

Territorial Competition in China and the West

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Territorial Competition in China and the West¹

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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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1. Introduction

Territorial competition is a term introduced originally to refer to a new phenomenon of city/region based competitive economic development policies noted in the early 1990s in a Western European context (Gordon and Jayet 1994; Cheshire and Gordon 1995). Its most striking feature there was an apparent reversal of the orientation of spatial economic policies, from nationally-based top-down 'regional policies', with a strong emphasis on spatial equity and political cohesion, toward a bottom-up focus, in which initiatives emerged from particular places, each pursuing their own economic interests. This shift was seen as particularly linked with the progress of trade liberalisation within the European Union, notably in relation to the 'completion of the Single European Market (SEM)', scheduled for 1992.

In North America (particularly the United States) a rather similar phenomenon had a very much older history, in a context with no real experience of top-down spatial policy, except briefly and partially during the New Deal of the 1930s Depression years. There, a focus of state or city government on the promotion of local economic interests, in an unabashedly competitive fashion, was seen as entirely natural (as it had not been in Europe) and as representing one of the core obligations on elected officials. From this perspective, a version of territorial competition represented the continuation of private market processes 'by other means', effectively politicisation of spatial economic competition – rather than the injection of a competitive dimension into territorial management/spatial policy.

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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4 competition are likely to operate in still other contexts. One of the historic sources of
5
6 difference appears to be the role of the 'frontier' in North American development
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8 right into the 20th century, with a large extensive margin to growth as new territories
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10 are opened up for exploitation, on a highly competitive basis. Typically this operated
11
12 with minimal top-down regulation and with open conflict between territorially-based
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14 units over strategic infrastructural issues, such as rail routes and control over water
15
16 resources. At a more institutional/ideological level, substantial differences remain
17
18 between the two continents in prevailing assumptions about the principle of state
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20 intervention in the economy. Related to these are contrasts in the form and structuring
21
22 of political competition, between a European model based on the development by
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24 national parties of ideologically distinct political programmes, and a North American
25
26 model relying more on bottom-up (territorial) processes of support-building.
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34 Notwithstanding these important differences, there is of course a great deal in
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36 common between the two continents, most notably the combination of pluralistic
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38 political processes, buttressed by openly competitive elections, and an expectation
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40 that territorial development will be primarily driven by private business and property
41
42 interests. This pair of conditions seems quite fundamental to the operation of
43
44 territorial competition in these cases, and both seem to apply also in other less
45
46 developed economies where active territorial competition has been reported, as in the
47
48 Brazilian case examined by Rodriguez-Pose and Arbix (2001). The appearance of
49
50 similar phenomena in China, where provincial and city governments are
51
52 acknowledged to have played a key role in rapid recent growth marks a notable
53
54 exception then. For, despite substantial liberalisation of external economic relations
55
56 and a burgeoning domestic private sector, the country remains an authoritarian
57
58 Communist society, in which neither of these conditions applies. This raises questions
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4 about the generalisability of models of territorial competition initially developed for a
5
6 western context and/or about what the Chinese case may reveal of missing elements
7
8 in these models.
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13 In principle, the concept (at least) of territorial competition ought to be applicable to
14
15 the Chinese case, since it is defined in essentially functional terms, relating to any
16
17 class of activity undertaken by a territorially-based agency to advance a set of local
18
19 economic interests. What kind of activity, which agencies, and also which specific
20
21 interests, are all treated as endogenous variables requiring explanation - rather than as
22
23 something to be taken for granted, as they are in more specific notions such as
24
25 'boosterism' or 'growth machines'. The practical question which we need to address
26
27 here is whether the framework of explanation developed for western contexts can
28
29 usefully be applied to make sense of the forms that territorial competition takes in
30
31 China. This framework envisages particular forms of territorial competition as
32
33 emerging out of the interaction between a set of structural factors (relating to
34
35 competitive pressures in the economic environment) and the need for agency (with a
36
37 collective action problem to be resolved somehow, and possible involvement of non-
38
39 local actors). The types of competition which may result have been characterised in
40
41 terms of variable kinds of (more or less) local coalitions, of varying degrees of
42
43 strength, involving different mixes of interests (in spatial and sectoral terms), and
44
45 leading to particular biases in the policies pursued. The different characteristics of
46
47 these policies are then partly reflected in a normative categorisation of them as *purely*
48
49 *wasteful*, *zero-sum* or *productive/capacity-building*, with the last (only) of these
50
51 potentially strengthening the bases for future coalition-building and effective
52
53 competitive action (Cheshire and Gordon 1996, 1998).
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4 In western contexts, whether in North America or Western Europe, a large part of
5
6 actual territorially competitive activity fits into either the first or the second category,
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8 for understandable reasons, with little clear evidence of growth or productivity
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10 payoffs at the national scale. By contrast, in the Chinese case the *prima facie* evidence
11
12 is that local initiatives and local adaptations of central policy have been a major
13
14 instrument for the economy's very rapid development over the past 25 years. One
15
16 reason for the difference might be that we are not comparing like with like, and that
17
18 these 'local' variations in China often relate to activity at the provincial and city levels
19
20 (Shen 2005) - more comparable in scale with European nations than with the typical
21
22 units involved in Western versions of territorial competition – while the more
23
24 competitively successful prefectures/counties tend to be rather large cities. Another
25
26 important reason relates to the fact that at a national scale Chinese economy remains
27
28 rather rigid, with weakly developed markets and regional trade barriers, so that
29
30 responsibility for stimulating innovation and a market-sensitive flexibility falls to sub-
31
32 national units, in a way not required in fully capitalist economies. How, and how far,
33
34 these units have actually been able to fulfil this role, and the degree to which they
35
36 have managed to avoid pursuit of the wasteful and zero-sum forms of territorial
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38 competition are among the important questions which need to be addressed about the
39
40 evolving Chinese version of territorial competition.
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50 In this paper we attempt to place such questions in a comparative framework, by first
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52 outlining a general 'theory' of territorial competition, developed in relation to western
53
54 experience (section 2), then discussing the kinds of contingent factors which have
55
56 affected its actual development in 'western' contexts, within North America and
57
58 Western Europe (section 3), before turning to consider the Chinese case, in rather
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4 more depth (section 4) and how we might compare the different versions of territorial
5
6 competition (section 5).
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10 11 **2. General Theory of Territorial Competition** 12

