

Interregional Competition and Local Economic Initiatives in China: Shandong in the Reform Years*

Yunqiu Zhang

In the process of China's economic reforms, the local state has come to the forefront and played a more and more active role in pushing economic development. What is behind such local state's activism? This paper attempts to answer this question by focusing on the mechanism of interregional competition. It argues that with the emergence of uneven economic development between regions, local leaders have become increasingly aware of the competitive environment and have felt enormous pressures and challenges from other regions for fast economic growth. Backward regions are anxious to close the gap between them and advanced regions, whereas more richly endowed regions are worrying about being overtaken by newcomers. Such a keen sense of competition (or competition mentality) has compelled local leaders to take the initiative in search of new strategies (e.g., developing high-tech industries and new forms of industrial organization such as enterprise groups) in order to increase their regions' comparative advantages in the economic arena. Accordingly, local leaders' efforts to cope with interregional competition have facilitated the transition to a market economy.

Keywords: uneven development; interregional competition; local state; high-tech industries; enterprise groups; market economy

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China's economic reform in the post-Mao era has been a state-led crusade which has thus far proven to be successful. The first impetus for reform

Yunqiu Zhang is a post-doctoral researcher affiliated with the University of Toronto-York University Joint Center for Asian-Pacific Studies and also teaches Chinese history at the University of Toronto. He has published several articles on Chinese trade unions and state entrepreneurship.

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came from the central government, which continues to serve as a dynamic force behind reforms. Over time, however, local governments have come to the forefront and played a more active role in pushing economic development. Although some academic attention has been paid to this topic,¹ one key question still remains to be further explored: What accounts for increasing local enthusiasm in economic development? This paper attempts to shed some light on this issue by focusing on the mechanism of interregional competition.

Interregional competition refers to the rivalry between provinces or cities in economic development, with one region striving to outperform another. Such competition stems from geographically uneven development, which is partly a consequence of decentralization policies that allow some regions to receive more preferential treatment from the center than others. Despite such a derivative character, interregional competition can be viewed as a relatively independent and self-sustaining variable or factor that can be used as an analytical instrument, particularly for explaining the behavior of local leaders.

In terms of the ways that local leaders have exploited in improving economic performance, two types of interregional competition can be identified: negative and positive. The former entails local leaders attempting to undermine other regions' competitiveness by techniques such as local protectionism, e.g., restricting imports from other regions; limiting the export of important local raw materials and products (especially those in short supply) to other regions; and tolerating and even protecting local enterprises that produce fake or inferior products.² In contrast, positive competition is defined in this paper as local leaders endeavoring to increase or create their regions' competitive advantages by self-strengthening techniques, e.g., pressing the center for preferential treatment; setting up or expanding high-tech economic zones; attracting foreign investment; introducing newer technologies and newer products; restructuring economic organizations; and exploring new markets and the like. It is this positive competition that constitutes the primary concern of this study.

¹See Jean C. Oi, "The Role of the Local State in China's Transitional Economy," *The China Quarterly*, no. 144 (December 1995): 1132-49; Marc Blecher, "Developmental State, Entrepreneurial State: The Political Economy of Socialist Reform in Xinji Municipality and Guanghan County," in *The Chinese State in the Era of Economic Reform: The Road to Crisis*, ed. Gordon White (London: Macmillan, 1991), 265-91; and David S. G. Goodman and Gerald Segal, eds., *China Deconstructs: Politics, Trade, and Regionalism* (London: Routledge, 1994).

²Li Peilin, Jiang Xiaoxing, and Zhang Qizi, *Zhuanxing zhong de Zhongguo qiye* (Chinese enterprises in transition) (Jinan: Shandong renmin chubanshe, 1992), 323-24; Shen Liren, "Origins and Abuses of the 'Duke Economies' in China," *Jingji yanjiu* (Economic Research), 1990, no. 3:12.

The author's thesis is that in the process of economic reforms, local leaders have become increasingly aware of the competitive economic environment and have felt enormous pressures and challenges from other regions for fast economic growth. Backward regions are anxious to close the gap between them and advanced regions, whereas more richly endowed regions are worrying about being overtaken by newcomers. Such a keen sense of competition (or competition mentality) has compelled local leaders to take the initiative in search of new strategies in order to increase their regions' comparative advantages in the economic arena. In other words, interregional competition has been a driving force behind local leaders' efforts to vigorously promote economic development within their respective administrative jurisdictions.

