

## Territorial Competition in China and the West

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**Territorial Competition in China and the West<sup>1</sup>**

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## Abstract

In modern western societies, and most other economies to which it has spread, territorial economic competition is associated with a combination of competitive electoral politics and private land-ownership. In mainland China, however, a very strong form of this competition has emerged without either of these supports. In general, the development of such local collective action and its particular effects reflect an interaction between materially interested local agents and structural pressures. The difference in China is that these agents are principally local government leaders whose career prospects within a still centralized system depend upon performance in terms of economic criteria set from above.

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4 **1. Introduction**  
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9 Territorial competition is a term introduced originally to refer to a new phenomenon  
10 of city/region based competitive economic development policies noted in the early  
11 1990s in a Western European context (Gordon and Jayet 1994; Cheshire and Gordon  
12 1995). Its most striking feature there was an apparent reversal of the orientation of  
13 spatial economic policies, from nationally-based top-down ‘regional policies’, with a  
14 strong emphasis on spatial equity and political cohesion, toward a bottom-up focus, in  
15 which initiatives emerged from particular places, each pursuing their own economic  
16 interests. This shift was seen as particularly linked with the progress of trade  
17 liberalisation within the European Union, notably in relation to the ‘completion of the  
18 Single European Market (SEM)’, scheduled for 1992.  
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34 In North America (particularly the United States) a rather similar phenomenon had a  
35 very much older history, in a context with no real experience of top-down spatial  
36 policy, except briefly and partially during the New Deal of the 1930s Depression  
37 years. There, a focus of state or city government on the promotion of local economic  
38 interests, in an unabashedly competitive fashion, was seen as entirely natural (as it  
39 had not been in Europe) and as representing one of the core obligations on elected  
40 officials. From this perspective, a version of territorial competition represented the  
41 continuation of private market processes ‘by other means’, effectively politicisation of  
42 spatial economic competition – rather than the injection of a competitive dimension  
43 into territorial management/spatial policy.  
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The contrasts between these two cases are of as much interest as the apparent  
convergence between them if we want to understand how processes of territorial

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competition are likely to operate in still other contexts. One of the historic sources of difference appears to be the role of the 'frontier' in North American development right into the 20<sup>th</sup> century, with a large extensive margin to growth as new territories are opened up for exploitation, on a highly competitive basis. Typically this operated with minimal top-down regulation and with open conflict between territorially-based units over strategic infrastructural issues, such as rail routes and control over water resources. At a more institutional/ideological level, substantial differences remain between the two continents in prevailing assumptions about the principle of state intervention in the economy. Related to these are contrasts in the form and structuring of political competition, between a European model based on the development by national parties of ideologically distinct political programmes, and a North American model relying more on bottom-up (territorial) processes of support-building.

Notwithstanding these important differences, there is of course a great deal in common between the two continents, most notably the combination of pluralistic political processes, buttressed by openly competitive elections, and an expectation that territorial development will be primarily driven by private business and property interests. This pair of conditions seems quite fundamental to the operation of territorial competition in these cases, and both seem to apply also in other less developed economies where active territorial competition has been reported, as in the Brazilian case examined by Rodriguez-Pose and Arbix (2001). The appearance of similar phenomena in China, where provincial and city governments are acknowledged to have played a key role in rapid recent growth marks a notable exception then. For, despite substantial liberalisation of external economic relations and a burgeoning domestic private sector, the country remains an authoritarian Communist society, in which neither of these conditions applies. This raises questions

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about the generalisability of models of territorial competition initially developed for a western context and/or about what the Chinese case may reveal of missing elements in these models.

In principle, the concept (at least) of territorial competition ought to be applicable to the Chinese case, since it is defined in essentially functional terms, relating to any class of activity undertaken by a territorially-based agency to advance a set of local economic interests. What kind of activity, which agencies, and also which specific interests, are all treated as endogenous variables requiring explanation - rather than as something to be taken for granted, as they are in more specific notions such as 'boosterism' or 'growth machines'. The practical question which we need to address here is whether the framework of explanation developed for western contexts can usefully be applied to make sense of the forms that territorial competition takes in China. This framework envisages particular forms of territorial competition as emerging out of the interaction between a set of structural factors (relating to competitive pressures in the economic environment) and the need for agency (with a collective action problem to be resolved somehow, and possible involvement of non-local actors). The types of competition which may result have been characterised in terms of variable kinds of (more or less) local coalitions, of varying degrees of strength, involving different mixes of interests (in spatial and sectoral terms), and leading to particular biases in the policies pursued. The different characteristics of these policies are then partly reflected in a normative categorisation of them as *purely wasteful*, *zero-sum* or *productive/capacity-building*, with the last (only) of these potentially strengthening the bases for future coalition-building and effective competitive action (Cheshire and Gordon 1996, 1998).

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In western contexts, whether in North America or Western Europe, a large part of actual territorially competitive activity fits into either the first or the second category, for understandable reasons, with little clear evidence of growth or productivity payoffs at the national scale. By contrast, in the Chinese case the *prima facie* evidence is that local initiatives and local adaptations of central policy have been a major instrument for the economy's very rapid development over the past 25 years. One reason for the difference might be that we are not comparing like with like, and that these 'local' variations in China often relate to activity at the provincial and city levels (Shen 2005) - more comparable in scale with European nations than with the typical units involved in Western versions of territorial competition – while the more competitively successful prefectures/counties tend to be rather large cities. Another important reason relates to the fact that at a national scale Chinese economy remains rather rigid, with weakly developed markets and regional trade barriers, so that responsibility for stimulating innovation and a market-sensitive flexibility falls to sub-national units, in a way not required in fully capitalist economies. How, and how far, these units have actually been able to fulfil this role, and the degree to which they have managed to avoid pursuit of the wasteful and zero-sum forms of territorial competition are among the important questions which need to be addressed about the evolving Chinese version of territorial competition.

In this paper we attempt to place such questions in a comparative framework, by first outlining a general 'theory' of territorial competition, developed in relation to western experience (section 2), then discussing the kinds of contingent factors which have affected its actual development in 'western' contexts, within North America and Western Europe (section 3), before turning to consider the Chinese case, in rather



more depth (section 4) and how we might compare the different versions of territorial competition (section 5).

**2. General Theory of Territorial Competition**

The theory of territorial competition is concerned with trying to establish three things about the promotion, by agencies representing territorially-based economic interests, of significant policies to promote those interests competitively, vis-à-vis those of other territories. The first issue involves identifying the circumstances under which this is more likely to occur. The second involves explaining the mix of policies which are actually pursued, out of the very wide range which are in principle relevant to advancing these interests. This leads on to a third subject of interest, namely understanding the likely consequences for different interests inside and outside the territory of the selected policies, in a context of active competition across territories. Though emerging in a specific late 20<sup>th</sup> century European context, the theory is meant to generalise discussion of these issues, incorporating earlier analyses of North American variants (including boosterism, growth machines and urban regimes) as well as of distinctively European approaches within a broader framework, capable of extension to emergent practice in radically different contexts, such as that of China.

As originally framed, the theory approached this issue from two directions, characterised in economic language as representing the demand and supply sides of a market for territorially competitive policies, or of the capacity to develop and pursue these. Since the ‘demand side’ actually represents a set of logically inferred functional requirements for such policies/capacity, given a set of structural features of the prevailing economic environment - in terms of technology, specialisation and market

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structure – the distinction may as usefully be made in more sociological terms, as relating to interaction between structural and agency factors<sup>2</sup>. In either case, a basic premise is that the (changing) shape of territorial competition cannot be simply understood or predicted in terms of a functionalist economic argument focused on ‘demand’ side or ‘structural’ factors where collective action is involved, since there is no guarantee as to the political responses of ‘agents’ to these pressures. There is actually an argument to be made for introducing a third dimension, in terms of legitimisation processes (Gordon, forthcoming), but here we shall continue to focus on the demand/supply or structure/agency distinction, introducing legitimisation questions in a more *ad hoc* fashion.