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15 The theory of territorial competition is concerned with trying to establish three things
16 about the promotion, by agencies representing territorially-based economic interests,
17 of significant policies to promote those interests competitively, vis-à-vis those of other
18 territories. The first issue involves identifying the circumstances under which this is
19 more likely to occur. The second involves explaining the mix of policies which are
20 actually pursued, out of the very wide range which are in principle relevant to
21 advancing these interests. This leads on to a third subject of interest, namely
22 understanding the likely consequences for different interests inside and outside the
23 territory of the selected policies, in a context of active competition across territories.
24
25 Though emerging in a specific late 20th century European context, the theory is meant
26 to generalise discussion of these issues, incorporating earlier analyses of North
27 American variants (including boosterism, growth machines and urban regimes) as
28 well as of distinctively European approaches within a broader framework, capable of
29 extension to emergent practice in radically different contexts, such as that of China.
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50 As originally framed, the theory approached this issue from two directions,
51 characterised in economic language as representing the demand and supply sides of a
52 market for territorially competitive policies, or of the capacity to develop and pursue
53 these. Since the 'demand side' actually represents a set of logically inferred functional
54 requirements for such policies/capacity, given a set of structural features of the
55 prevailing economic environment - in terms of technology, specialisation and market
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4 structure – the distinction may as usefully be made in more sociological terms, as
5
6 relating to interaction between structural and agency factors². In either case, a basic
7
8 premise is that the (changing) shape of territorial competition cannot be simply
9
10 understood or predicted in terms of a functionalist economic argument focused on
11
12 ‘demand’ side or ‘structural’ factors where collective action is involved, since there is
13
14 no guarantee as to the political responses of ‘agents’ to these pressures. There is
15
16 actually an argument to be made for introducing a third dimension, in terms of
17
18 legitimation processes (Gordon, forthcoming), but here we shall continue to focus on
19
20 the demand/supply or structure/agency distinction, introducing legitimation questions
21
22 in a more *ad hoc* fashion.
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30 In the economic policy arena, these two directions are reflected in the more specific
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32 perspectives of regulation and (urban) regime theory, with their roots respectively in
33
34 macro-level economics/political economy³ and urban political science. While
35
36 acknowledging the contradictory character of social relations, the *regulationist* logic
37
38 works from the ‘needs’ of a particular regime of accumulation, to which micro-level
39
40 behaviour has somehow to be fitted. Within the context of a post-Fordist⁴ and
41
42 increasingly competitive global economy, the emergence of new forms of sub-national
43
44 economic management – in a sphere more traditionally controlled by central states -
45
46 has been seen by various scholars in this tradition as a way of meeting such needs
47
48 (Jessop, 1994; Brenner, 2003; Harvey, 1989⁵). The *urban regime* approach by
49
50 contrast starts from the perspective of local political elites, the strategic choices which
51
52 they face in terms of interest management / coalition-building, and the implications of
53
54 these for feasible political programmes (Stone, 1989). From this perspective, the
55
56 emergence of territorially competitive policies in particular places tends to be seen as
57
58 a reflection of the configuration and resources of local interests of different kinds. The
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4 leverage which local economic interests can exercise may, however, clearly be quite
5
6 substantially altered by external structural factors – just as the way/degree to which
7
8 structural ‘needs’ for such initiatives are actually met may be substantially dependent
9
10 on micro-level institutional factors. And the actual force which the external factors
11
12 exert on local elites in specific places, via ‘competitive pressures’, will depend in turn
13
14 on how far their counterparts elsewhere have committed themselves to territorially
15
16 competitive policies, as well as on the regulatory/fiscal strategies of national elites⁶.
17
18 The rationale for comparative studies of the development of territorial competition in
19
20 radically different contexts is then to understand rather more clearly how the two sets
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22 of explanatory factors interact, and the degree of contingency in its functioning.
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30 In the West European context, the structural/demand issue was originally addressed in
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32 terms of changes in the economic environment which could account for the
33
34 emergence during the 1980s/1990s of a traditionally absent class of activity. This
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36 seems appropriate in the Chinese context too, where conspicuous developments have
37
38 been at least as recent, and represent an even more striking reversal. But the structural
39
40 argument has also to encompass the North American case, where recent changes seem
41
42 much less radical⁷, with some forms of active territorial competition representing the
43
44 historic norm. And we should also recognise earlier periods in Europe (if not China)
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46 where such activity was also more common than during much of the last century. The
47
48 issue may thus be as much about the varying importance of factors which serve to
49
50 repress bottom-up economic development policies, for which there is some continuing
51
52 structural logic, as about those emergent factors which heighten their salience.
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60 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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4 externalities affecting the success of specific enterprises – via shared infrastructure
5 needs, common skill pools, and the diffusion of technologies and reputations – with
6 benefits from subsidiarity, implying locally selected actions which can be tailored to
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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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4 environment of a region. For example, it appears that traded service and artisanal
5
6 activities have tended to be more sensitive to specific local characteristics and
7
8 reputations ('urban assets') than have factory manufactures. And, in any sector,
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10 standardisation of methods and products encourages a greater dependence on
11
12 corporate assets than those which are place specific. Both deindustrialisation and post-
13
14 Fordism should then make greater demands on localised administrations to secure the
15
16 conditions for their competitiveness – reversing a shift associated with the
17
18 development of large scale manufacturing. There would, however, still remain many
19
20 issues of economic management involving broader spatial externalities, for which
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22 national and supra-national interventions and regulation would be required.
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30 On the agency/supply side of the picture, the natural starting point is the existence of a
31
32 range of self-interested parties with particularly strong stakes in territorial economic
33
34 success. In Cox and Mair's (1988) terms these are spatially dependent actors, whose
35
36 economic success is directly linked to that of their local/regional economy, or some
37
38 major segment of it. In economists' language they are all rent-earners, with
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40 landowners as just the most conspicuous example of a group whose asset values vary
41
42 with strength of demand for location in their territory. For others the tie may be in
43
44 terms of markets and/or local networks, where an individual or business has a
45
46 privileged access to local opportunities (whether as monopolist or through past
47
48 marketing efforts) which is not readily transferable elsewhere. In principle this could
49
50 cover (some) workers also, provided the local labour market for their skills was
51
52 effectively closed to inward and outward movement, or they enjoyed an 'insider'
53
54 status on the basis of personal reputation with local employers. It could also apply to a
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56 local authority – or its leaders, conceived of as agents in their own right - where its
57
58 revenue-raising capacity was heavily dependent on the local tax base. On the same
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4 grounds, existing local tax payers and service users could be seen to have a stake in an
5
6 area's success, though only if developments yielded a clear gain in *net* revenue to the
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8 authority. This line of argument was developed originally in a US context, but has
9
10 considerable potential for comparative analyses, since it starts to suggest how agency
11
12 potential may be substantially affected by kinds of institutional and legal
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14 arrangements that vary between countries.
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20 However, the Cox/Mair argument identifies necessary rather than sufficient conditions
21
22 for the emergence of active local support of competitive activity. A familiar
23
24 'collective action' problem (Olson 1965) means that individual actors may well not
25
26 find it worth their while to expend resources to pursue their territorial interests on a
27
28 collective basis – as distinct from simply investing to reinforce their personal stakes in
29
30 the markets concerned. It all depends on whether they believe that there would be any
31
32 significant effect on outcomes as a result of their involvement. The point of Olson's
33
34 argument is, of course, not that such action is never pursued, but rather that it depends
35
36 on arrangements that link participation to some private benefit – not just a share in the
37
38 collective benefit - or exploit some non-instrumental source of solidarity. The simplest
39
40 example is where a small group, with individually substantial stakes, can effectively
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42 contract with each other to participate actively, on condition of the others also
43
44 similarly participating. By its nature this kind of arrangement seems to be effectively
45
46 available only to small groups – thus introducing a general bias into collective action.
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48 In some circumstances, however, a powerful lead actor may also be able to organise a
49
50 system of selective benefits to commit a larger group to come on board some
51
52 collective action, for which the 'leader' provides a substantial share of the resources.
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54 The potential to achieve this may again be heavily dependent on the institutional and
55
56 legal setting.
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6 But it will also depend on, and shape, the class of interests to be pursued, since
7 collective action potential is greater where there are a few major stake-holders, with
8 closely aligned interests, strong trust relations reproduced through the kind of routine
9 interaction operating through well established networks/localities, and where there is
10 more capacity to exclude outsiders from benefit. Where territorial competition has yet
11 been routinised, such biases in the bases of achievable coalition can be expected to
12 involve: tendencies both to conservatism (reproducing established sectoral
13 specialisms) and localism; and to especially favour new physical development
14 schemes offering an element of monopoly profits to a small group of direct
15 stakeholders (notably site-owners and entrepreneurial developers). Another kind of
16 predicted 'bias' is to inaction, or to more or less 'symbolic' action (Edelman 1970) in
17 cases where a weakly organised group, whose interests conflict with those of others,
18 and which cannot police the actual outcomes of a policy, can be at least temporarily
19 sated by a gesture suggestive of more substantial action (Cheshire and Gordon 1996).
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41 We should also acknowledge a kind of 'counter-agency' issue, in the sense of rival
42 kinds of organisation, of other interests at other spatial scales. These may include both
43 more local coalitions of environmental protectionists (NIMBYists) and less local
44 (national or supra-national) groupings pursuing more generic, sectoral or class-based
45 interests. The significant point about these is not simply that different concerns may
46 have naturally distinct spatial ranges but that, since any organisation which is actually
47 achieved represents a valuable political asset for its members and the interests it
48 represents, they are liable to resist any threats to its value from transfers of *relevant*
49 power and responsibility to other spatial scales.
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4 All territorially competitive activity has uneven effects: spatially, sectorally and also
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6 in terms of specific beneficiaries. The logic of collective (in)action exaggerates this
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8 tendency, since this is what motivates agents to expend resources in pursuing it, and
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10 since it can only effectively be organised for particular, biased sets of interests. Hence
11
12 such activity is very likely to be redistributive, within a territory as well as across
13
14 territories, even though it is legitimated as producing collective gains, and even
15
16 though the structural arguments point to the potential for achieving such gains. This
17
18 point has been forcefully made by Krugman (1996) who - in relation to action at both
19
20 a national and a city scale - argues that, while the existence of strong returns to scale
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22 provides an intellectually respectable basis for interventionist policies to promote
23
24 competitiveness, in practice the vast majority of cases actually made lack such
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26 respectability, instead representing disguised efforts to pursue specific vested
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28 interests, at the cost of all others.
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36 From a social perspective, a distinction may be made then between three categories of
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38 territorially competitive policy: the purely wasteful, involving expenditure of some
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40 kind without any significant gains; those producing a (more or less) zero-sum balance
41
42 of costs and gains, accruing to different groups; and those producing positive net
43
44 additions to welfare, typically through enhancing productive capacities in some way
45
46 (Cheshire and Gordon 1998). The distinction between these can be a slightly
47
48 arbitrary: for example, the purely wasteful category does normally involve gains to
49
50 some actors, even if only the policy-makers themselves, though substantially out-
51
52 weighed by the costs involved; whether policies are seen as zero-sum or not can
53
54 depend on how widely drawn are the boundaries within which consequences are
55
56 considered (e.g. nationally or globally); and many 'zero-sum' policies might more
57
58 properly be seen as negative sum, when the costs of running them are taken into
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4 account. However, it is a heuristically useful distinction, since the 'symbolic' policies
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6 pursued in the absence of strong support for effective collective action are particularly
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8 likely to represent pure waste, while biases in coalition formation favouring policies
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10 with exclusive benefits for (local) insiders typically mean losses for others, and near
11
12 zero-sum outcomes. In particular, the absence of a strong governmental body capable
13
14 of fulfilling a leadership role for such coalitions at something like the scale of a
15
16 functional urban region is liable to encourage policies diverting economic activity
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18 from adjoining regions, possibly through direct movement, but more likely through
19
20 'poaching' part of their market, or bidding against them for potential inward
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22 investment (Cheshire and Gordon 1998).
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30 More specifically, it has been argued that collective action problems lead to a bias in
31
32 favour of policies to attract such inward investment, beyond what is economically
33
34 appropriate. A starting point is that competition with other similar areas for such
35
36 inward investment is a zero-sum activity. Beyond this, however, it is argued that,
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38 when this competition proceeds through the offer of locational subsidies (or other
39
40 such generalised incentives), mobile capital is able to exploit the process by playing
41
42 off areas against each other – engendering incentive tournaments (Mytelka, 2002) - so
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44 that the 'successful' bidder ends up incurring costs just about equal to the benefits it
45
46 expects to receive⁸ (Wins 1995; Cheshire and Gordon 1998). In this case the process
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48 becomes not simply zero-sum – with places that worked harder and more effectively
49
50 expecting to win out at the cost of those which did not – but one with near zero net
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52 gains for all participants, except for owners of the mobile activities (cf. Rodriguez-
53
54 Pose and Arbix 2001). The balance of power here depends in part on the degree of
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56 fragmentation of territorially competitive units, and the degree to which their bidding
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58 is constrained by some higher level of government, but it also depends on how far
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4 each is offering an effectively identical set of assets/attractors, and competing for the
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6 same targets. Where there are no constraints and many areas compete on the same
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8 basis, a 'race to the bottom' is particularly likely.
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12
13 To attain some countervailing power and avoid this outcome, territories would need to
14
15 identify and cultivate distinctive kinds of asset, incentive and specialism (Malecki,
16
17 2004). With a weak capacity for development of broadly-based strategies of territorial
18
19 competition, however, areas are particularly liable to engage in extensive mimicry of
20
21 each others initiatives (cf. Harvey, 1989), grounded both in beliefs that they are
22
23 offering what inward investors in general most want, and in what are perceived to be
24
25 effective symbols of serious competitive activity (Cheshire and Gordon 1998). A
26
27 further, more contingent, argument is that it is not in fact disparities in rates of inward
28
29 investment (in either gross or net terms) that make the real difference between more
30
31 and less successful territories, but rather the growth performance of already
32
33 established businesses (whether originally indigenous, or earlier in-movers). How
34
35 literally this observation applies outside the western context from which it originated
36
37 may be questionable, though Rodriguez-Pose and Arbix (2001) show that local gains
38
39 from inward investment can be very limited even in an LDC context. A lot obviously
40
41 depends on how much genuinely indigenous business capacity there is to work with.
42
43 But the thrust of the argument is clearly a sound one, in contrasting the (quite general)
44
45 need to build distinctive local strengths which encourage the embedding of inward
46
47 movers as well as promoting the competitive strength of all local firms, with the
48
49 (specific) biases in policy expected where independent leadership is weak,
50
51 competitive activities are unconstrained, and the political bases for collective action
52
53 are highly selective coalitions of interests.
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[Figure 1 about here]

