applicability to other cases.

Above all, they suggest that attempts to foster regional integration have been most successful when governments facilitate, rather than control. High level intergovernmental dialogue in the NEA area has had little impact on subnational and cross-national regional integration due to the conflicting interests of the actors—both conflicts between national actors, and between national and local level actors within individual states. While the NEA project was designed to create new patterns of economic activity through interstate dialogue, the southern China case represents an attempt to locate a subnational area within an existing regional pattern of production. The national government facilitated, but local governments and the structure of the East Asian regional economy have provided the dynamic for microregional integration. 'Successful' (in its own terms at least) microregional integration in southern China has been built on

asymmetric levels of development. In essence, southern China is deliberately located as a low cost offshore production site for those investors seeking to produce in China for re-export. Microregional integration thus displays elements of what Grugel and Hout have termed 'regionalism across the North–South divide'.⁷¹ Rather than trying to prevent dependence on the global economy, the regional initiatives of many developing states are now built on a desire to ensure participation in it—in effect, to tie their economies to markets and investors in more developed 'core' states.⁷²

This brings us to two final points. First, it is mistaken to see either different levels of regional integration—or indeed regional and global processes—as contending dynamics. Rather, the analysis of microregionalisation in southern China suggests a symbiotic relationship. On one level, microregional integration is predicated on wider East Asian regionalisation and, indeed, is a mechanism through which wider regional economic integration takes place. On another level, East Asian regionalisation is itself predicated on wider commodity-driven production networks linking the region to investors and consumers in the EU and, most importantly, North America.

Second, the Chinese cases highlight the uneven nature of engagement with the regional (and global) economy. Indeed, one of the major advantages of microregional approaches to studying regional integration is the focus on subnational, rather than national, levels of analysis. In assessing how new economic spaces are being created across national borders, we should not neglect the relationship between emerging transnational economic space and 'national' political and economic space. Cerny 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.⁷³

When the local and global come together, as is the case in microregions, then the challenge for national governments is to build new frameworks for governance—frameworks that either provide mechanisms for reintegrating the national economy or for dealing with the political demands that arise from the emergence of dualistic economies.

Notes

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1. Much of the literature in this field uses the term 'subregionalism'. However, this article uses the term microregionalism to avoid the problems that emerge from the contested use of the notion of sub-regionalism. It can refer to regionalism in non-core areas of the global economy; to regional organisations like ASEAN that are considered to be below the macro-regional level; to regional processes that occur within existing regional organisations such as the EU; and even to regional processes within individual states.

2. I use the term 'provinces' to refer to all those levels of administration that have provincial level status. This includes the provincial level municipalities of Beijing, Tianjin, Shanghai and now also Chongqing, as well as the supposedly 'autonomous' regions such as Xinjiang, Ningxia, and so on.
3. See, for example, Fritz Rorig, *The Mediaeval State* (Batesford, 1967).
4. For example, P. Thambipillai, 'The ASEAN Growth Areas: Sustaining the Dynamism', *Pacific Review*, Vol. 11, No. 2 (1998), pp. 249–66.
5. A good example is Francesc Morata, 'The Euro-region and the C-6 network: the new politics of sub-national cooperation in the west-Mediterranean area', in: Michael Keating & John Loughlin (Eds), *The Political Economy of Regionalism* (Frank Cass, 1997), pp. 292–305.
6. See Abraham Lowenthal & Katrina Burgess, *The California–Mexico Connection* (Stanford University Press, 1993).
7. See Mark Rosenberg & Jonathan Hiskey, 'Changing Trading Patterns of the Caribbean Basin', *Annals of the American Academy of Political and Social Science*, Vol. 533 (1994), pp. 100–11.
8. Kenichi Ohmae, *The End of the Nation State* (Harper Collins, 1995), p. 6.
9. R. Scalapino, 'The United States and Asia: Future Prospects', *Foreign Affairs*, Vol. 72, No. 6 (1991–2), pp. 19–40.
10. Andrew Hurrell, 'Explaining the Resurgence of Regionalism in World Politics', *Review of International Studies*, Vol. 21, No. 4 (1995), pp. 334–5.
11. Andrew Gamble & Anthony Payne (Eds), *Regionalism and World Order* (Macmillan, 1996).
12. *Ibid.* p. 334.
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 prefers the terms *de jure* and *de facto* regionalism to describe the two different processes in East Asia. See Richard Higgott, 'De Facto and De Jure Regionalism: The Double Discourse of Regionalism in the Asia Pacific', *Global Society*, Vol. 2, No. 2 (1997), pp. 165–83.
14. These distinctions are taken from Chia Siow Yue & Lee Tsao Yuan, 'Subregional economic zones: a new motive force in Asia–Pacific development', in: Fred Bergsten & Marcus Noland (Eds), *Pacific Dynamism and the International Economic System* (Institute for International Economics, 1993), pp. 225–69.
15. Morata, 'The Euro-region and the C-6 network', pp. 292–3.
16. Chia & Lee, 'Subregional economic zones'.
17. Gamble & Payne, *Regionalism and World Order*.
18. Perhaps more so than in the countryside where reform began earlier and the transfer of autonomy to producers is further developed (though not complete).
19. See David Goodman, 'New economic elites', in: R. Benewick & P. Wingrove (Eds), *China in the 1990s* (Macmillan, 1995, pp. 132–44); Barbara Krug, *Privatisation in China: Something to Learn From*, Erasmus University Management Report No. 2, 13, 1997; and John Wong & Mu Yang, 'The making of the TVE miracle—an overview of case studies', in: John Wong, Ma Rong & Mu Yang (Eds), *China's Rural Entrepreneurs: Ten Case Studies* (Times Academic Press, 1995), pp. 16–51.
20. Andrew Walder, 'Local bargaining relationships and urban industrial finance', in: K. Lieberthal & D. Lampton (Eds), *Bureaucracy, Politics, and Decision Making in Post-Mao China* (University of California Press, 1992), pp. 331–2.
21. 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.
22. 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.
23. Power was decentralised to provincial authorities from 1956–7 to 1961, and again during the Cultural Revolution.