In the economic policy arena, these two directions are reflected in the more specific perspectives of regulation and (urban) regime theory, with their roots respectively in macro-level economics/political economy<sup>3</sup> and urban political science. While acknowledging the contradictory character of social relations, the *regulationist* logic works from the ‘needs’ of a particular regime of accumulation, to which micro-level behaviour has somehow to be fitted. Within the context of a post-Fordist<sup>4</sup> and increasingly competitive global economy, the emergence of new forms of sub-national economic management – in a sphere more traditionally controlled by central states - has been seen by various scholars in this tradition as a way of meeting such needs (Jessop, 1994; Brenner, 2003; Harvey, 1989<sup>5</sup>). The *urban regime* approach by contrast starts from the perspective of local political elites, the strategic choices which they face in terms of interest management / coalition-building, and the implications of these for feasible political programmes (Stone, 1989). From this perspective, the emergence of territorially competitive policies in particular places tends to be seen as a reflection of the configuration and resources of local interests of different kinds. The

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leverage which local economic interests can exercise may, however, clearly be quite substantially altered by external structural factors – just as the way/degree to which structural ‘needs’ for such initiatives are actually met may be substantially dependent on micro-level institutional factors. And the actual force which the external factors exert on local elites in specific places, via ‘competitive pressures’, will depend in turn on how far their counterparts elsewhere have committed themselves to territorially competitive policies, as well as on the regulatory/fiscal strategies of national elites<sup>6</sup>. The rationale for comparative studies of the development of territorial competition in radically different contexts is then to understand rather more clearly how the two sets of explanatory factors interact, and the degree of contingency in its functioning.

In the West European context, the structural/demand issue was originally addressed in terms of changes in the economic environment which could account for the emergence during the 1980s/1990s of a traditionally absent class of activity. This seems appropriate in the Chinese context too, where conspicuous developments have been at least as recent, and represent an even more striking reversal. But the structural argument has also to encompass the North American case, where recent changes seem much less radical<sup>7</sup>, with some forms of active territorial competition representing the historic norm. And we should also recognise earlier periods in Europe (if not China) where such activity was also more common than during much of the last century. The issue may thus be as much about the varying importance of factors which serve to repress bottom-up economic development policies, for which there is some continuing structural logic, as about those emergent factors which heighten their salience.

At the simplest, most general level, a functional requirement for territorially-based development policies may be seen to stem from the combination of significant spatial

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externalities affecting the success of specific enterprises – via shared infrastructure needs, common skill pools, and the diffusion of technologies and reputations – with benefits from subsidiarity, implying locally selected actions which can be tailored to varying circumstances. From this functionalist perspective then, the optimal distribution of powers and responsibilities for different kinds of economically relevant policy becomes a matter of the scales over which currently relevant spatial externalities (both positive and negative) are most significant, and the relative economic salience of the kinds of local difference that justify local autonomy in policy-making.

In practice, however, it is virtually impossible to use this structural approach to determine the actual distribution of roles, powers and responsibilities which ought to emerge, independently of thinking about agency factors and how these have evolved. A substantively important aspect which also illustrates the general point involves the issues of establishing areas of effectively free trade with the necessary shared measures, standards, rights and systems of contract enforcement, and with the physical means to secure these. Extending the areas over which these conditions are satisfied – first to encompass what are now recognised as nation states and now beyond this, through regional integration and global economic regulation – has been a continuing thread in capitalist economic development (Braudel 1982). But it is one which has always been politically contentious and dependent on a reconstruction of identities and affiliations (as with the development of European nationalisms), as well as recourses to physical force.

Nevertheless, such structural arguments do have implications for the direction of evolution in territorial policies to be expected from particular changes in the economic

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environment of a region. For example, it appears that traded service and artisanal activities have tended to be more sensitive to specific local characteristics and reputations ('urban assets') than have factory manufactures. And, in any sector, standardisation of methods and products encourages a greater dependence on corporate assets than those which are place specific. Both deindustrialisation and post-Fordism should then make greater demands on localised administrations to secure the conditions for their competitiveness – reversing a shift associated with the development of large scale manufacturing. There would, however, still remain many issues of economic management involving broader spatial externalities, for which national and supra-national interventions and regulation would be required.

On the agency/supply side of the picture, the natural starting point is the existence of a range of self-interested parties with particularly strong stakes in territorial economic success. In Cox and Mair's (1988) terms these are spatially dependent actors, whose economic success is directly linked to that of their local/regional economy, or some major segment of it. In economists' language they are all rent-earners, with landowners as just the most conspicuous example of a group whose asset values vary with strength of demand for location in their territory. For others the tie may be in terms of markets and/or local networks, where an individual or business has a privileged access to local opportunities (whether as monopolist or through past marketing efforts) which is not readily transferable elsewhere. In principle this could cover (some) workers also, provided the local labour market for their skills was effectively closed to inward and outward movement, or they enjoyed an 'insider' status on the basis of personal reputation with local employers. It could also apply to a local authority – or its leaders, conceived of as agents in their own right - where its revenue-raising capacity was heavily dependent on the local tax base. On the same

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grounds, existing local tax payers and service users could be seen to have a stake in an area's success, though only if developments yielded a clear gain in *net* revenue to the authority. This line of argument was developed originally in a US context, but has considerable potential for comparative analyses, since it starts to suggest how agency potential may be substantially affected by kinds of institutional and legal arrangements that vary between countries.

However, the Cox/Mair argument identifies necessary rather than sufficient conditions for the emergence of active local support of competitive activity. A familiar 'collective action' problem (Olson 1965) means that individual actors may well not find it worth their while to expend resources to pursue their territorial interests on a collective basis – as distinct from simply investing to reinforce their personal stakes in the markets concerned. It all depends on whether they believe that there would be any significant effect on outcomes as a result of their involvement. The point of Olson's argument is, of course, not that such action is never pursued, but rather that it depends on arrangements that link participation to some private benefit – not just a share in the collective benefit - or exploit some non-instrumental source of solidarity. The simplest example is where a small group, with individually substantial stakes, can effectively contract with each other to participate actively, on condition of the others also similarly participating. By its nature this kind of arrangement seems to be effectively available only to small groups – thus introducing a general bias into collective action. In some circumstances, however, a powerful lead actor may also be able to organise a system of selective benefits to commit a larger group to come on board some collective action, for which the 'leader' provides a substantial share of the resources. The potential to achieve this may again be heavily dependent on the institutional and legal setting.

But it will also depend on, and shape, the class of interests to be pursued, since collective action potential is greater where there are a few major stake-holders, with closely aligned interests, strong trust relations reproduced through the kind of routine interaction operating through well established networks/localities, and where there is more capacity to exclude outsiders from benefit. Where territorial competition has yet been routinised, such biases in the bases of achievable coalition can be expected to involve: tendencies both to conservatism (reproducing established sectoral specialisms) and localism; and to especially favour new physical development schemes offering an element of monopoly profits to a small group of direct stakeholders (notably site-owners and entrepreneurial developers). Another kind of predicted ‘bias’ is to inaction, or to more or less ‘symbolic’ action (Edelman 1970) in cases where a weakly organised group, whose interests conflict with those of others, and which cannot police the actual outcomes of a policy, can be at least temporarily sated by a gesture suggestive of more substantial action (Cheshire and Gordon 1996).

We should also acknowledge a kind of ‘counter-agency’ issue, in the sense of rival kinds of organisation, of other interests at other spatial scales. These may include both more local coalitions of environmental protectionists (NIMBYists) and less local (national or supra-national) groupings pursuing more generic, sectoral or class-based interests. The significant point about these is not simply that different concerns may have naturally distinct spatial ranges but that, since any organisation which is actually achieved represents a valuable political asset for its members and the interests it represents, they are liable to resist any threats to its value from transfers of *relevant* power and responsibility to other spatial scales.