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

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45 The development of territorial competition in North America and in Western Europe
46 has proceeded in quite separate ways, shaped by different institutional factors, over
47 very different time scales. In the North American case – predominantly in the United
48 States – key factors have included the history of settlement, reflected in federal
49 constitutions, and the related development of more commercial organisations with
50 *localised* monopoly power, as well as the absence of an ideologically-grounded
51 national party politics. These have meant that there are very few constraints on the
52 pursuit of state or local economic development policies, and a strong representation of
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4 locally dependent economic interests in Cox and Mair's (1988) sense. In particular,
5
6 normal banks were (until the 1990s) legally constrained from operating across state
7
8 borders, while the main 'public' utilities were supplied by private, territorialised
9
10 organisations, who (with local media) provided core stakeholder members for local
11
12 economic development coalitions. Also, crucially, sub-national governments have
13
14 been almost totally dependent on a local tax base for their resources – while
15
16 politicians have also largely depended on locally mobilised resources for campaign
17
18 funding in elections to public office. The relative ease of incorporating new local
19
20 government units at the frontier of development around urban regions is also a
21
22 relevant factor.
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29 Together these represent some of the most favourable circumstances imaginable for
30
31 development of an active politics of territorial competition, with some ties into
32
33 generalised local economic interests. However, it is also clear that the local coalitions
34
35 which emerge as driving forces for competitive policies have tended to represent a
36
37 more particular combination of interests. As Stone (1989; 1993) has argued, urban
38
39 political leaders have some choice over the kind of regime they construct – in the
40
41 sense of the coalition of interests with which they align themselves – though some of
42
43 these offer an easier and more reliable base for political success than others. In
44
45 particular, versions of the Molotch (1976) 'growth machine', in which a small set of
46
47 actors with physical development interests lead the dominant coalition, has been a
48
49 very common model, with very long historic roots.
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57 In Western Europe, by contrast, with a history of urbanisation predating democratic
58
59 politics, mostly unitary national states, ideologically-based national politics, and
60
utilities which have more commonly been in public ownership, territorial competition