24. Schurmann distinguishes between these two forms of decentralisation by calling them *decentralisation I* and *decentralisation II*, whereas Eckstein prefers the terms *market decentralisation* and *bureaucratic decentralisation*. See Franz Schurmann, *Ideology and Organization in Communist China* (University of California Press, 1968), p. 196 and Alexander Eckstein, *China's Economic Revolution* (Cambridge University Press, 1977), p. 171. For earlier debates over forms of decentralisation in communist states, see P. Wiles, *The Political Economy of Communism* (Harvard University Press, 1964) and Oscar Lange, 'On the economic theory of socialism', in: B. Lippincott (Ed.), *On the Economic Theory of Socialism* (University of Minnesota Press, 1938), pp. 55–143.
25. Susan Strange, *States and Markets* (Pinter, 1994).
26. Audrey Donnithorne, 'China's Cellular Economy: Some Economic Trends Since the Cultural Revolution', *The China Quarterly*, No. 52 (1972), pp. 605–19.
27. Shen Liren & Tai Yuanchen, 'Woguo "Zhuhou Jingji" De Xingcheng Ji Chi Biduan He Genyuan' ('The Creation, Origins and Failings of "Dukedom Economies" in China'), *Jingji Yanjiu (Economic Research)* No. 3 (1990), pp. 1–8.
28. 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 & Wei Houkai, 'Some Observations on Interregional Trade Friction', *Gaige (Reform)*, No. 2 (1989), pp. 79–83 (translated and reprinted in *JPRS*, 24 April 1989); Fei Xiaotong, 'Fazhan Shangpin Jingji Gaohao Dongxi Lianhe' ('Developing Commodity Economy and Coordinating East–West Relations'), *Gaige (Reform)*, No. 1 (1989), pp. 5–8; Guan Eguo, 'Yunyong Caizheng Jizhi Dali Tuiji Hengxiang Jingji Lianhe' ('Wield the Fiscal Mechanism to Promote Horizontal Integration'), *Caimao Jingji (Finance and Trade Economics)*, No. 7 (1986), pp. 10–13; Ji Chongwei & Lu Linshu, 'Jiaqiang Yanhai Yu Neidi Jingji Xiezuo De Gouxiang' ('On Strengthening Economic Cooperation Between the Coast and the Interior'), *Qishi (Seeking Truth)*, No. 2 (1988), pp. 16–21; Li Xianguo, 'Quyue Fazhan Zhanlue De Neiyong Ji Zhiding Fangfa' ('The Contents and Formulation Methods for a Regional Development Strategy'), *Keyan Guanli (Science Research Management)*, No. 2 (April 1988), pp. 14–19; and Shen Liren, 'Hengxiang Jingji Lianhe—Gaige De Xin Silu He Xin Shengzhang Dian' ('Horizontal Integration—A New Idea and the Starting Point of Structural Reform'), *Caimao Jingji (Finance and Trade Economics)*, No. 8 (1986), pp. 24–9.
29. These macro-regions formed the basis of the regional development strategy of the seventh Five Year Plan. For details, see Terry Cannon, 'Regions: spatial inequality and regional policy', in: Terry Cannon & Alan Jenkins (Eds), *The Geography of Contemporary China: The Impact of Deng Xiaoping's Decade* (Routledge, 1990), pp. 28–60.
30. Chen Xiyuan, 'Dui Zhonggong Fazhan "Shanghai Jingji Qu" Zhi Tanta' ('A Discussion on the Development of the "Shanghai Economic District"'), *Zhonggong Yanjiu (Research on Chinese Communism)*, Vol. 18, No. 8 (1984), pp. 17–25.
31. Hainan Island, formally part of Guangdong Province, was later added as the fifth SEZ.
32. Indeed, some cities like Dalian have created special areas for relations with Taiwan, Japan and so on within these zones—zones within zones.
33. The major source of provincial financial autonomy in the 1980s came from domestic structural changes—particularly in the centre–province revenue sharing arrangements.
34. Bernard and Ravenhill calculate that the Japanese Yen appreciated by roughly 40 per cent from 1985 to 1987; the New Taiwanese Dollar by about 28 per cent from 1985 to 1987; and the Korean Won by approximately 17 per cent from 1986 to 1988. See Mitchell Bernard & John Ravenhill, 'Beyond Product Cycles and Flying Geese: Regionalization, Hierarchy, and the Industrialization of East Asia', *World Politics*, No. 47 (1995), p. 180.
35. From RMB 5.7 to the dollar to RMB 8.7 to the dollar.
36. I have been slightly geographically creative in referring to Beijing as a coastal province.
37. S. Cassidy, 'The recent pattern of Japanese direct investment in Dalian', unpublished paper presented at the *Quatrième Séminaire International de Recherche Euro-Asie*, IAE, Poitiers, France, 6 November 1997. Cited with author's permission.
38. Speech at conference on *China–EU Relations in the Global Political Economy*, EU–China Higher Education Cooperation Programme/Shenzhen City Government, Shenzhen, China, July 1998.
39. At the risk of making a slight departure from the theme of this section, it is notable that foreign-funded enterprises also make significant contributions to provincial trade in the interior. On much lower volumes of trade than in the coast, foreign-funded enterprises account for over 12 per cent of all exports in two of China's poorest provinces, Anhui and Gansu. Perhaps more significant is the percentage of foreign funded imports in total provincial imports; 40 per cent in Anhui, 42.5 per cent in Hebei, 33 per cent in