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All territorially competitive activity has uneven effects: spatially, sectorally and also in terms of specific beneficiaries. The logic of collective (in)action exaggerates this tendency, since this is what motivates agents to expend resources in pursuing it, and since it can only effectively be organised for particular, biased sets of interests. Hence such activity is very likely to be redistributive, within a territory as well as across territories, even though it is legitimated as producing collective gains, and even though the structural arguments point to the potential for achieving such gains. This point has been forcefully made by Krugman (1996) who - in relation to action at both a national and a city scale - argues that, while the existence of strong returns to scale provides an intellectually respectable basis for interventionist policies to promote competitiveness, in practice the vast majority of cases actually made lack such respectability, instead representing disguised efforts to pursue specific vested interests, at the cost of all others.

From a social perspective, a distinction may be made then between three categories of territorially competitive policy: the purely wasteful, involving expenditure of some kind without any significant gains; those producing a (more or less) zero-sum balance of costs and gains, accruing to different groups; and those producing positive net additions to welfare, typically through enhancing productive capacities in some way (Cheshire and Gordon 1998). The distinction between these can be a slightly arbitrary: for example, the purely wasteful category does normally involve gains to some actors, even if only the policy-makers themselves, though substantially outweighed by the costs involved; whether policies are seen as zero-sum or not can depend on how widely drawn are the boundaries within which consequences are considered (e.g. nationally or globally); and many 'zero-sum' policies might more properly be seen as negative sum, when the costs of running them are taken into



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account. However, it is a heuristically useful distinction, since the ‘symbolic’ policies pursued in the absence of strong support for effective collective action are particularly likely to represent pure waste, while biases in coalition formation favouring policies with exclusive benefits for (local) insiders typically mean losses for others, and near zero-sum outcomes. In particular, the absence of a strong governmental body capable of fulfilling a leadership role for such coalitions at something like the scale of a functional urban region is liable to encourage policies diverting economic activity from adjoining regions, possibly through direct movement, but more likely through ‘poaching’ part of their market, or bidding against them for potential inward investment (Cheshire and Gordon 1998).

More specifically, it has been argued that collective action problems lead to a bias in favour of policies to attract such inward investment, beyond what is economically appropriate. A starting point is that competition with other similar areas for such inward investment is a zero-sum activity. Beyond this, however, it is argued that, when this competition proceeds through the offer of locational subsidies (or other such generalised incentives), mobile capital is able to exploit the process by playing off areas against each other – engendering incentive tournaments (Mytelka, 2002) - so that the ‘successful’ bidder ends up incurring costs just about equal to the benefits it expects to receive<sup>8</sup> (Wins 1995; Cheshire and Gordon 1998). In this case the process becomes not simply zero-sum – with places that worked harder and more effectively expecting to win out at the cost of those which did not – but one with near zero net gains for all participants, except for owners of the mobile activities (cf. Rodriguez-Pose and Arbix 2001). The balance of power here depends in part on the degree of fragmentation of territorially competitive units, and the degree to which their bidding is constrained by some higher level of government, but it also depends on how far

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each is offering an effectively identical set of assets/attractors, and competing for the same targets. Where there are no constraints and many areas compete on the same basis, a 'race to the bottom' is particularly likely.

To attain some countervailing power and avoid this outcome, territories would need to identify and cultivate distinctive kinds of asset, incentive and specialism (Malecki, 2004). With a weak capacity for development of broadly-based strategies of territorial competition, however, areas are particularly liable to engage in extensive mimicry of each others initiatives (cf. Harvey, 1989), grounded both in beliefs that they are offering what inward investors in general most want, and in what are perceived to be effective symbols of serious competitive activity (Cheshire and Gordon 1998). A further, more contingent, argument is that it is not in fact disparities in rates of inward investment (in either gross or net terms) that make the real difference between more and less successful territories, but rather the growth performance of already established businesses (whether originally indigenous, or earlier in-movers). How literally this observation applies outside the western context from which it originated may be questionable, though Rodriguez-Pose and Arbix (2001) show that local gains from inward investment can be very limited even in an LDC context. A lot obviously depends on how much genuinely indigenous business capacity there is to work with. But the thrust of the argument is clearly a sound one, in contrasting the (quite general) need to build distinctive local strengths which encourage the embedding of inward movers as well as promoting the competitive strength of all local firms, with the (specific) biases in policy expected where independent leadership is weak, competitive activities are unconstrained, and the political bases for collective action are highly selective coalitions of interests.

[Figure 1 about here]

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This outline of a general model of territorial competition – the key features of which are summarised in Figure 1 – is intentionally both simplified and somewhat abstract, since its purpose is to frame a comparative analysis. For this reason, we have avoided close engagement either with the empirical literature or with overlapping sets of theoretical argument, in the interests of developing a clearer line of argument to highlight contextual factors which might generate significantly different versions of territorial competition (or non-competition) in different situations. At the same time, the model itself has clearly been framed against the background of western experience, and is rooted in a pluralistic version of political economy, which may or may not translate well to the context of post-Mao China, with its peculiar combination of communist politics and capitalist economics. Before directly addressing that question (in section 4), however, we should first consider how the model ‘plays’ on its home ground, in relation to what have been quite variable western experiences of territorial competition.

**3. Significant Features of Western Experience**

The development of territorial competition in North America and in Western Europe has proceeded in quite separate ways, shaped by different institutional factors, over very different time scales. In the North American case – predominantly in the United States – key factors have included the history of settlement, reflected in federal constitutions, and the related development of more commercial organisations with *localised* monopoly power, as well as the absence of an ideologically-grounded national party politics. These have meant that there are very few constraints on the pursuit of state or local economic development policies, and a strong representation of

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locally dependent economic interests in Cox and Mair's (1988) sense. In particular, normal banks were (until the 1990s) legally constrained from operating across state borders, while the main 'public' utilities were supplied by private, territorialised organisations, who (with local media) provided core stakeholder members for local economic development coalitions. Also, crucially, sub-national governments have been almost totally dependent on a local tax base for their resources – while politicians have also largely depended on locally mobilised resources for campaign funding in elections to public office. The relative ease of incorporating new local government units at the frontier of development around urban regions is also a relevant factor.

Together these represent some of the most favourable circumstances imaginable for development of an active politics of territorial competition, with some ties into generalised local economic interests. However, it is also clear that the local coalitions which emerge as driving forces for competitive policies have tended to represent a more particular combination of interests. As Stone (1989; 1993) has argued, urban political leaders have some choice over the kind of regime they construct – in the sense of the coalition of interests with which they align themselves – though some of these offer an easier and more reliable base for political success than others. In particular, versions of the Molotch (1976) 'growth machine', in which a small set of actors with physical development interests lead the dominant coalition, has been a very common model, with very long historic roots.

In Western Europe, by contrast, with a history of urbanisation predating democratic politics, mostly unitary national states, ideologically-based national politics, and utilities which have more commonly been in public ownership, territorial competition

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has been more of the exception than the rule. Indeed in the 20<sup>th</sup> century, active economic intervention and fiscal management were more or less monopolised by central governments, greatly restricting the capacity of local government to act autonomously. Moreover nation states generally assumed responsibility for a substantial degree of territorial justice in access to public services, in the interests of political cohesion, greatly weakening the link between their supply and the local tax base.

In this context, the major stimuli to development of territorial competition seem to have been the combination of: weak central government responses to large scale industrial job losses starting in the early 1980s; and accelerating internationalisation, particularly via European economic integration. Of these European integration was arguably much the more significant factor, since it affected more places with potential competitive resources, and because it shifted the attitudes of central government toward locally-based economic initiatives. From this perspective, the key developments in European integration were those affecting competition in urbanised services, particularly associated with the SEM's removal of non-tariff barriers to trade in services. This promised an end to the effective monopoly in provision of high-order services enjoyed by each of the leading national centres – making their promotion much less of a zero-sum game as far as national governments were concerned – and the possibility for second-order cities (as well as potential European capitals) to develop trans-national hinterlands. One interpretation of this development was that it was opening the way, in economic terms, to a United States of Europe. Beyond the suggestion of possible convergence with the US in territorial competitive practices, creation of the SEM also meant that there was a single space within which external investors wanting to penetrate the European market could choose to locate.