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4 has been more of the exception than the rule. Indeed in the 20th century, active
5
6 economic intervention and fiscal management were more or less monopolised by
7
8 central governments, greatly restricting the capacity of local government to act
9
10 autonomously. Moreover nation states generally assumed responsibility for a
11
12 substantial degree of territorial justice in access to public services, in the interests of
13
14 political cohesion, greatly weakening the link between their supply and the local tax
15
16 base.
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22
23 In this context, the major stimuli to development of territorial competition seem to
24
25 have been the combination of: weak central government responses to large scale
26
27 industrial job losses starting in the early 1980s; and accelerating internationalisation,
28
29 particularly via European economic integration. Of these European integration was
30
31 arguably much the more significant factor, since it affected more places with potential
32
33 competitive resources, and because it shifted the attitudes of central government
34
35 toward locally-based economic initiatives. From this perspective, the key
36
37 developments in European integration were those affecting competition in urbanised
38
39 services, particularly associated with the SEM's removal of non-tariff barriers to trade
40
41 in services. This promised an end to the effective monopoly in provision of high-order
42
43 services enjoyed by each of the leading national centres – making their promotion
44
45 much less of a zero-sum game as far as national governments were concerned – and
46
47 the possibility for second-order cities (as well as potential European capitals) to
48
49 develop trans-national hinterlands. One interpretation of this development was that it
50
51 was opening the way, in economic terms, to a United States of Europe. Beyond the
52
53 suggestion of possible convergence with the US in territorial competitive practices,
54
55 creation of the SEM also meant that there was a single space within which external
56
57 investors wanting to penetrate the European market could choose to locate.
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6 In this new context (reinforced by the steadier shift to a post-industrial economy),
7
8 interest in local economic development and competitive strategies has burgeoned right
9
10 across Europe, reinforced by ideas from Porter (1990) about the significance of
11
12 territorial industrial clusters for competitive advantage. However, it is far from clear
13
14 that the reality has yet matched the rhetoric, with a proliferation of marketing
15
16 initiatives that often appear to represent symbolic politics rather than commitments of
17
18 resources likely to engender substantial growth. And there are only limited signs of
19
20 American style growth machine politics (or even urban regimes) taking over in
21
22 Europe (Wood 1996; Harding 1999)
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29
30 In fact, a striking feature of the European interest in versions of territorial competition
31
32 has been the variety of models that have been pursued in different areas, and imitated
33
34 elsewhere. In places such as Paris, Lille, Lyon, London, Emilia Romagna, and
35
36 Barcelona these have variously emphasised strategic regional planning, international
37
38 transport links, industrial planning, SME support and collaboration, and flagship
39
40 projects – though there has also been widespread imitation of, for example, US
41
42 waterfront re-development schemes. A notable feature of these high profile
43
44 examples, however, has been the particularity of the political conditions on which
45
46 they seem to have been grounded, including party-political projects of broader
47
48 significance, ethnic solidarity, and the ambitions of a nation-state for its urban
49
50 standard-bearer (Gordon 1999). How far any of them can be reproduced in areas
51
52 without these special conditions is unclear, though in a range of European contexts
53
54 either the nation state or the European Union provides an element of potential
55
56 leadership via competitive support schemes for (mostly) capacity-enhancing policies.
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60 Conversely, EU competition policy rules out the more direct forms of price

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4 competition for mobile investment deployed in the US 'economic war among the
5
6 states' (Federal Reserve Bank of Minneapolis 1996).
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11 It is very hard to assess the extent to which territorially competitive strategies of one
12
13 kind or another have had a significant impact on growth performance, particularly
14
15 when the issue is not one of boosterist effort/successes but more of the judiciousness
16
17 of a wide range of relevant actions. However, there is one piece of credible evidence
18
19 in the European context suggesting that they could make a significant difference.
20
21 This comes from an analysis by Cheshire and Magrini (2002) of per capita GDP
22
23 growth performance across the Functional Urban Regions (FURs) of the EU, with
24
25 results showing – in accord with the theory sketched above – that (after control for
26
27 many other influences) there is a very significant tendency for stronger performance
28
29 in cases with governmental units close in scale to the FUR. Since the logic is that
30
31 better policies will be generated in such cases (where localist bias is weakened), the
32
33 implication of the evidence is that territorial policies can have a significant effect, for
34
35 better or for worse.
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43 **4. Territorial Competition in China**

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47 Territorial competition only really emerged in China after Mao's death, but then
48
49 developed rapidly, with a close link to the growing dynamism of the national
50
51 economy. In Mao's time, any such competition was more or less confined to the
52
53 fictional realm, with provincial growth data being 'cooked up' to fit unrealistic targets
54
55 during the era of strong central planning. Though in the 1960s and 1970s there was an
56
57 official policy of self-reliant local economic development, state investment (focused
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4 on military priorities) was dictated from the centre, and with hostility to FDI, there
5
6 was very little scope for pursuit of competitively-oriented policies.
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11 Since then, however, regions, provinces, and cities have all striven to accrue the
12
13 greatest amount of resources, bargaining for the most favourable policy concessions
14
15 and seeking to generate the highest growth rates (Qian and Xu 1993a; 1993b;
16
17 Montinola, Qian et al. 1995; Yang 1997; Gore 1999; Yeung 2000). One visible
18
19 symbol has been the inclusion of comparative tables of economic performance
20
21 relative to neighbouring jurisdictions in many provincial and municipal yearbooks.
22
23 This competition has focused very heavily on inward investment - via both
24
25 importation of state-of-the-art production lines and growth-enhancing infrastructure
26
27 projects - rather than promotion of competitive advantage for local firms. Thus, by
28
29 mid-2003 there were more than 5,000 development zones across China – two thirds of
30
31 them developed independently by sub-provincial authorities⁹ all bidding for FDI
32
33 principally through preferential tax rebates.¹⁰ Similarly there has been a proliferation
34
35 of new international airports, with 5 now in the Pearl River Delta alone (including the
36
37 two in Hong King and Macao) and a similar number in the Yangtze delta (the latest
38
39 virtually unused)¹¹.
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48 This competition has arisen in radically different circumstances than in either Europe
49
50 or North America, both politically and economically: with an absence of democracy
51
52 and with strong Party control remaining, despite substantial economic liberalisation;
53
54 and with new barriers to inter-provincial trade emerging, despite much greater
55
56 openness to foreign trade and capital flows. In order to understand how territorial
57
58 competition operates in this environment, we shall again look at issues of structural
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4 change and of agency, before focusing on some key features of the Chinese version of
5
6 territorial competition and their consequences.
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9 10 **4-1 Structural influences**

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12 As in Europe, shifting competitive pressures and closer integration into an
13
14 international economy were key structural influences on the growth of territorial
15
16 competition in China, though both worked quite differently in the Chinese context
17
18 (Wu, 2003b). Thus, whereas in Europe the shift towards a more flexible, post-Fordist,
19
20 post-industrial economy, with a greater emphasis on quality competition was an
21
22 important factor, the Chinese context was of industrialisation, price competition and
23
24 an emergent kind of Fordism. Indeed such (unmatchable) price-based competition
25
26 from newly industrialising countries had encouraged the switch toward 'quality' in the
27
28 west (Wu 2003a; Wu and Ma 2005). Also, whereas in Europe the most relevant
29
30 internationalisation was creation of the SEM, on a scale to match to the United States
31
32 domestic market, the closest equivalent in the Chinese case – its own national market
33
34 – was getting increasingly fragmented, with new trade barriers being created, as a
35
36 defence against predatory competition in circumstances of structural industrial
37
38 overproduction and/or resource shortage.¹² To a much greater extent than in the west
39
40 then, active competition between Chinese cities and regions (as opposed to this
41
42 defensive competition) would be in relation to their shares of external trade and
43
44 capital flows.
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54 On the other hand, there was at least one parallel in the direction of change, with both
55
56 the transition to post-Maoism in the Chinese economy and to post-Fordism in the
57
58 west, requiring a much closer engagement with dynamic market processes, for policy-
59
60 makers as well as businessmen. Both this and the greater mobility of capital placed