This paper focuses on Shandong province, particularly its major city of Qingdao. This is partly because Shandong has rapidly emerged as a major economic power in China and joined the rank of economically advanced regions or provinces in the 1990s,³ while Qingdao has served as the province's "dragon head" in its economic takeoff. A province like Shandong is relatively more sensitive to its economic stature than others, and therefore is a good case for understanding the relationship between interregional competition and local initiatives.

Interregional Competition and Local Leaders' Competition Mentality

Interregional competition, as defined in this paper, is a relatively new phenomenon in the post-Mao era, resulting in part from the central government's gradual economic reform strategy,⁴ which has allowed some regions to "get rich first" by granting them preferential policies and more power for self-determination; this is essentially a process of decentralization. Under such a

³Shandong, Guangdong, eastern Fujian, Pudong (Shanghai), and Liaodong Peninsula are considered to be five economic "tigers" in 1990s' China, competing with each other to be the front-runner. See Cong Lin, "The Second Report on Coastal Open Cities," *Qingdao ribao* (Qingdao Daily), July 28, 1994. Some (especially local leaders) in China believe that if Guangdong was at the vanguard of economic development in the 1980s and Shanghai takes the lead in the 1990s, Shandong will be at the forefront in the 2010s. Interviews in Shandong in 1994.

⁴The reform strategy is gradual in three senses. Geographically, the emphasis of reform has proceeded from south to north, and east to west; sectorally, it has moved from agricultural (or rural areas) to industrial areas (cities); and new reform programs have usually been first tried on a small scale to ensure their feasibility before being expanded.

strategy, the geographic center of gravity for economic reforms and development has gradually shifted from the south to the north and the coast to the interior. Thus, Guangdong and Fujian became the first provinces which were allowed to experiment with open policies, particularly in setting up special economic zones (SEZs), in the early 1980s. In 1984, fourteen coastal cities were designated as open cities, followed by the opening of the Yangtze delta and the Jiaodong and Liaodong peninsulas as economic development zones between 1985 and 1988. In 1990, the central government approved the plan to develop Shanghai's Pudong district, granting it preferential policies similar to those enjoyed by the SEZs.⁵ More recently, the central government has begun to stress the necessity of developing inland areas, including the west.

A direct consequence of this gradual reform strategy is geographically uneven economic development and intense competition not only between the coastal regions and the interior, but also among the coastal regions. For example, Guangdong, as the first beneficiary of the center's preferential treatment, led the nation in economic growth in the 1980s,⁶ while the 1990s have witnessed the rise of Shanghai (marked by the development of Pudong) as an economic giant. To other provinces, Guangdong and Shanghai served both as models for emulation and targets of jealousy (or competitors). In any case, they provided a stimulus to other provinces to accelerate their economic development. To illustrate this point, the example of Shandong province and particularly the city of Qingdao will be used.

Local leaders in Shandong acknowledge that they have experienced two major "shock waves" in nearly two decades of economic reforms, the first coming from Guangdong in the mid-1980s and the second from Shanghai in

⁵Tan Dingchao, Zhu Fengqi, and Wang Yiming, eds., *Zhongguo yanhai kaifang diqu jiushi niandai jingji fazhan zhanlue yanjiu* (A study of economic development strategies for China's coastal regions in the 1990s) (Beijing: Zhongguo jihua chubanshe, 1993), 2-8, 49-50. Susan Shirk analyzes this strategy, which she refers to as "geographical particularism" or "playing into the provinces," from the perspective of politics. She argues that the creation of SEZs was dictated by political expediency: certain central (reformist) leaders aimed to enlist support from provincial officials by granting their regions preferential treatment. In this author's opinion, such an argument falls short of explaining why the center only granted preferential policies to some of the coastal provinces, while running the risk of alienating most other provinces by denying them such policies. A more relevant answer may be that the central government, uncertain about the open policy in the beginning, intended to test this policy in some geographically advantageous provinces, such as Guangdong, before expanding it to other regions. Nevertheless, Shirk's study is inspiring in that it suggests that geographical particularism gave rise to envy and interregional competition, which I borrow as the starting point of this paper. See Susan L. Shirk, *How China Opened Its Door: The Political Success of the PRC's Foreign Trade and Investment Reforms* (Washington, D.C.: The Brookings Institution, 1994).