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In this new context (reinforced by the steadier shift to a post-industrial economy), interest in local economic development and competitive strategies has burgeoned right across Europe, reinforced by ideas from Porter (1990) about the significance of territorial industrial clusters for competitive advantage. However, it is far from clear that the reality has yet matched the rhetoric, with a proliferation of marketing initiatives that often appear to represent symbolic politics rather than commitments of resources likely to engender substantial growth. And there are only limited signs of American style growth machine politics (or even urban regimes) taking over in Europe (Wood 1996; Harding 1999)

In fact, a striking feature of the European interest in versions of territorial competition has been the variety of models that have been pursued in different areas, and imitated elsewhere. In places such as Paris, Lille, Lyon, London, Emilia Romagna, and Barcelona these have variously emphasised strategic regional planning, international transport links, industrial planning, SME support and collaboration, and flagship projects – though there has also been widespread imitation of, for example, US waterfront re-development schemes. A notable feature of these high profile examples, however, has been the particularity of the political conditions on which they seem to have been grounded, including party-political projects of broader significance, ethnic solidarity, and the ambitions of a nation-state for its urban standard-bearer (Gordon 1999). How far any of them can be reproduced in areas without these special conditions is unclear, though in a range of European contexts either the nation state or the European Union provides an element of potential leadership via competitive support schemes for (mostly) capacity-enhancing policies. Conversely, EU competition policy rules out the more direct forms of price

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competition for mobile investment deployed in the US ‘economic war among the states’ (Federal Reserve Bank of Minneapolis 1996).

It is very hard to assess the extent to which territorially competitive strategies of one kind or another have had a significant impact on growth performance, particularly when the issue is not one of boosterist effort/successes but more of the judiciousness of a wide range of relevant actions. However, there is one piece of credible evidence in the European context suggesting that they could make a significant difference. This comes from an analysis by Cheshire and Magrini (2002) of per capita GDP growth performance across the Functional Urban Regions (FURs) of the EU, with results showing – in accord with the theory sketched above – that (after control for many other influences) there is a very significant tendency for stronger performance in cases with governmental units close in scale to the FUR. Since the logic is that better policies will be generated in such cases (where localist bias is weakened), the implication of the evidence is that territorial policies can have a significant effect, for better or for worse.

**4. Territorial Competition in China**

Territorial competition only really emerged in China after Mao’s death, but then developed rapidly, with a close link to the growing dynamism of the national economy. In Mao’s time, any such competition was more or less confined to the fictional realm, with provincial growth data being ‘cooked up’ to fit unrealistic targets during the era of strong central planning. Though in the 1960s and 1970s there was an official policy of self-reliant local economic development, state investment (focused

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on military priorities) was dictated from the centre, and with hostility to FDI, there was very little scope for pursuit of competitively-oriented policies.

Since then, however, regions, provinces, and cities have all striven to accrue the greatest amount of resources, bargaining for the most favourable policy concessions and seeking to generate the highest growth rates (Qian and Xu 1993a; 1993b; Montinola, Qian et al. 1995; Yang 1997; Gore 1999; Yeung 2000). One visible symbol has been the inclusion of comparative tables of economic performance relative to neighbouring jurisdictions in many provincial and municipal yearbooks. This competition has focused very heavily on inward investment - via both importation of state-of-the-art production lines and growth-enhancing infrastructure projects - rather than promotion of competitive advantage for local firms. Thus, by mid-2003 there were more than 5,000 development zones across China – two thirds of them developed independently by sub-provincial authorities<sup>9</sup> all bidding for FDI principally through preferential tax rebates.<sup>10</sup> Similarly there has been a proliferation of new international airports, with 5 now in the Pearl River Delta alone (including the two in Hong Kong and Macao) and a similar number in the Yangtze delta (the latest virtually unused)<sup>11</sup>.

This competition has arisen in radically different circumstances than in either Europe or North America, both politically and economically: with an absence of democracy and with strong Party control remaining, despite substantial economic liberalisation; and with new barriers to inter-provincial trade emerging, despite much greater openness to foreign trade and capital flows. In order to understand how territorial competition operates in this environment, we shall again look at issues of structural



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change and of agency, before focusing on some key features of the Chinese version of territorial competition and their consequences.

**4-1 Structural influences**

As in Europe, shifting competitive pressures and closer integration into an international economy were key structural influences on the growth of territorial competition in China, though both worked quite differently in the Chinese context (Wu, 2003b). Thus, whereas in Europe the shift towards a more flexible, post-Fordist, post-industrial economy, with a greater emphasis on quality competition was an important factor, the Chinese context was of industrialisation, price competition and an emergent kind of Fordism. Indeed such (unmatchable) price-based competition from newly industrialising countries had encouraged the switch toward ‘quality’ in the west (Wu 2003a; Wu and Ma 2005). Also, whereas in Europe the most relevant internationalisation was creation of the SEM, on a scale to match to the United States domestic market, the closest equivalent in the Chinese case – its own national market – was getting increasingly fragmented, with new trade barriers being created, as a defence against predatory competition in circumstances of structural industrial overproduction and/or resource shortage.<sup>12</sup> To a much greater extent than in the west then, active competition between Chinese cities and regions (as opposed to this defensive competition) would be in relation to their shares of external trade and capital flows.

On the other hand, there was at least one parallel in the direction of change, with both the transition to post-Maoism in the Chinese economy and to post-Fordism in the west, requiring a much closer engagement with dynamic market processes, for policy-makers as well as businessmen. Both this and the greater mobility of capital placed

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increasing responsibility on regional authorities to ensure the availability and quality of local-bound complementary assets to attract, retain and anchor the right kind of mobile investment (Agnew 2000; Dunning 2000)

The radical impact of the opening-up of the Chinese economy from 1978 is indicated in Table 1, which shows the volume of trade increasing 30-fold over 24 years, with its share of a rapidly growing GDP up by a factor of 6 – while from next to nothing annual flows of FDI grew to around 5% of GDP (Table 1). By 2003, China had become the biggest receiver of FDI in the world, and the 3<sup>rd</sup> or 4<sup>th</sup> largest trading economy.

[Table 1 about here]

At the same time, however, inter-provincial trade was at best stagnating in absolute terms - and falling sharply as a proportion of sales or GDP (Kumar 1994; Poncet 2003; 2005). This reflected both the rapid growth of foreign trade, and a tendency for domestic trade to become more heavily concentrated *within* provinces, as a result of growing protectionism.

The other major structural shift relevant to the growth of territorial competition in China was the broader *transition* process from socialist central planning toward a more liberal, market-based economy, involving price and land-use reform as well as the open-door policy. During the 1980s, there was a shift from a pure system of plan-based prices, to a 'dual track' (where additional output could be sold at market prices) and then complete market determination (Shirk 1992). And, at the end of the decade, a constitutional amendment extended the market mechanism to *use rights* in land, though not actual ownership (Yeh and Wu 1999; Yeh 2005).

These radical economic developments clearly reflected national policy, but coexisted with a determination to keep political control firmly in the hands of Beijing and the Communist Party, and concern that economic changes should not threaten this. This represented a quite distinct (almost uniquely Chinese) reason for allowing territorial variations in economic development initiatives, to explore routes to change without seriously endangering national stability if they should get out of control.<sup>13</sup> Famously Deng had given the instruction in the late 1970s to ‘let some people (and regions) get rich first’. This could be seen not only as replacing the notion of ‘equal poverty’ with a ‘ladder-step’ approach to spatial policy (*ti du li lun*), giving explicit priority to investment in coastal regions with greater development potential (Lu 2004), but also as implying a more flexible approach to policy in some particular provinces (as initially in Guangdong).