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4 increasing responsibility on regional authorities to ensure the availability and quality
5
6 of local-bound complementary assets to attract, retain and anchor the right kind of
7
8 mobile investment (Agnew 2000; Dunning 2000)
9

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12
13 The radical impact of the opening-up of the Chinese economy from 1978 is indicated
14
15 in Table 1, which shows the volume of trade increasing 30-fold over 24 years, with its
16
17 share of a rapidly growing GDP up by a factor of 6 – while from next to nothing
18
19 annual flows of FDI grew to around 5% of GDP (Table 1). By 2003, China had
20
21 become the biggest receiver of FDI in the world, and the 3rd or 4th largest trading
22
23 economy.
24
25

26
27
28 [Table 1 about here]
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30

31
32 At the same time, however, inter-provincial trade was at best stagnating in absolute
33
34 terms - and falling sharply as a proportion of sales or GDP (Kumar 1994; Poncet
35
36 2003; 2005). This reflected both the rapid growth of foreign trade, and a tendency for
37
38 domestic trade to become more heavily concentrated *within* provinces, as a result of
39
40 growing protectionism.
41
42

43
44
45 The other major structural shift relevant to the growth of territorial competition in
46
47 China was the broader *transition* process from socialist central planning toward a
48
49 more liberal, market-based economy, involving price and land-use reform as well as
50
51 the open-door policy. During the 1980s, there was a shift from a pure system of plan-
52
53 based prices, to a 'dual track' (where additional output could be sold at market prices)
54
55 and then complete market determination (Shirk 1992). And, at the end of the decade,
56
57 a constitutional amendment extended the market mechanism to *use rights* in land,
58
59 though not actual ownership (Yeh and Wu 1999; Yeh 2005).
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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.¹³ 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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4 policy (Montinola, Qian et al. 1995; Cao, Qian et al. 1999). Without formal loosening
5
6 of controls, a notable feature of China's transition in the post-Mao period was that
7
8 innovative economic policies could, and did, get initiated from the local level rather
9
10 than by the centre.
11

12
13
14
15 There are some parallels between this experience and the emergence of more active
16
17 economic roles for sub-national units in western societies, with both reflecting moves
18
19 away from more rigid national approaches in the face of pressures from
20
21 internationalisation (Wu 2003a; Wu and Ma 2005). Some effective devolution was
22
23 also evident in other development and transition countries, with Dillinger (1994)
24
25 reporting that 63 out of the 75 larger states claimed to be transferring some power to
26
27 sub-national units, while Rodriguez-Pose and Gill (2003) confirmed this for former
28
29 USSR, Yugoslavia and Eritrea among the transition countries.
30
31
32

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34
35
36 Within China there was a series of formal acts of administrative and fiscal
37
38 decentralisation. Central controls were reduced over many aspects of economic
39
40 activity, including investment, land use, banking and management of public-owned
41
42 companies. The range of investments requiring approval by the State Planning
43
44 Committee was significantly reduced, and sub-national governments were granted
45
46 much responsibility for managing trade and FDI activities, exemplified by an increase
47
48 in the size of joint venture applications that provinces could deal with from US\$ 3
49
50 million in 1983 to US\$ 10 million in 1985 and then to US\$ 30 million for certain
51
52 coastal provinces in 1988 (Zhang 1994; Huang 1996). Land use control was also
53
54 decentralised, allowing sub-national governments to transfer very large areas of land
55
56 to their new development zones, whose total area exceeded that of centrally planned
57
58 sites. With introduction of a market in land-use rights, an unintended consequence
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4 was for several authorities to effectively become property speculators (Cartier 2001).
5
6 In addition, more state-owned enterprises were handed over to sub-national
7
8 authorities, with just 20% of their output remaining under central government control
9
10 by 1985 (Montinola, Qian et al. 1995). At township and village level local officials
11
12 became *de facto* owners, acting just like entrepreneurs of local profit-seeking
13
14 companies (Oi 1995; Walder 1995; Oi 1998; Edin 2000).
15
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18
19
20 There was also substantial fiscal decentralisation, with central government's share of
21
22 public expenditure falling from around 53% to 30% between 1982 and 1998
23
24 (Rodriguez-Pose and Gill 2003). In part this was because sub-national governments
25
26 gained new taxes on industrial and commercial land use/appreciation (Yeh and Wu
27
28 1999; Lin 2001). But it also reflected a substantial growth in self-raised revenues,
29
30 some authorised by central government, but others not (Bahl 1999; Zhang 1999;
31
32 Wong and Bhattasali 2003; Herrmann-Pillath and Feng 2004). Growth in the size and
33
34 complexity of the latter category – the 'extrabudgetary revenue' and 'extra-
35
36 extrabudgetary revenue' - involved a *de facto* decentralisation of resources from
37
38 which a variety of local economic initiatives could be funded (Brean 1998).
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40
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44

45
46 In relation to the development of territorial competition in China, the salient structural
47
48 fact was neither simply that State Council in Beijing and the Party clung on to their
49
50 political authority, nor that internationalisation required a devolution of economic
51
52 functions to a level where they could be exercised more flexibly. Rather it was that, in
53
54 the absence of a formal constitutional position for sub-national authorities in the
55
56 People's Republic, operational relations between them and the centre evolved
57
58 dynamically. Thus, at one point in time the centre might decentralise administrative
59
60 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
5
6 rectify local discretions. The leeway left by this non-constitutional system of relations
7
8 meant that sub-national authorities adopted varying strategies to cope with the centre,
9
10 while it, in turn, pursued different regulatory approaches and policies for particular
11
12 provinces (Cheung 1994a; 1994b; Cheung 1998).
13
14

17 18 **4-2 Agents and motivations**

19
20 Given these evolving structural conditions, involving both a functional case for sub-
21
22 national development activities and weaker constraints on these, the question remains,
23
24 as in the west: who, if anyone, has adequate motives and capacity to take on a role
25
26 requiring both innovation and commitment. In one respect, the role might seem
27
28 somewhat easier in post-Mao China, since all authorities have been committed to
29
30 economic growth, and any potential anti-development groups are in their infancy,
31
32 suggesting a natural local government–enterprise coalition (Zhu 1999). On the other
33
34 hand, there is an uncertainty to be overcome about the limits to autonomy, in a
35
36 context where central government does not have a united or consistent view about the
37
38 speed of economic reform or the acceptable degree of devolution.
39
40
41
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43
44
45 The continuing dominance of the Chinese Communist Party is key to the agency issue
46
47 in this context. The Party is still very much dominant over administration (the
48
49 governments), parliament (the people's congress), and jurisdiction (courts): as a
50
51 Chinese saying goes 'party overrides law (*dan da yu fa*)' (Potter 1999; Guo 2000).
52
53 This has both general implications for the politics of sub-national economic
54
55 governance, and particular ones for who the key actors are with the motive and
56
57 capacity to push territorially competitive policies forward.
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4 To take the general aspect first, there are four basic points which need to be
5
6 understood. The first is that a large part of the regulatory framework still consists of
7
8 an array of party ‘documentations’ (*wen jian*) of various kinds – so-called reasons,
9
10 directions, principles, solutions, plans, decisions, announcements, projects, details,
11
12 opinions etc. – as well as government regulations, and actual ‘laws’. This
13
14 ‘documentary politics’ plays an important role in building consensus, formalizing
15
16 personal preferences, and gaining ideological legitimacy (Wu 1995). The second is
17
18 that without agreement and consensus from local party secretaries, sub-national
19
20 officials (namely, governors or majors and so on) may not have final say over policies
21
22 or their implementation. A local elite of cadres under party control occupy multiple
23
24 roles as rule makers, enforcers, referees and players (Sachs, Woo et al. 2000),
25
26 producing a distinctive kind of ‘local state corporatism’ at village/township level in
27
28 particular and subnational levels in general, with officials often also *de facto* owners
29
30 of key local enterprises, directly controlling investment, staffing and even sharing in
31
32 profits - corresponding public-owned enterprises (Oi 1995; 1998). Ambiguities of this
33
34 sort produce a kind of local ‘public-private coalition, Chinese style’. However,
35
36 thirdly, the effects of such ambiguity over property rights bear less heavily on firms
37
38 (who report more confidence in the regulatory system than in other NICs)¹⁴ than on
39
40 domestic landowners/farmers, whose land may easily be taken over for ‘public use’
41
42 with minimal compensation (Zhang 2006). Finally, despite economic liberalisation,
43
44 relations between state/official and society/businesspersons/ professional consultants
45
46 remain asymmetric in political terms (Zhu 1999; Zhang 2002). The state has
47
48 legitimated external interests in an attempt to unleash the economic dynamism of
49
50 societal groups, but in a way that directs that power toward its own goals. As He and
51
52 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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4 growth measures. In agency terms, the main driving force for territorial competition in
5
6 the contemporary Chinese case thus seems to be the personal ambition of local
7
8 officials, pursuing broad growth goals set by central government – rather than the
9
10 particularist demands of local private interests as in the west. Their strategies may,
11
12 however, depart significantly from current government orthodoxies – and have
13
14 consequences that can also be negative for other areas.
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20 4-3 The functioning and consequences of territorial competition