- Heilongjiang, and so on. As foreign-funded enterprises in these provinces primarily produce in China to sell in China (as opposed to the export-based FDI on the coast), we are led to question the extent to which these enterprises are using Chinese components and materials in their Chinese operations.
40. Harvey Dale, 'The economic integration of greater South China: the case of Hong Kong–Guangdong province trade', in: J. Chai, Y.Y. Kueh & Clive Tisdell (Eds), *China and the Asia Pacific Economy* (Nova Science, 1997), p. 76.
 41. W. Taubmann, 'Greater China oder Greater Hong Kong?', *Geographische Rundschau*, Vol. 48, No. 12 (1996), pp. 688–95.
 42. Hainan was later added as the fifth.
 43. Carol Hamrin, *China and the Challenge of the Future: Changing Political Patterns* (Westview, 1990), p. 83.
 44. For good in-depth analyses of the revenue sharing reforms, see Audrey Donnithorne, *Centre–Provincial Economic Relations in China*, Contemporary China Centre Working Paper No. 16, Australian National University, Canberra, 1981; James Tong, 'Fiscal Reform, Elite Turnover and Central–Provincial Relations in Post Mao China', *The Australian Journal of Chinese Affairs*, No. 22 (1989), pp. 1–28; and Peter Ferdinand, *Centre–Province Relations in the PRC since the Death of Mao: Financial Dimensions*, University of Warwick Working Paper No. 47, 1987.
 45. 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 1984–85, investment in state-planned projects recorded a mere 1.6 per cent increase, whereas investment in unplanned projects increased by 87 per cent. The majority of the increase came from an expansion in local spending. On average, there had been an 86.8 per cent increase in local spending, with investment spending in eight coastal provinces more than doubling. See Huang Da, 'Guanyu Kongzhi Huobi Gongjiliang Wenti De Tantao' ('Probe into the Problem on Money Issue Control'), *Caimao Jingji (Finance and Trade Economics)*, No. 7 (1995), pp. 1–8.
 46. Kui-yin Cheung, 'Hong Kong's outward processing investment in China: implications for Hong Kong economy', in: Chai *et al.*, *China and the Asia Pacific Economy*, p. 105.
 47. Disputes over how to calculate these transshipments through Hong Kong have in part resulted in the vast discrepancies between Chinese and US calculations of bilateral trade and the size of the PRC trade surplus.
 48. Y.Y. Kueh, 'China and the prospects for economic integration within APEC', in: Chai *et al.*, *China and the Asia Pacific Economy*, p. 40.
 49. Bernard & Ravenhill, 'Beyond Product Cycles', pp. 171–209.
 50. Leon Hollerman, *Japan's Economic Strategy in Brazil* (Lexington, 1998).
 51. Ronald Crone, 'Does Hegemony Matter? The Reorganization of the Pacific Political Economy', *World Politics*, No. 45 (1993), pp. 501–25.
 52. Walter Hatch & Kozo Yamamura, *Asia in Japan's Embrace: Building a Regional Production Alliance* (Cambridge University Press, 1996).
 53. Peter Katzenstein, 'Introduction: Asian regionalism in comparative perspective', in: Peter Katzenstein & Takashi Shiraishi (Eds), *Network Power: Japan and Asia* (Cornell University Press, 1997), pp. 1–46.
 54. State Council, *On Sino–US Trade Balance* (Beijing: Information Office of the State Council of the People's Republic of China, 1997). The example was also repeated on Chinese television on a number of occasions during Zhu Rongji's visit to the USA in March 1999.
 55. 'Barbie and the World Economy', *Los Angeles Times*, 22 September 1996.
 56. Nicholas Lardy, *China and the World Economy* (Institute for International Economics, 1994). This may partly be explained by transfer pricing. Despite considerable liberalisation in China, many foreign companies still face problems in repatriating profits due to incomplete currency convertibility and the imposition of myriad *ad hoc* charges on the profits of foreign-funded enterprises. Furthermore, those foreign interests operating joint ventures with Chinese companies or local authorities have to share a proportion of any profits with their Chinese partners. As such, it would be rational for foreign companies operating in China to locate as much of their profits as possible in operations outside China by overcharging factories in China for imported components supplied by factories in other countries.
 57. Nicholas Lardy, 'The Role of Foreign Trade and Investment in China's Economic Transformation', *China Quarterly*, December (1995), p. 1080.
 58. Bernard & Ravenhill, 'Beyond Product Cycles', p. 197.