Certainly studies show that the economic transition towards market economy has largely been propelled by active local city and regional governments, pioneering new policies with varying degrees of national endorsement or tolerance (Goodman 1994; Yang 1994; Chung 1999; 2000; Yeung 2000). One type of case is represented by the initial development of Special Economic Zones in Guangdong and Fujian provinces, from a prototype in Shekou approved by central government (in 1979) on a joint proposal from Guangdong provincial government and a Hong Kong-based company (Zhu 2005). Another is represented by Guangdong’s successful introduction in the early 1980s, without any permission from Beijing, of a new kind of joint venture with foreign investors, using existing properties as assets (Zhang 1994). Examples elsewhere include the privatisation or down-sizing of state-owned enterprises , both also introduced and proved as successful locally, prior to adoption of any national

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policy (Montinola, Qian et al. 1995; Cao, Qian et al. 1999). Without formal loosening of controls, a notable feature of China's transition in the post-Mao period was that innovative economic policies could, and did, get initiated from the local level rather than by the centre.

There are some parallels between this experience and the emergence of more active economic roles for sub-national units in western societies, with both reflecting moves away from more rigid national approaches in the face of pressures from internationalisation (Wu 2003a; Wu and Ma 2005). Some effective devolution was also evident in other development and transition countries, with Dillinger (1994) reporting that 63 out of the 75 larger states claimed to be transferring some power to sub-national units, while Rodriguez-Pose and Gill (2003) confirmed this for former USSR, Yugoslavia and Eritrea among the transition countries.

Within China there was a series of formal acts of administrative and fiscal decentralisation. Central controls were reduced over many aspects of economic activity, including investment, land use, banking and management of public-owned companies. The range of investments requiring approval by the State Planning Committee was significantly reduced, and sub-national governments were granted much responsibility for managing trade and FDI activities, exemplified by an increase in the size of joint venture applications that provinces could deal with from US\$ 3 million in 1983 to US\$ 10 million in 1985 and then to US\$ 30 million for certain coastal provinces in 1988 (Zhang 1994; Huang 1996). Land use control was also decentralised, allowing sub-national governments to transfer very large areas of land to their new development zones, whose total area exceeded that of centrally planned sites. With introduction of a market in land-use rights, an unintended consequence

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was for several authorities to effectively become property speculators (Cartier 2001). In addition, more state-owned enterprises were handed over to sub-national authorities, with just 20% of their output remaining under central government control by 1985 (Montinola, Qian et al. 1995). At township and village level local officials became *de facto* owners, acting just like entrepreneurs of local profit-seeking companies (Oi 1995; Walder 1995; Oi 1998; Edin 2000).

There was also substantial fiscal decentralisation, with central government's share of public expenditure falling from around 53% to 30% between 1982 and 1998 (Rodriguez-Pose and Gill 2003). In part this was because sub-national governments gained new taxes on industrial and commercial land use/appreciation (Yeh and Wu 1999; Lin 2001). But it also reflected a substantial growth in self-raised revenues, some authorised by central government, but others not (Bahl 1999; Zhang 1999; Wong and Bhattasali 2003; Herrmann-Pillath and Feng 2004). Growth in the size and complexity of the latter category – the 'extrabudgetary revenue' and 'extra-extrabudgetary revenue' - involved a *de facto* decentralisation of resources from which a variety of local economic initiatives could be funded (Brean 1998).

In relation to the development of territorial competition in China, the salient structural fact was neither simply that State Council in Beijing and the Party clung on to their political authority, nor that internationalisation required a devolution of economic functions to a level where they could be exercised more flexibly. Rather it was that, in the absence of a formal constitutional position for sub-national authorities in the People's Republic, operational relations between them and the centre evolved dynamically. Thus, at one point in time the centre might decentralise administrative powers so as to stimulate local enthusiasm for those of its policies reliant on local

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4 initiatives; but then it might launch a political campaign to recentralise the powers to  
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6 rectify local discretions. The leeway left by this non-constitutional system of relations  
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8 meant that sub-national authorities adopted varying strategies to cope with the centre,  
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10 while it, in turn, pursued different regulatory approaches and policies for particular  
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12 provinces (Cheung 1994a; 1994b; Cheung 1998).  
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#### 15 16 17 18 **4-2 Agents and motivations**

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20 Given these evolving structural conditions, involving both a functional case for sub-  
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22 national development activities and weaker constraints on these, the question remains,  
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24 as in the west: who, if anyone, has adequate motives and capacity to take on a role  
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26 requiring both innovation and commitment. In one respect, the role might seem  
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28 somewhat easier in post-Mao China, since all authorities have been committed to  
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30 economic growth, and any potential anti-development groups are in their infancy,  
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32 suggesting a natural local government–enterprise coalition (Zhu 1999). On the other  
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34 hand, there is an uncertainty to be overcome about the limits to autonomy, in a  
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36 context where central government does not have a united or consistent view about the  
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38 speed of economic reform or the acceptable degree of devolution.  
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45 The continuing dominance of the Chinese Communist Party is key to the agency issue  
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47 in this context. The Party is still very much dominant over administration (the  
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49 governments), parliament (the people's congress), and jurisdiction (courts): as a  
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51 Chinese saying goes 'party overrides law (*dan da yu fa*)' (Potter 1999; Guo 2000).  
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53 This has both general implications for the politics of sub-national economic  
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55 governance, and particular ones for who the key actors are with the motive and  
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57 capacity to push territorially competitive policies forward.  
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To take the general aspect first, there are four basic points which need to be understood. The first is that a large part of the regulatory framework still consists of an array of party ‘documentations’ (*wen jian*) of various kinds – so-called reasons, directions, principles, solutions, plans, decisions, announcements, projects, details, opinions etc. – as well as government regulations, and actual ‘laws’. This ‘documentary politics’ plays an important role in building consensus, formalizing personal preferences, and gaining ideological legitimacy (Wu 1995). The second is that without agreement and consensus from local party secretaries, sub-national officials (namely, governors or majors and so on) may not have final say over policies or their implementation. A local elite of cadres under party control occupy multiple roles as rule makers, enforcers, referees and players (Sachs, Woo et al. 2000), producing a distinctive kind of ‘local state corporatism’ at village/township level in particular and subnational levels in general, with officials often also *de facto* owners of key local enterprises, directly controlling investment, staffing and even sharing in profits - corresponding public-owned enterprises (Oi 1995; 1998). Ambiguities of this sort produce a kind of local ‘public-private coalition, Chinese style’. However, thirdly, the effects of such ambiguity over property rights bear less heavily on firms (who report more confidence in the regulatory system than in other NICs)<sup>14</sup> than on domestic landowners/farmers, whose land may easily be taken over for ‘public use’ with minimal compensation (Zhang 2006). Finally, despite economic liberalisation, relations between state/official and society/businesspersons/ professional consultants remain asymmetric in political terms (Zhu 1999; Zhang 2002). The state has legitimated external interests in an attempt to unleash the economic dynamism of societal groups, but in a way that directs that power toward its own goals. As He and Wu (2005) show for a major Shanghai scheme, key private investors can still have



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negligible influence over the direction and pace of development, because of the public sector's control of policy, financial leverage, and land leasing.