⁶Ezra F. Vogel, *One Step Ahead in China: Guangdong Under Reform* (Cambridge, Mass.: Harvard University Press, 1989), chaps. 4-9.

the early 1990s.⁷ During the former period, Shandong's economy developed slowly compared to Guangdong. Its leaders, like those of other regions, looked to Guangdong for inspiration and jumped upon the bandwagon of visiting and "learning from Guangdong." They were subsequently surprised to discover the "big gap" between Shandong and Guangdong in the pace of economic reforms and development, and were particularly impressed by the "boldness" and "creativity" of Guangdong leaders in implementing the central government's policies and their strong "sense of commodity production" as well as their "open mentality" (*kaifang guannian*). They found that Guangdong officials persistently upheld the principle of "doing things according to local conditions" rather than blindly following directives from above. In addition to trying to make full use of centrally-sanctioned preferential policies, they had the courage to explore new programs for which the center had not laid down either permission or stipulations, and often took the initiative to design or draft new policies before presenting them to the central authorities for recognition or approval—the so-called "requesting a policy from above." Comparing themselves to their Guangdong counterparts, Shandong's leaders admitted that they had been too timid and passive in carrying out central policies, lacking the "pioneering spirit and the courage to run risks." On the other hand, they were "determined to follow Guangdong's example" and to "be bold" in pushing forward the reform, particularly in opening the province and developing export-oriented economies.⁸

Entering the 1990s, Shandong had become a relatively advanced province in terms of economic development. Its leaders, however, soon felt a second "shock wave," this time from Shanghai and, to a lesser extent, also from the Liaodong Peninsula, particularly the city of Dalian. The development of Pudong had suddenly pushed Shanghai to the forefront of economic reforms and development. Not content to be just the "dragon head" of the Yangtze valley, Shanghai was striving to "restore" its status as an "economic, commercial, and financial hub of the world." In the meantime, Liaoning was also emerging as an "economically big province" (*jingji dasheng*) on a par with Shandong. Its leaders had announced the plan of building Dalian into an "international city" (*guojihua chengshi*) and a "northern Hong Kong."⁹ It is not surprising that Shandong officials thus found themselves faced with

⁷Interviews in Shandong in 1994.

⁸*Qingdao ribao*, April 25 and 29, 1988. Also see *Dazhong ribao* (Popular Daily), November 19, 1990 and March 30, 1991.

⁹Cong Lin, "The First Report on Coastal Open Cities," *Qingdao ribao*, July 27, 1994.

"enormous pressures" and "challenges from both south and north" (*nanbei jiaji*).¹⁰ They rushed to Shanghai and Liaoning in order to study the two regions' experiences, and were struck by the "unusual ambition," "daring," "grand vision," and "enterprising spirit" that leaders of Shanghai and Liaoning had for development. They also found that these leadership qualities accounted for the two regions' remarkable economic performance. In contrast, Shandong leaders judged themselves to be rather conservative and particularly lacking in "grand vision," and feared that Shandong would be further surpassed. Many local leaders indicated that what upset them the most were not so much the difficulties that they would encounter in reform as much as the disparities they found between their own province and other more developed provinces or regions.¹¹

Partly as a response to the challenges from other provinces (Shanghai and Liaoning in particular), Shandong provincial authorities designated the city of Qingdao as the province's "dragon head" in 1992, expecting it to play a leading role in the province's economic development.¹² They repeatedly warned Qingdao that it not only faced competition from other provinces but also from cities within Shandong such as Yantai, Jinan, Weifang, and Zibo, who all designated their immediate development target as "catching up with Qingdao."¹³ Under such circumstances, in 1992 Qingdao's leadership devised the slogan of "learning from Shanghai and catching up with Dalian" (*xue Shanghai, gan Dalian*), initiating a citywide discussion on what and how Qingdao should learn from Shanghai and Dalian.¹⁴ In the meantime, it put forward its own goal for economic development—gaining and maintaining Qingdao's lead not only in Shandong province but also in the Yellow River valley, and striving to be in the front ranks nationwide.¹⁵

In short, with the emergence of uneven economic development and interregional competition under the central government's gradual reform strate-

¹⁰Interviews in Shandong in 1994.

¹¹Interviews in Shandong in 1994.

¹²*Shandong nianjian* (Shandong yearbook) (1993), 80.

¹³*Qingdao ribao*, March 20, April 18 and 19, and August 1, 1993; March 17, 1994.