59. Jin Bei, 'The International Competition Facing Domestically Produced Goods and the Nation's Industry', *Social Sciences in China*, Vol. 18, No. 1 (1997) p. 65.
60. Or, as Christoffersen calls it, 'the Greater Vladivostok Project', reminding us that national interests very much shape perceptions of the core area in cross-national regions. See Gaye Christoffersen, 'The Greater Vladivostok Project: Transnational Linkages In Regional Economic Planning', *Pacific Affairs*, Vol. 67, No. 4 (1994–5), pp. 513–32.
61. David Kerr, 'Opening and Closing the Sino–Russian Border: Trade, Regional Development and Political Interest in North-east Asia', *Europe-Asia Studies*, Vol. 48, No. 6 (1996), pp. 931–57.
62. Mitchell Bernard, 'States, Social Forces, and Regions in Historical Time: Toward a Critical Political Economy', *Third World Quarterly*, Vol. 17, No. 4 (1996), p. 655.
63. Emmanuel Adler, 'Imagined (security) communities', paper presented at the American Political Science Association Conference, New York, 1–4 September 1994.
64. For more details, see Christopher W. Hughes, *Japan's Economic Power and Security: Japan and North Korea* (Routledge, 1999).
65. C.H. Park, 'River and Maritime Boundary-problems between North-Korea and Russia in the Tumen River and the Sea of Japan', *Korean Journal of Defense Analysis*, Vol. 5, No. 2 (1993), pp. 65–98. See also D. Dzurek, 'Deciphering the North Korean–Soviet (Russian) Maritime Boundary Agreements', *Ocean Development and International Law*, Vol. 23, No. 1 (1992), pp. 31–54.
66. Gilbert Rozman, 'Flawed Regionalism: Reconceptualizing Northeast Asia in the 1990s', *The Pacific Review*, Vol. 11, No. 1 (1998), p. 7.
67. *Ibid.*, p. 2.
68. See James Cotton, 'China and Tumen River Cooperation—Jilin's Coastal Development Strategy', *Asian Survey*, Vol. 36, No. 11 (1996), pp. 1086–101.
69. Rozman, 'Flawed Regionalism'.
70. Cassidy, 'The recent pattern of Japanese direct investment in Dalian'.
71. Jean Grugel & Wil Hout (Eds), *Regionalism Across the North–South Divide* (Routledge, 1998).
72. *Ibid.* See also Paul Bowles, 'ASEAN, AFTA and the "New Regionalism"', *Pacific Affairs*, Vol. 70, No. 2 (1997), pp. 219–33.
73. Phil Cerny, 'Globalization and the Changing Logic of Collective Action', *International Organization*, Vol. 49, No. 4 (1995), p. 597.