The more specific influence of the Party over the emergence of active territorial competition comes through its continuing control over the *nomenclature* system of appointment to all leading positions. Top officials and cadres of sub-national governments are not elected locally but appointed or removed by upper level governments, on the basis of a quite systematic screening of candidates' credentials, among which, since the early 1980s increasing weight has been given to objective assessments of concrete economic achievements, rather than subjective evaluations of political attitudes and work styles (Edin 2000; Whiting 2001; Edin 2003). Performance-based personnel management served to trigger careerism as - political incentives for local leaders to pursue stronger economic development. The more growth, the better the chances to get advancement, with increasing power and other rewards. The significance of this relationship has been confirmed empirically by Li and Zhou (2005) who showed that provincial officials were more likely to retain their job when economic growth rates improved during their tenure, and by Bo (2000) who showed that promotion of provincial leaders was related to stronger growth records (as reflected in contributions to central revenues) rather than either elite factionalism or localism. This could be the case even when local officials had departed radically from central policy lines, as Tan (2002) showed with a comparative study of the career paths of leaders from Jiangxi and Fujian, with the latter being rewarded for a successful exercise of discretion, in conflict with central austerity programs of the early 1990s. Political conformity, which was the only important promotion criterion in pre-reform days has now clearly given way to assessments of competence, particular in terms local economic performance as represented by some standard local



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growth measures. In agency terms, the main driving force for territorial competition in the contemporary Chinese case thus seems to be the personal ambition of local officials, pursuing broad growth goals set by central government – rather than the particularist demands of local private interests as in the west. Their strategies may, however, depart significantly from current government orthodoxies – and have consequences that can also be negative for other areas.

4-3 The functioning and consequences of territorial competition

Territorial competition emerged in post-Mao China, in the context of a strong push for national economic development, pursued via an asymmetric process of decentralisation (Chien, forthcoming) - allowing substantial economic autonomy to sub-national units, while maintaining a centralised system of political control – and with acceptance that some regions would grow faster than others. This opened the way for personally ambitious officials in provinces and cities to adopt innovative strategies both for promoting local growth and for mobilising the resources required for this purpose (Figure 2).. With narrowly defined economic goals, little constraint on external effects, and often ambiguous positions in relation to the public/private divide, sub-national administrations could take on many of the characteristics of North American growth machines, albeit in a quite different context.

[Figure 2 about here]

Perhaps the most salient of these differences – more than the fact that the process was driven neither by elected politicians nor private business-people – was the lack of effective integration of the Chinese national economy. Sub-national protectionism appears to have risen steadily during the reform era<sup>15</sup>, as a direct consequence of the increased fiscal and economic responsibilities accorded to provincial authorities. The driving factor appears to be a desire to mitigate the impacts on social stability and

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local tax bases of liberalisation and privatisation programmes, particularly in those internal regions where economic reform and restructuring have made less progress (Poncet 2005). As Zhao and Zhang (1999) put it:

‘Fiscal decentralisation has created conditions that encourage regionalism: disappearance of the traditional umbrella, unfairness to the poor regions, territorial segmentation and confrontation, central-local vertical confrontation, and failure of spatial programs of specialisation and co-operation’.

A particular consequence has been to restrict the ability of Chinese private firms to exploit the scale of the national market in order to build competitiveness, as North American and (increasingly) European firms are able to do in their home markets. Indeed, rather perversely, foreign companies can be in a better position than home firms to operate across provincial boundaries. This may be accomplished indirectly, as in the case described by Huang (Huang 2003) where a small company from Hong Kong managed to acquire 200 firms across nine provinces, whereas the largest automotive firm in China could only operate in its home province. Or, for intermediate products, firms which are not based in an export processing zone have to sell in others via the so-called ‘Hong Kong day trip’. As far as sub-national economic development policies are concerned, such trade barriers both reduce the incentive to work on building competitiveness among local businesses, and focus attention on foreign firms as the single source of inward investment, while leaving these firms with great negotiating power, since *they* do have the choice of locating elsewhere.

Another distinctive feature of the Chinese situation has been uneven imposition of central controls on sub-national authorities’ economic activities. One example is in relation to the nominal limits set by central government during the 1980s and 1990s

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on attraction of FDI. In the cases of Guangdong and Shanghai, however, Li (1997) has shown for years between the mid-1980s and early 1990s that the actual investment rates were consistently well above the national average, by a margin of about 50% in the Shanghai case and over 100% for Guangdong. Such discrepancies partly reflect the fact that local officials are actually in the front line as implementers of the central policy which gives them a certain power, at the margin at least. But the fact that systematic overshoots continued, especially in Guangdong, in a state retaining strong formal centralisation, points to a degree of selective indulgence of provinces successfully pushing the development programme forward.

Of more fundamental importance, since competition for inward investment depends on the capacity to fund appropriate infrastructure investment, is the creativity which sub-national authorities have applied to mobilising additional sources of finance beyond those formally conferred by the centre. In Shanghai, Zhang (2003) reports the use of a series of novel channels, including as well as budgetary revenues, land leasing, funds from the stock market, state-directed credit allocation, and foreign direct investments. In another case, Gujiao in Shanxi province, Herrmann-Pillath and Feng (2004) find infrastructure being financed partly through bargaining with upper-tier authorities for a greater share of revenue, but also more innovatively, with ‘reverse Build-Operate-Transfer contracts’, privatisation of public services, government enterprise, sale of land use rights and public-private partnership. Various innovative decision-making bodies have also been established in some places in order to legitimate expenditure on public projects, such as creation of a financial committee of the local People’s Congress, or a Board of Directors for Public Projects, comprising an selected group of the local elite (Fan 1998).

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Despite a common system of career incentives, the actual roles assumed by Chinese sub-national officials in relation to economic development have varied greatly. A useful taxonomy proposed by Baum and Shevchenko (1999) identifies four such roles, on the basis of two criteria: whether or not officials were motivated to promote local economic growth; and whether or not they had a direct stake in the economic performance of local enterprises. Among the cases involving a positive commitment to local development they make a distinction between 'entrepreneurial' authorities, effectively operating as businesses, and 'developmental' authorities operating in a more detached way. But they also identify two sets of cases where officials engage in economically significant actions, without any serious economic development motive. The first of these is 'clientelist', where officials use their power, and freedom of independent checks, to pursue personal business interests in ways that do not contribute to local economic development. And finally, there are 'predatory' authorities, who use this power to exact illegal revenues from an overburdened peasantry or investors, as a means of reducing the fiscal gap, substituting for development to raise the local tax base. In these cases, career incentives appear inadequate to stimulate the kind of territorially competitive activity to which both structural change and central policy are pushing – in part maybe because local prospects are less good in the areas concerned.

Unregulated territorial competition can have particularly negative consequences in a society where there is neither a pluralistic local politics nor effectively integrated markets. On a local scale, where policy is driven by a simple growth objective (whether in terms of GDP or contributions to central funds) there are obvious dangers that a large part of the population may suffer as a result of environmental degradation and/or the funding requirements for developmental investment. Taking a wider view,

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neglect of spatial externalities in growth promotion and project development has several unintended negative consequences. One is duplicate investment which has exacerbated the scale of overproduction in a number of manufacturing activities, (Cannon and Zhang 1996), with levels of redundancy of 40%-75% being reported for textile and electronics products in the 1996 industrial census. Oversupply sometimes leads to price war, as in the auto industry (Lu 2004) and more generally has been a contributory factor in the imposition of more internal trade barriers. Another effect, attributable to the combination of unregulated territorial competition and market fragmentation, is the ‘miniaturisation of investment projects’, which has carried over from the pre-reform self-sufficiency policy, and means that many investment project are of sub-optimal size, particularly in relation to the scale of the Chinese economy (Gore 1999; Tang 2002). For example, with a total output of motor vehicles comparable with that of a single leading Japanese manufacturers, China actually had over 120 producers in 1995, with its top three firms only taking a third of the market (Huang 2001). Similar arguments apply to the proliferation of international airports within particular regions (referred to in section 1).

This phenomenon reflects a strong tendency by almost all regions to try to compete on the same terms and with the same kind of projects, contrary to the principle of distinctiveness (discussed in section 2). This tendency to ‘isomorphism’ (or copy-cattig) is evident in industrial terms, both in relation to plans – with 19 of 30 provinces identifying the auto industry as a priority for 1996-2000 national plan (Lu and Xue 1997)<sup>16</sup> – and outcomes - with a high and increasing level of similarity in industrial structures, even as between the broad groups of coastal, central and western provinces (Gore 1999). A similar phenomenon is evident in relation to the types of competitive strategy pursued by sub-national authorities, as in the case of the

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‘development zone fever’ (*kai fa qu re*) which spread across China, in imitation of the original Guangdong and Fujian province SEZs (Yeh and Wu 1999; Cartier 2001; Demurger, Sachs et al. 2001; Chien 2005). With a focus on price competition via a standardised mix of financial incentives, inward investors should be able to extract a very large part of the potential gains from such projects, without any longer term commitment to integration in the local economy.