¹⁴In turn, Dalian's leadership took this campaign seriously, calling on its people to "learn from Qingdao's enterprising spirit," and reminding them of the possibility that Dalian would be overtaken by Qingdao. Indeed, Dalian has also viewed Shandong as a powerful economic competitor and a model for emulation. As early as 1993, city leaders of Dalian raised the slogan, "learn afar from Shenzhen and near from Jiaodong" (*yuan xue Shenzhen, jin xue Jiaodong*). See an editorial of *Dalian ribao*, reprinted in *Qingdao ribao*, April 4, 1995. Also see *Qingdao ribao*, March 18 and June 21, 1993.

¹⁵*Qingdao ribao*, March 12, 1994; February 9, 17 and June 12, 1995.

gy, local Shandong leaders have cultivated a strong sense of crisis or pressure and a competition mentality. Clearly aware of the challenges from other provinces or regions and afraid of falling behind, they have been eager to enhance their own region's comparative advantages and gain the upper hand in the competition. As will be testified in the following section, such a competition mentality helps explain the many economic initiatives or strategies that have been taken by local leaders in Shandong province.

Local Strategies for Interregional Competition

Of the major strategies that Shandong leaders (particularly in Qingdao) have adopted in the 1990s to cope with interregional competition, four stand out: the "greater Qingdao strategy" (*da Qingdao zhanlue*), the "large projects strategy" (*da xiangmu zhanlue*), the "large enterprises strategy" (*da qiye zhanlue*), and the "maritime Shandong strategy" (*haishang Shandong zhanlue*), all of which exemplify efforts to strengthen local comparative advantages.

The Greater Qingdao Strategy

This strategy was formulated in 1992 by the Qingdao city government in collaboration with Shandong provincial leadership. Its implementation has increased the urban area of Qingdao by nearly ten times (from 92 to 1,315 square kilometers), expanding it in three directions (east, north, and west). Three major projects have been involved: moving the city's administrative center eastward,¹⁶ building a national-level high-tech industrial park,¹⁷ and expanding the Qingdao Economic and Technological Development Zone (QETDZ, originally fifteen square kilometers) to cover the whole Huangdao

¹⁶This project, specifically designed to facilitate the development of Qingdao's eastern suburban section, was started in April 1992 and completed in June 1994, with the city headquarters moved ten kilometers eastward and a new business area of 1.5 square kilometers created. Since it has involved the sale of previous city government premises, which are located in the city's best business area, to foreign investors, the project met enormous opposition in the beginning. *Qingdao nianjian* (1994), 44-45; interview in Qingdao in 1994. By August 1997, eighty-seven enterprises, including forty-nine foreign-invested ones, had been set up in this area, with an investment of 10 billion yuan in eighty-two projects. *Qingdao ribao*, August 18, 1997.

¹⁷This park, covering sixty-seven square kilometers, is located in Zhonghan township of Laoshan district, fifteen kilometers east of Qingdao's urban center. It was proposed by the Qingdao city government in June 1992 and approved by the center in December 1992. By the end of 1994, 1,875 enterprises had been set up in the park, among which 282 were foreign-related. By the end of July 1997, the number of foreign-related enterprises had increased to 482. See *Qingdao nianjian* (1995), 50; Yu Weidong, "The High-Tech Industrial Park in the Past Five Years," *Qingdao ribao*, August 1, 1997.

district (159 square kilometers).¹⁸ This last project, in particular, has been widely acclaimed as "farsighted" and "strategic" for Qingdao's development. It signaled the transfer of the center of gravity for Qingdao's economic development to the western coast of Jiaozhou Bay and has opened a vast area with great development potential.¹⁹ So far the QETDZ has enjoyed especially preferential treatment by the central government,²⁰ including the establishment of a free trade zone.²¹ Qingdao's leaders are concerned to transform Huangdao into a district (or in their own words, a "new Qingdao" or "another city of Qingdao") resembling Shanghai's Pudong in functions, that is, to serve as a spearhead in the whole city's economic development.²²

Two findings can be drawn from the construction of the above projects. First, these projects were all initiated by the local government. By Chinese standards, the projects are large-scale and far-reaching, and could not have been carried out without the approval or support (in the form of preferential policies and investment) from the central government. However, it was the local leaders who took the initiative, first designing and then presenting these

¹⁸Zhang Zhiqiang, "Origins of the Idea of the Greater Qingdao Strategy," *Qingdao ribao*, January 19, 1993; and Ma Ji, "Birthday of the Greater Qingdao," *ibid.*, January 19, 1993 and December 15, 1994. Huangdao is located on the west coast of Jiaozhou Bay. Originally a township of Jiaonan county, it became a district of Qingdao under the system of *shi guan xian* (placing counties under the city's leadership) in 1983, but remained largely rural. In 1984, it was chosen as the site of the QETDZ. By March 1995, it had attracted more than 2,000 domestic and foreign investment projects. See *Qingdao nianjian* (1988), 128; and Wei Zhongying, "The QETDZ in the Past Ten Years," *Qingdao ribao*, March 28, 1995.