21
22 Territorial competition emerged in post-Mao China, in the context of a strong push for
23
24 national economic development, pursued via an asymmetric process of
25
26 decentralisation (Chien, forthcoming) - allowing substantial economic autonomy to
27
28 sub-national units, while maintaining a centralised system of political control – and
29
30 with acceptance that some regions would grow faster than others. This opened the
31
32 way for personally ambitious officials in provinces and cities to adopt innovative
33
34 strategies both for promoting local growth and for mobilising the resources required
35
36 for this purpose (Figure 2).. With narrowly defined economic goals, little constraint
37
38 on external effects, and often ambiguous positions in relation to the public/private
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40 divide, sub-national administrations could take on many of the characteristics of
41
42 North American growth machines, albeit in a quite different context.
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48 [Figure 2 about here]

49
50 Perhaps the most salient of these differences – more than the fact that the process was
51
52 driven neither by elected politicians nor private business-people – was the lack of
53
54 effective integration of the Chinese national economy. Sub-national protectionism
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56 appears to have risen steadily during the reform era¹⁵, as a direct consequence of the
57
58 increased fiscal and economic responsibilities accorded to provincial authorities. The
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60 driving factor appears to be a desire to mitigate the impacts on social stability and

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

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

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22 A particular consequence has been to restrict the ability of Chinese private firms to
23 exploit the scale of the national market in order to build competitiveness, as North
24 American and (increasingly) European firms are able to do in their home markets.
25
26 Indeed, rather perversely, foreign companies can be in a better position than home
27 firms to operate across provincial boundaries. This may be accomplished indirectly,
28
29 as in the case described by Huang (Huang 2003) where a small company from Hong
30 Kong managed to acquire 200 firms across nine provinces, whereas the largest
31 automotive firm in China could only operate in its home province. Or, for
32 intermediate products, firms which are not based in an export processing zone have to
33 sell in others via the so-called ‘Hong Kong day trip’. As far as sub-national economic
34 development policies are concerned, such trade barriers both reduce the incentive to
35 work on building competitiveness among local businesses, and focus attention on
36 foreign firms as the single source of inward investment, while leaving these firms
37 with great negotiating power, since *they* do have the choice of locating elsewhere.
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56 Another distinctive feature of the Chinese situation has been uneven imposition of
57 central controls on sub-national authorities’ economic activities. One example is in
58 relation to the nominal limits set by central government during the 1980s and 1990s
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4 on attraction of FDI. In the cases of Guangdong and Shanghai, however, Li (1997)
5
6 has shown for years between the mid-1980s and early 1990s that the actual
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8 investment rates were consistently well above the national average, by a margin of
9
10 about 50% in the Shanghai case and over 100% for Guangdong. Such discrepancies
11
12 partly reflect the fact that local officials are actually in the front line as implementers
13
14 of the central policy which gives them a certain power, at the margin at least. But the
15
16 fact that systematic overshoots continued, especially in Guangdong, in a state
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18 retaining strong formal centralisation, points to a degree of selective indulgence of
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20 provinces successfully pushing the development programme forward.
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27 Of more fundamental importance, since competition for inward investment depends
28
29 on the capacity to fund appropriate infrastructure investment, is the creativity which
30
31 sub-national authorities have applied to mobilising additional sources of finance
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33 beyond those formally conferred by the centre. In Shanghai, Zhang (2003) reports the
34
35 use of a series of novel channels, including as well as budgetary revenues, land
36
37 leasing, funds from the stock market, state-directed credit allocation, and foreign
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39 direct investments. In another case, Gujiao in Shanxi province, Herrmann-Pillath and
40
41 Feng (2004) find infrastructure being financed partly through bargaining with upper-
42
43 tier authorities for a greater share of revenue, but also more innovatively, with
44
45 'reverse Build-Operate-Transfer contracts', privatisation of public services,
46
47 government enterprise, sale of land use rights and public-private partnership.
48
49 Various innovative decision-making bodies have also been established in some places
50
51 in order to legitimate expenditure on public projects, such as creation of a financial
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53 committee of the local People's Congress, or a Board of Directors for Public Projects,
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55 comprising an selected group of the local elite (Fan 1998).
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4 Despite a common system of career incentives, the actual roles assumed by Chinese
5 sub-national officials in relation to economic development have varied greatly. A
6 useful taxonomy proposed by Baum and Shevchenko (1999) identifies four such
7 roles, on the basis of two criteria: whether or not officials were motivated to promote
8 local economic growth; and whether or not they had a direct stake in the economic
9 performance of local enterprises. Among the cases involving a positive commitment
10 to local development they make a distinction between 'entrepreneurial' authorities,
11 effectively operating as businesses, and 'developmental' authorities operating in a
12 more detached way. But they also identify two sets of cases where officials engage in
13 economically significant actions, without any serious economic development motive.
14 The first of these is 'clientelist', where officials use their power, and freedom of
15 independent checks, to pursue personal business interests in ways that do not
16 contribute to local economic development. And finally, there are 'predatory'
17 authorities, who use this power to exact illegal revenues from an overburdened
18 peasantry or investors, as a means of reducing the fiscal gap, substituting for
19 development to raise the local tax base. In these cases, career incentives appear
20 inadequate to stimulate the kind of territorially competitive activity to which both
21 structural change and central policy are pushing – in part maybe because local
22 prospects are less good in the areas concerned.
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50 Unregulated territorial competition can have particularly negative consequences in a
51 society where there is neither a pluralistic local politics nor effectively integrated
52 markets. On a local scale, where policy is driven by a simple growth objective
53 (whether in terms of GDP or contributions to central funds) there are obvious dangers
54 that a large part of the population may suffer as a result of environmental degradation
55 and/or the funding requirements for developmental investment. Taking a wider view,
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4 neglect of spatial externalities in growth promotion and project development has
5
6 several unintended negative consequences. One is duplicate investment which has
7
8 exacerbated the scale of overproduction in a number of manufacturing activities,
9
10 (Cannon and Zhang 1996), with levels of redundancy of 40%-75% being reported for
11
12 textile and electronics products in the 1996 industrial census. Oversupply sometimes
13
14 leads to price war, as in the auto industry (Lu 2004) and more generally has been a
15
16 contributory factor in the imposition of more internal trade barriers. Another effect,
17
18 attributable to the combination of unregulated territorial competition and market
19
20 fragmentation, is the 'miniaturisation of investment projects', which has carried over
21
22 from the pre-reform self-sufficiency policy, and means that many investment project
23
24 are of sub-optimal size, particularly in relation to the scale of the Chinese economy
25
26 (Gore 1999; Tang 2002). For example, with a total output of motor vehicles
27
28 comparable with that of a single leading Japanese manufacturers, China actually had
29
30 over 120 producers in 1995, with its top three firms only taking a third of the market
31
32 (Huang 2001). Similar arguments apply to the proliferation of international airports
33
34 within particular regions (referred to in section 1).
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43 This phenomenon reflects a strong tendency by almost all regions to try to compete on
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45 the same terms and with the same kind of projects, contrary to the principle of
46
47 distinctiveness (discussed in section 2). This tendency to 'isomorphism' (or copy-
48
49 catting) is evident in industrial terms, both in relation to plans – with 19 of 30
50
51 provinces identifying the auto industry as a priority for 1996-2000 national plan (Lu
52
53 and Xue 1997)¹⁶ – and outcomes - with a high and increasing level of similarity in
54
55 industrial structures, even as between the broad groups of coastal, central and western
56
57 provinces (Gore 1999). A similar phenomenon is evident in relation to the types of
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59 competitive strategy pursued by sub-national authorities, as in the case of the
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4 'development zone fever' (*kai fa qu re*) which spread across China, in imitation of the
5
6 original Guangdong and Fujian province SEZs (Yeh and Wu 1999; Cartier 2001;
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8 Demurger, Sachs et al. 2001; Chien 2005). With a focus on price competition via a
9
10 standardised mix of financial incentives, inward investors should be able to extract a
11
12 very large part of the potential gains from such projects, without any longer term
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14 commitment to integration in the local economy.
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22 **5. Conclusion: Territorial Competition, Chinese Style**