## 5. Conclusion: Territorial Competition, Chinese Style

Over the past 25 years a very strong form of territorial competition has emerged in China, where it has played an important role in the nation’s rapid development, particularly in relation to the attraction and accommodation of foreign direct investment. Though this might seem to represent an element of convergence with western development patterns, consistent with the process of market liberalisation underway in the country, the form taken by territorial competition in China has been very different from any observed in the west. Two key characteristics have been: the extent to which bottom-up, and somewhat autonomous, economic development initiatives have been driven at a macro-level by central government economic strategy (cf. Wu, 2003b); and at micro-level by the personal ambitions of public officials, whose promotion prospects depend on local growth performance. Both reflect the asymmetric character of rescaling in the Chinese governmental structure, with some real devolution of economic and fiscal responsibilities being accompanied by a firm insistence on the centralisation of political control in Beijing and in the Communist Party apparatus. The pattern of outcomes – including a systematic neglect of the negative side effects of growth and the limitations of a copy-catting approach to

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4 projects and inward investment – do, however, seem to have much in common with  
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6 those identified with western (or more specifically North American) growth  
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8 coalitions. This is somewhat ironic, given that the American coalitions are genuinely  
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10 independent local entities, and include two key groups of members who are absent  
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12 from their Chinese counterparts, namely elected politicians and private real estate  
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14 interests.  
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20 This irony signifies neither that territorial competition in China and the west are  
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22 ‘essentially the same’, as a purely functional approach might suggest, nor that they are  
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24 ‘entirely different phenomena’, as one focused on agency issues would conclude. In  
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26 both contexts, the form, structure, biases and effects of territorial competition –  
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28 conceived of broadly as a bottom-up activity advancing a set of locally-specific  
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30 economic interests – can be seen to emerge, in an intelligible way, from the  
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32 interaction of specific sets of structural and agency factors, rather than as conforming  
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34 or not to a particular model.  
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41 More specifically, we should make the point that there is no single ‘western’ model of  
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43 territorial competition. As has been noted elsewhere, European practice in this field  
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45 still differs a lot from characteristic American models (such as the growth  
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47 machine/regime). And Chinese practice, though quite distinct from either, actually  
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49 echoes in different ways both European and North American forms of territorial  
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51 competition: the European in the way that ‘bottom-up’ activity turns out to be  
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53 dependent on the central state’s leadership and direction; and the American in the  
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55 proliferation of unintended and undesirable external effects. To put it simply, we  
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57 might characterise different contexts for territorial competition in terms of two  
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59 dimensions of the central state’s role: whether or not it *promotes* territorial  
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competition; and whether or not it *regulates* the activity (Figure 3). In these terms, the North American situation seems to represent the absence of either a promotional or regulatory role for the state. Up to the 1970s, both Western Europe and China might be seen as having central states which regulated but did not promote bottom-up development activities. Since then Europe seems to have moved to a position where states continue to regulate territorial competition, but now also promote it – whereas ‘territorial competition, Chinese style’ is conditioned by a central state which promotes, but scarcely regulates, bottom-up activity. This lack of regulation is even more radical than in the American case, since it involves the absence of effective control over regional protectionism, as well as over financial bidding wars.

[Figure 3 about here]

The fact that ‘territorial competition, Chinese style’ is largely driven (in agency terms) by self-interested local officials chasing targets set, directly or indirectly, from Beijing does, however, offer the possibility of re-engineering the system so as to mitigate some of the more negative external effects. Thus, in principle at least, crude economic targets in terms of local GDP growth, FDI attraction and revenue generation could be replaced or complemented by indicators of social/environmental performance, or contributions to the development of wider regions. A suggestive example is that of Zhangjiang high-tech industrial park of Shanghai where policies have been switched since the 1990s from aggressive competitive bidding for FDI to a more selective attraction of business and university R&D facilities by a change in the indicators used to evaluate the leader’s performance. A broader redesign of the indicator system to ‘regulate’ the unsustainable aspects of Chinese territorial competition would depend both on central governmental commitment to wider goals, and the availability of robust measures of the relevant outcomes. All targeting systems



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are likely to generate unintended biases in policy, but it should be possible to channel the energies of careerist local leaders in directions which make ‘territorial competition, Chinese style’ more clearly positive-sum in its effects.

A final observation which we should make is about the relationship between territorial competition and uneven development. A defining characteristic of such competition, unlike the top-down regional policies which held sway in Europe during the earlier post-war decades, is its indifference to concerns of spatial equity. Beyond that, there is a reasonable expectation that it will actually exacerbate spatial inequalities, since successful places should have more resources to apply to the activity, and may also reasonably see their stakes (in terms of possible gains/losses) as larger, thus justifying a stronger commitment of those resources to it (Cheshire and Gordon, 1996). This seems to apply to the Chinese case. But there is one aspect of the *nomenclature* system which has a countervailing effect. As we have seen, this now provides the major incentive element for development of active competition, with senior officials in sub-national authorities seeking advancement within a national framework of job allocations. Examination of the pattern of transfers on promotion suggests, however, that there is a characteristic tendency for such promotions to take officials from more to less economically advanced provinces or regions, hence prospectively diffusing experience and innovation down the hierarchy of local economic success (Chien 2005). In this single respect ‘territorial competition, Chinese style’ seems a bit less likely to promote uneven development than the American model (though it is playing with generally larger stakes) – if still more than in the European context where such competition is actually more muted, as well as more strongly regulated.

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Notes

<sup>1</sup> We are grateful both to referees and to participants in the Economic Geography of China session at the Association of American Geographers 2006 conference for comments on an earlier version of this paper, and also to Alan Harding for a helpfully edited version of Brenner’s (2006) EUREX ‘chat’.

<sup>2</sup> At the most fundamental level, the structure/agency distinction involves issues about whether social institutions and norms (structures) are to be seen primarily as causes or effects of individuals’ choices and behaviours (agency). In modern sociology, competing theories about causal primacy have, however, increasingly given way to more sophisticated accounts of characteristic ways in which macro-level structural factors interact with micro-level agency developments. It still the case, however, that hypotheses about the causes or effects of observed phenomena are most readily framed from within *either* a structure *or* an agency perspective. To escape the limitations of a one-eyed view, it is still appropriate then to self-consciously explore hypotheses framed from the other perspective, and examine how the two logics could be expected to interact (and do) in different types of context.

<sup>3</sup> Lipietz (1987) characterises the (French) regulation school as ‘rebel sons’ both of Louis Althusser and of the technocrat planner Pierre Massé.

<sup>4</sup> Or post-Socialist, as Wu (2003b) argues in his regulationist treatment of the re-

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making of Shanghai as an entrepreneurial city.

<sup>5</sup> Even seen from this perspective, neither the process nor its functionality are necessarily very neat. Brenner (2006) for example says that:

‘all of the micro-level decisions and strategies that ensued post-1970s somehow seem to have congealed ... into a new regulatory (dis)order ...that no one intended ...but somehow embodies certain “rule regimes” that may be defended ...by those who believe they represent the future of capitalism’.

However, in practice, as Jones and Ward (2002) observe:

‘because regulationists appear to be preoccupied with mobilizing economic readings of crisis, ongoing developments within the extra-economic co-ordinating or mediating mechanisms of capitalism are frequently ‘read off’ from changes in the economy. Despite continual emphasis placed on contingency this can lead to an inherent danger of presenting institutional processes .... as functional to the needs of accumulation” (p.9).