¹⁹This area is endowed with superior natural conditions for building fine harbors, with deep navigation channels free of silt and ice in the winter. By the end of 1994, two harbors (one of which is devoted to oil transportation) with an annual throughput capacity of 52 million tons had been completed; another harbor with an expected capacity of 40 million tons was also under construction. See *Qingdao nianjian* (1995), 54.

²⁰These policies allow foreign-related enterprises within the QETDZ to pay a 15 percent income tax, compared to 24 percent and 30 percent in open coastal cities and inland regions respectively, and grant tax exemptions to export-oriented and high- and new-tech industrial enterprises. In addition, any enterprises fulfilling export contracts are excused from applying for licenses for importing machinery, components, and raw materials. See *Qingdao ribao*, August 17, 1993.

²¹The free trade zone, occupying 2.5 square kilometers on the western bank of Jiaozhou Bay, was proposed by the Qingdao city government and sanctioned by the center in November 1992. See *Shandong nianjian* (1993), 82; "The State Council's Reply on Establishing Qingdao Free Trade Zone," in *Zhongguo jingji tizhi gaige nianjian* (Yearbook of China's economic system reform, 1993), 102. The zone's functions include trade (especially entrepôt trade), finance, storage, and processing. The zone enjoys such privileges as tax exemption for importing and exporting raw materials and approving foreign banking; and enterprises within the zone, which are involved in international trade, are given full license to conduct import and export trade. Operating in accordance with international conventions, the free trade zone is expected to facilitate the internationalization of Qingdao's economy. By the end of 1996, 777 enterprises (436 of them were foreign-invested) had been approved to operate in the zone. See *Qingdao nianjian* (1995), 53-54; *ibid.*, (1997), 48; and *Qingdao ribao*, March 12, 1994;

²²Wei, "The QETDZ in the Past Ten Years."

projects to the center for approval. To gain preferential policies for the projects, Qingdao's principal leaders, including the city party secretary and mayor, went time and again to Jinan (Shandong province's capital city) and Beijing, lobbying (or negotiating) for support from upper-level authorities. Qingdao's leaders have referred to this tactic as "doing things first and then seeking the center's sanction (or recognition)" (*xian gan qilai, zai zhengqu zhongyang renke*). It turned out that such a tactic has worked well as far as the greater Qingdao strategy was concerned, and Qingdao's leaders have stated that they will continue to exploit it in the future, although they have acknowledged that potential risks—conflicts with the center—could be involved.²³

The second finding is that Qingdao city leaders, in formulating the greater Qingdao strategy, drew their inspiration from the development of Shanghai's Pudong and aspired to be in a better position so as to compete with Shanghai. They have admitted that when the news of Pudong's opening came, they suddenly felt that their own city had been further overshadowed by Shanghai and they were under pressure to accelerate their opening-up. Shanghai's influence on Qingdao has been particularly evident in the latter's decision to open the whole district of Huangdao as an economic and technological development zone. Indeed, Qingdao officials intend Huangdao to be "Qingdao's Pudong."²⁴ Obviously, the competition mentality drove Qingdao's leadership to adopt the greater Qingdao strategy.

From the local perspective, the most desirable advantage of the greater Qingdao strategy is that it can provide various investment opportunities and conditions (i.e., land, labor, and most importantly, lower tax rates and superior port facilities) for businesses, especially foreign ones. Indeed, a top priority on Qingdao's work agenda is to attract foreign investment. To facilitate this process, another strategy has been put forward: the "large projects strategy."

The Large Projects Strategy

This strategy was designed by Qingdao's leadership in early 1993 to attract large companies, particularly globally-recognized multinational corporations and consortia, to invest in the city's technology-intensive sectors or industries such as electronics, machinery, petrochemical, and rubber. "Large projects" roughly refer to projects with an investment of more than US\$10 million each. The strategy is based on the assumption that a region's (in this

²³Interviews in Qingdao in 1994.