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27 Over the past 25 years a very strong form of territorial competition has emerged in
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29 China, where it has played an important role in the nation's rapid development,
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31 particularly in relation to the attraction and accommodation of foreign direct
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33 investment. Though this might seem to represent an element of convergence with
34
35 western development patterns, consistent with the process of market liberalisation
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37 underway in the country, the form taken by territorial competition in China has been
38
39 very different from any observed in the west. Two key characteristics have been: the
40
41 extent to which bottom-up, and somewhat autonomous, economic development
42
43 initiatives have been driven at a macro-level by central government economic strategy
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45 (cf. Wu, 2003b); and at micro-level by the personal ambitions of public officials,
46
47 whose promotion prospects depend on local growth performance. Both reflect the
48
49 asymmetric character of rescaling in the Chinese governmental structure, with some
50
51 real devolution of economic and fiscal responsibilities being accompanied by a firm
52
53 insistence on the centralisation of political control in Beijing and in the Communist
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55 Party apparatus. The pattern of outcomes – including a systematic neglect of the
56
57 negative side effects of growth and the limitations of a copy-cattling 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
21
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
25
26 both contexts, the form, structure, biases and effects of territorial competition –
27
28 conceived of broadly as a bottom-up activity advancing a set of locally-specific
29
30 economic interests – can be seen to emerge, in an intelligible way, from the
31
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
48
49 echoes in different ways both European and North American forms of territorial
50
51 competition: the European in the way that ‘bottom-up’ activity turns out to be
52
53 dependent on the central state’s leadership and direction; and the American in the
54
55 proliferation of unintended and undesirable external effects. To put it simply, we
56
57 might characterise different contexts for territorial competition in terms of two
58
59 dimensions of the central state’s role: whether or not it *promotes* territorial
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4 competition; and whether or not it *regulates* the activity (Figure 3). In these terms, the
5
6 North American situation seems to represent the absence of either a promotional or
7
8 regulatory role for the state. Up to the 1970s, both Western Europe and China might
9
10 be seen as having central states which regulated but did not promote bottom-up
11
12 development activities. Since then Europe seems to have moved to a position where
13
14 states continue to regulate territorial competition, but now also promote it – whereas
15
16 ‘territorial competition, Chinese style’ is conditioned by a central state which
17
18 promotes, but scarcely regulates, bottom-up activity. This lack of regulation is even
19
20 more radical than in the American case, since it involves the absence of effective
21
22 control over regional protectionism, as well as over financial bidding wars.
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30 [Figure 3 about here]

31
32 The fact that ‘territorial competition, Chinese style’ is largely driven (in agency
33
34 terms) by self-interested local officials chasing targets set, directly or indirectly, from
35
36 Beijing does, however, offer the possibility of re-engineering the system so as to
37
38 mitigate some of the more negative external effects. Thus, in principle at least, crude
39
40 economic targets in terms of local GDP growth, FDI attraction and revenue
41
42 generation could be replaced or complemented by indicators of social/environmental
43
44 performance, or contributions to the development of wider regions. A suggestive
45
46 example is that of Zhangjiang high-tech industrial park of Shanghai where policies
47
48 have been switched since the 1990s from aggressive competitive bidding for FDI to a
49
50 more selective attraction of business and university R&D facilities by a change in the
51
52 indicators used to evaluate the leader’s performance. A broader redesign of the
53
54 indicator system to ‘regulate’ the unsustainable aspects of Chinese territorial
55
56 competition would depend both on central governmental commitment to wider goals,
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58 and the availability of robust measures of the relevant outcomes. All targeting systems
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4 are likely to generate unintended biases in policy, but it should be possible to channel
5
6 the energies of careerist local leaders in directions which make 'territorial
7
8 competition, Chinese style' more clearly positive-sum in its effects.
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12 A final observation which we should make is about the relationship between territorial
13
14 competition and uneven development. A defining characteristic of such competition,
15
16 unlike the top-down regional policies which held sway in Europe during the earlier
17
18 post-war decades, is its indifference to concerns of spatial equity. Beyond that, there is
19
20 a reasonable expectation that it will actually exacerbate spatial inequalities, since
21
22 successful places should have more resources to apply to the activity, and may also
23
24 reasonably see their stakes (in terms of possible gains/losses) as larger, thus justifying
25
26 a stronger commitment of those resources to it (Cheshire and Gordon, 1996). This
27
28 seems to apply to the Chinese case. But there is one aspect of the *nomenclature*
29
30 system which has a countervailing effect. As we have seen, this now provides the
31
32 major incentive element for development of active competition, with senior officials
33
34 in sub-national authorities seeking advancement within a national framework of job
35
36 allocations. Examination of the pattern of transfers on promotion suggests, however,
37
38 that there is a characteristic tendency for such promotions to take officials from more
39
40 to less economically advanced provinces or regions, hence prospectively diffusing
41
42 experience and innovation down the hierarchy of local economic success (Chien
43
44 2005). In this single respect 'territorial competition, Chinese style' seems a bit less
45
46 likely to promote uneven development than the American model (though it is playing
47
48 with generally larger stakes) – if still more than in the European context where such
49
50 competition is actually more muted, as well as more strongly regulated.
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Notes

¹ 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'.

² 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.

³ Lipietz (1987) characterises the (French) regulation school as 'rebel sons' both of Louis Althusser and of the technocrat planner Pierre Massé.