Though not strictly regulationist, Harvey’s (1989) analysis of urban entrepreneurial processes also moves between contingent and functionalist perspectives (cf. fn. 5), but with most readers/citers clearly presuming the latter.

<sup>6</sup> In his careful analysis of many of these issues, Harvey (1989) noted that ‘*to the degree that urban competition becomes more potent, it will almost certainly operate*

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as an “external coercive power” over individual cities to bring them into line with the discipline and logic of capitalist development’ (p. 10, emphasis added). While he goes on to suggest that a process of ‘leap-frogging’ competitive innovations is the inevitable outcome (p.12), we would emphasise that neither the potency nor the direction of urban competition can be taken for granted without consideration of agency issues. Similarly, when he notes that a real revival of inter-urban (i.e. territorial) competition ‘required a radical reconstruction of central to local state relations and the cutting free of local state activities’ , we would suggest that – whatever the ‘evidence of turmoil in this quarter’ (p.15) – this reconstruction also cannot be taken for granted.

<sup>7</sup> Harvey (1989) suggests that the trigger for a revival of boosterism in the US was a major cut-back in federal funding for urban governments by the Nixon administration from 1972 on.

<sup>8</sup> Only falling short to the extent that its expected benefits from this move (and/or those of the firm) exceed those in the second highest bidder.

<sup>9</sup> News source: *ling dao jue ce xin xi* (based in Beijing), 2004/April (no.15).

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

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2005/12/12; 2001/12/13

<sup>11</sup> Wuxi airport of Jiangsu was converted from military use to provide easy access to the global market, but has only six flights per day, as there are four others within 140 kms, including the major Shanghai Hongqiao and Pudong airports. (News sources: *zhong kuo shi bao* (Taipei) 14.10.2002; *zhong kuo shi bao* (Taipei) 22.2.2003; South China Morning Post (Hong Kong) 13.4.2004.

<sup>12</sup> This fragmentation of the national market is thus both cause and consequence of the particular form of territorial competition developed in the post-Mao China (see section 4-3, below).

<sup>13</sup> Reinforced by a lack of consensus in Beijing about how fast market reforms should proceed (Lichtenstein 1991; Woo 1999; Fewsmith 2000).

<sup>14</sup> According to the World Bank's 2005 Investment Climate Survey.

<sup>15</sup> At least until the wave of privatisations starting in 1997 (Poncet, 2005).

<sup>16</sup> 17 out of 30 listed the building materials industry as a key industry for their economies. The electronic industry, machinery industry and metallurgy industry were also targeted by 15 (Lu and Xue 1997).



Table 1: FDI and trade from 1980 to 2004 (unit: US\$ billion)

	1980	1985	1990	1995	2000	2004
Registered Foreign Capital	n.a.	4.5	10.3	48.1	59.4	64.1
Foreign capital as of GDP	n.a.	1.5%	2.7%	7.0%	5.5%	3.9%
Trade	38.1	69.6	115.4	208.9	474.3	1,154.9
Trade as of GDP	12.6%	23%	30%	40%	44%	73%

Source: China Statistics Yearbook (2005)

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**Figure 1**  
**Processes Shaping Territorial Competition (TC)**

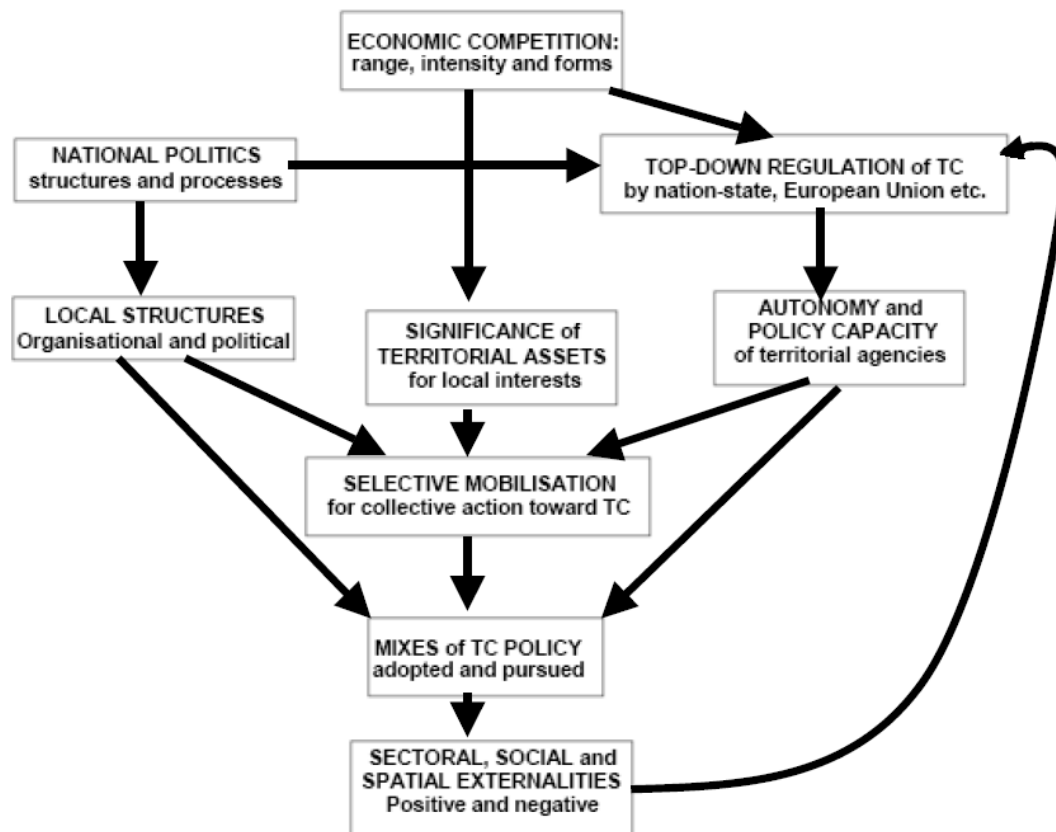


Figure 2: Asymmetric Decentralization in China

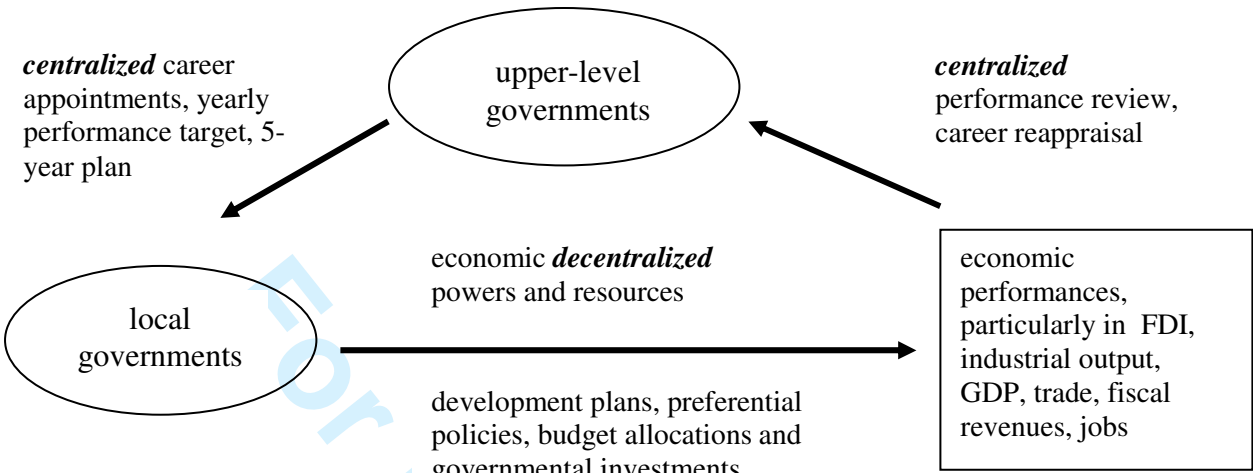


Figure3  
The Shifting role of the National state in Territorial competition: China, Western Europe and the USA