²⁴Interviews in Qingdao in 1994. Also see Zhang Zhiqiang, "The Emergence of Qingdao's Pudong," *Qingdao ribao*, March 31, 1993.

case, Qingdao's) economic competitiveness ultimately depends on the development of high- or new-tech industries that can produce products with high added-value and good chance of entering the international market; and that rapid progress in this area requires close cooperation with well-endowed foreign companies that can provide the latest technologies, sufficient capital, and extensive market connections. The core of this strategy, Qingdao's leaders suggest, is its emphasis on qualitative improvement of key industrial products²⁵ rather than quantitative growth of investment projects and industrial output value. Such a strategy differs from its strategy of the 1980s, which was intended to earn foreign exchange by primarily promoting short-term, small-scale, or labor-intensive industrial projects that could bring quick returns. The "large projects" strategy also indicates that local leaders have become selective in dealing with foreign investors in the 1990s: they are more interested in investors who can contribute to the development of high-tech industries, while in the 1980s, they would have rushed to accept almost any foreign-related businesses.²⁶ Again, as in the case of the greater Qingdao strategy, the formation of the "large projects" strategy represents, at least in part, the Qingdao leaders' attempt to emulate or compete with Shanghai. In examining Shanghai's experience, Qingdao's principal leaders repeatedly expressed their admiration for the former's "single-minded" concentration on readjusting the industrial structure and developing key high-tech industries (automobiles, electronics, information, electrical equipment, petrochemicals, steel and iron, etc.) through cooperation with foreign companies.²⁷

To implement the "large projects" strategy, the Qingdao city government has adopted three concrete measures: (1) institutionalizing the strategy by setting up a "Large Projects Fund" (*zhongda xiangmu jijin*), a "Large Projects Office" (*zhongda xiangmu bangongshi*), a "bimonthly reporting system," and a "mayor responsibility system"; (2) organizing overseas trips or local-based trade fairs to solicit investments; and (3) improving services for foreign investors, including simplifying the procedures that foreign investors must go through.

The Large Projects Fund, essentially a kind of government loan but with

²⁵The Qingdao city government has designated the following ten products as the city's "backbone products" (*gugan chanpin*): program-controlled switchboards, petrochemicals, auto components, tires, steel, locomotives, refrigerators, color television sets, beers, and clothes. See *Qingdao ribao*, December 30, 1994.

²⁶Interviews in Qingdao in 1994 and 1997. Also see *Qingdao ribao*, March 18, 1993; May 12, 1994; March 14, 1995.

²⁷Interviews in Qingdao in 1994; see also *Qingdao ribao*, March 25, 1995.

lower interest rates than bank loans, has been used to sponsor Chinese enterprises in establishing joint ventures with foreign companies. It mainly comes from the city's "enterprise development funds" (*qiye fazhan jijin*), city maintenance fees, and taxes on auto vehicles.²⁸ The Large Projects Office, directly responsible to the city government, is charged with the duty of coordinating and supervising the establishment of large investment projects. Its specific functions include collecting information on well-known foreign companies (by the end of 1994, it already had at hand detailed information on 700 large foreign industrial and financial companies), maintaining a data base on all large investment projects, drawing up plans on which projects should be accepted or founded, coordinating negotiations on building investment projects, and regularly examining the progress of construction of these projects. Following the "bimonthly reporting system," the office also has to report, every two months, to principal city leaders on the situation of project construction, especially on foreign-related projects. Under the "mayor responsibility system," each mayor or deputy mayor (there were nine deputy mayors in Qingdao in 1994) must personally oversee one or more large projects to ensure their smooth construction and operation.²⁹ Moreover, since early 1996, the city government has helped set up fifteen "large projects agencies" at the city's fifteen key state-owned enterprises and enterprise groups (*qiye jituan*) and assigned them the same functions as the city-level Large Projects Office in carrying out its strategy. This step also aims to transform the implementation of the "large projects" strategy from a government act to an enterprise initiative.³⁰

The Qingdao city government has exploited a variety of techniques to solicit foreign investors. Among the most influential and effective have been organizing overseas trips and holding "international trade fairs" (*guoji shang-pin jiaoyihui*). In 1994 alone, the city government sent out 1,272 "business-soliciting delegations or groups" (*zhaoshang tuan*) (with 4,580 members) overseas to such countries or regions as Hong Kong, Singapore, South Korea, Japan, Malaysia, and the United States. Of the groups, 491 (with 2,480 members) were devoted to technological investigation and negotiations over technological cooperation.³¹ Each year since 1992, the city government has

²⁸ *Qingdao nianjian* (1995), 56-57.