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

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5 making of Shanghai as an entrepreneurial city.
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9 ⁵ Even seen from this perspective, neither the process nor its functionality are
10 necessarily very neat. Brenner (2006) for example says that:
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13
14 ‘all of the micro-level decisions and strategies that ensued post-1970s somehow
15
16 seem to have congealed ... into a new regulatory (dis)order ...that no one
17
18 intended ...but somehow embodies certain “rule regimes” that may be defended
19
20
21
22
23
24 ...by those who believe they represent the future of capitalism ’.
25
26

27 However, in practice, as Jones and Ward (2002) observe:
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29

30
31 ‘because regulationists appear to be preoccupied with mobilizing economic
32
33 readings of crisis, ongoing developments within the extra-economic co-
34
35 ordinating or mediating mechanisms of capitalism are frequently ‘read off’ from
36
37 changes in the economy. Despite continual emphasis placed on contingency this
38
39 can lead to an inherent danger of presenting institutional processes as
40
41 functional to the needs of accumulation” (p.9).
42
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49 Though not strictly regulationist, Harvey’s (1989) analysis of urban
50
51 entrepreneurial processes also moves between contingent and functionalist
52
53 perspectives (cf. fn. 5), but with most readers/citers clearly presuming the latter.
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58 ⁶ In his careful analysis of many of these issues, Harvey (1989) noted that ‘*to the*
59
60 *degree that urban competition becomes more potent, it will almost certainly operate*

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5 as an “external coercive power” over individual cities to bring them into line with the
6
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8 discipline and logic of capitalist development’ (p. 10, emphasis added). While he goes
9
10
11 on to suggest that a process of ‘leap-frogging’ competitive innovations is the
12
13
14 inevitable outcome (p.12), we would emphasise that neither the potency nor the
15
16
17 direction of urban competition can be taken for granted without consideration of
18
19
20 agency issues. Similarly, when he notes that a real revival of inter-urban (i.e.
21
22
23 territorial) competition ‘required a radical reconstruction of central to local state
24
25
26 relations and the cutting free of local state activities’ , we would suggest that –
27
28
29 whatever the ‘evidence of turmoil in this quarter’ (p.15) – this reconstruction also
30
31
32 cannot be taken for granted.
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34

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36 ⁷ Harvey (1989) suggests that the trigger for a revival of boosterism in the US was a
37
38
39 major cut-back in federal funding for urban governments by the Nixon administration
40
41
42 from 1972 on.
43

44
45 ⁸ Only falling short to the extent that its expected benefits from this move (and/or
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47
48 those of the firm) exceed those in the second highest bidder.
49

50
51 ⁹ News source: *ling dao jue ce xin xi* (based in Beijing), 2004/April (no.15).
52

53
54
55 ¹⁰ For example, while central policy provided for a 3-year tax-free period, followed by
56
57
58 2 years at half rates, local governments might offer these terms for two 5-year periods,
59
60
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

¹¹ 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.

¹² 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).

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

¹⁴ According to the World Bank's 2005 Investment Climate Survey.

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

¹⁶ 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)

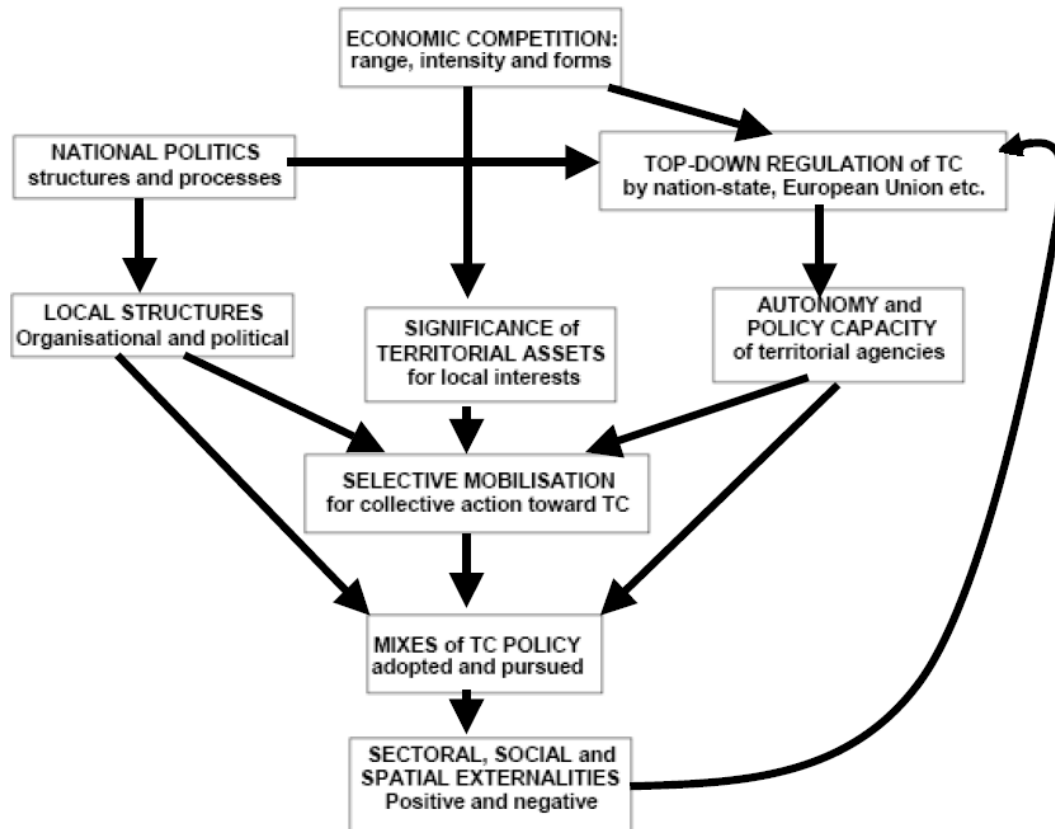


Figure 2: Asymmetric Decentralization in China

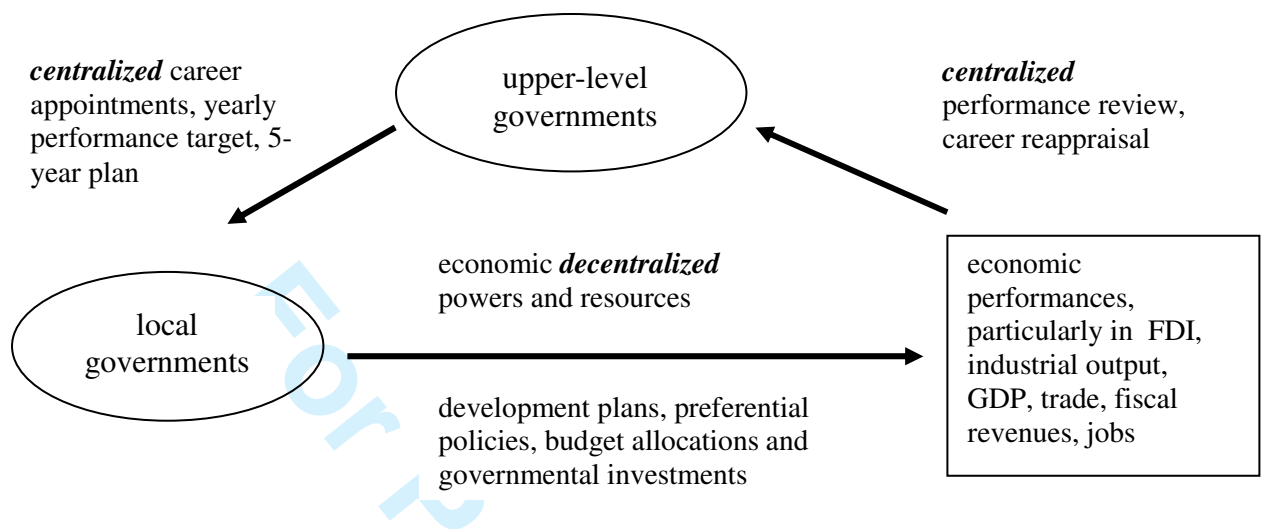


Figure3
The Shifting role of the National state in Territorial competition: China, Western Europe and the USA

		Promoter	
		yes	no
Regulator	yes	Europe after 70's	Europe up to 70's
	no	China in post-Mao period	China in Mao's time USA until now