²⁹ *Ibid.* (1994), 36-37; *ibid.* (1995), 315-16.

³⁰ *Ibid.* (1997), 48; *Qingdao ribao*, May 16, 1996.

³¹ *Qingdao nianjian* (1994), 50.

organized, in collaboration with the provincial authorities, an international trade fair, or "beer festival." (Qingdao is known for producing fine beer, which has found its way into the international market and been used as a vehicle for establishing international business connections—reminiscent of Dalian's annual international fashion festival). At the 1994 trade fair alone, Qingdao signed, among other things, eighty-three contracts on large foreign investment projects, with each exceeding US\$10 million.³² Moreover, the city government regularly holds news conferences, announcing projects that require foreign investment; it has also attempted to use locals with personal foreign connections (e.g., relatives of overseas Chinese) to search for overseas investment partners.³³

In addition, Shandong officials have taken various measures to improve the environment for foreign investment. Under the slogan of "infrastructure goes ahead of the rest" (*jichu xianxing*), they have given priority to constructing infrastructure facilities (e.g., transportation and communications, energy), which they define as a "hard environment" (*ying huanjing*). The Qingdao city government raised and invested more than 7 billion *yuan* in the QETDZ's infrastructure construction (particularly harbor construction) over nine years (1985-94); the investment increased to 9 billion *yuan* by November 1996. In addition, 750 million *yuan* was invested in the infrastructure of the High-Tech Industrial Park from 1992 to 1994; the total had increased to 1.68 billion *yuan* by August 1997.³⁴ It is believed that Shandong's highway system is among the best nationwide.³⁵ In the meantime, the local government has attached great importance to improving the "soft environment" (*ruan huanjing*), particularly by trying to provide foreign investors with "coordinated" and "all-dimensional and whole process" services. The former entails simplification of registration procedures: foreign investors can complete all registration procedures with one office of the city government within a short period of time, instead of going through many different governmental organs (e.g., industrial and commercial bureaus, taxation bureaus, public security bureaus, and trade inspection bureaus), which can be very time-consuming. The latter requires that local Chinese officials be involved in the entire process of building a foreign-related project and provide timely and adequate help or services to

³² *Qingdao ribao*, March 19, 1994.

³³ Interviews in Qingdao in 1994.

³⁴ *Qingdao ribao*, January 11, 1995 and November 11, 1996; September 3, 1994 and August 1, 1997.

³⁵ Interviews in Shandong in 1994.

foreign investors, including childcare and schools. To carry out these measures, the Qingdao city government has specifically founded two agencies, the Foreign Investment Service Center (*waishang touzi fuwu zhongxin*) and the International Trade Promotion Association (*guoji maoyi cujinhui*).³⁶ In a four-year span (1992-96), 259 large foreign-related projects were built in Qingdao, and 28 of the world's 500 largest companies set up businesses in the city.³⁷

The above discussion of the "large projects" strategy demonstrates that the local government has committed itself to developing technology-intensive industries and played a leading role in the process of acquiring technologies and capital from foreign companies.

The Large Enterprises Strategy

If the "large projects" strategy focuses on attracting resourceful foreign companies, the "large enterprises" strategy is intended to enhance the competitiveness of Chinese-owned (mainly state-owned) industrial enterprises by expanding their sizes (or scales), specifically by organizing enterprise groups (*qiye jituan*)—a Chinese version of conglomerates. The rationale for this strategy is that large enterprises (or enterprise groups) have the advantages of scale economy, allowing for concentrated and more efficient use of resources (capital, technological, and human); they also possess the "impulse for sustained expansion" (*chixu kuozhang de chongdong*) and the potential to occupy more of the domestic and international market.³⁸ Shandong's leaders have compared enterprise groups to "joint fleets," meaning that they, with more resources, will be more capable of competing in the market than individual enterprises.³⁹

Enterprise groups, as relatively large-scale and market-oriented industrial organizations, emerged in Shandong in the late 1980s,⁴⁰ and their development gained new momentum in the early 1990s with the formal adoption of the "large enterprises" strategy by both provincial and municipal governments. In 1993, the Shandong provincial authorities designated forty-four key enterprise groups and gave them various incentives for their expansion or enlargement, including funds for technological transformation; power for self-

³⁶ *Qingdao ribao*, January 13, 1994; January 11 and March 29, 1995; *Qingdao nianjian* (1995), 174-76.

³⁷ *Qingdao ribao*, August 20, 1997.

³⁸ "To Seize the Chance and Expand Rapidly," *Qingdao ribao*, June 19, 1995.

³⁹ Interviews in Shandong in July and August 1997.

⁴⁰ *Qingdao nianjian* (1988), 250.

determination in managing imports and exports and setting up branch factories abroad; power to decide on establishing joint ventures; and priority in acquiring raw materials, energy, and transportation facilities. In late 1996, the Shandong provincial government further selected eight key local enterprises and gave them more preferential treatment and financial support. For example, these enterprise groups have been empowered to dispose state-owned property and set up their own "financial companies" (*caiwu gongsì*—agencies for financial administration and fund-raising). In addition, they can retain the amount of capital equivalent to the income taxes they have submitted to state financial organs and use it as state-owned circulating capital; and governments at different local levels have reduced various fees previously imposed on these enterprise groups. Most importantly, the provincial government has established the so-called "bank-sponsoring system" (*yinhang zhuban zhidu*) in favor of the large enterprise groups.⁴¹ This system is designed to facilitate the cooperation between banks, particularly the banks' involvement or participation in building enterprise groups. It requires that a certain bank (two or three if needed) must form a stable cooperative relationship (or partnership) with an enterprise group, with the main responsibilities of providing the latter with financial services such as low interest-rate loans, financial information, and supervising or advising on the use of capital.⁴² The city governments of Qingdao and Longkou have adopted similar measures to facilitate the formation of enterprise groups.⁴³

Shandong leaders' interest in enterprise groups was at least partly stirred or strengthened by the experiences of Guangdong and Shanghai. In their campaign to learn from the two regions, Shandong officials discovered that the rapid economic development of these two regions could be, to a large extent, attributed to the rise of large numbers of large enterprises and their "sustained expansion," which in turn resulted from local governments' efforts. In

⁴¹In actuality, the bank-sponsoring scheme was first put forward and practiced by the city government of Jinan in early 1996 before being confirmed and expanded by the Shandong provincial government to the whole province. To make the system work effectively, the Jinan city government organized sixteen work teams consisting of members from various economic agencies of the city government (e.g., the economic planning commission and industrial and commercial bureaus) and dispatched them to the city's sixteen enterprise groups to coordinate the forming of bank-enterprise partnerships. Moreover, the mayor and deputy mayors each have assumed the responsibility of supervising the operation of one enterprise group in terms of its partnership with banks. Interviews in Jinan in July 1997.

⁴²*Dazhong ribao*, August 7 and December 11, 1996.

⁴³*Qingdao ribao*, September 13, January 13, 1993; *Dazhong ribao*, September 23, 1996; and interviews in Yantai and Qingdao in August 1997.

Shanghai, for example, the city government has provided special support to key enterprises, expecting them to expand into large enterprise groups or conglomerates with sales volumes of at least 5 billion *yuan* each. In only three years (1992-95), nineteen such enterprise groups came into being.⁴⁴ With their rivals in Guangdong and Shanghai in mind, Shandong's leaders have deemed the development of large enterprises as an effective way to strengthen the province's competitiveness.

The formation of Shandong's enterprise groups has followed four patterns: expansion (*pengzhang*), share-buying (*cangu*), annexation (*jianbing*), and transformation (*zhuan**ti*). Expansion means that an enterprise, in a snowballing style, gradually grows by building branch factories, sometimes across regions and industrial sectors. Under the pattern of share-buying, an enterprise buys and controls the majority of shares from other enterprises, thereby bringing the latter into the fold as affiliated companies or branches. Annexation occurs when a powerful enterprise takes over small and unprofitable or debt-ridden enterprises. The Qingdao city government has particularly favored this pattern, partly considering it as a way to relieve itself of financial burdens, as many of these unprofitable and debt-ridden enterprises are state-owned. The final pattern of transformation refers to a situation in which the city government transforms some industrial bureaus (*gongye ju*) or administrative companies (*xingzheng gongsi*) from governmental organs into relatively independent enterprise groups responsible for their own profits and losses. With the local government's promotion, enterprise groups, as a new type of industrial organization, have grown quickly in Qingdao. By the end of 1994, their number had reached seventy-three (from twelve in 1987), and some had even set up branches in other provinces and foreign countries.⁴⁵ Even in Longkou, a small county-level city under the administration of Yantai city, thirty-three enterprise groups had emerged by September 1996.⁴⁶ Although the local government has been instrumental in organizing enterprise groups, it has not been directly involved in managing them. Instead, the government has allowed these enterprise groups more autonomy by introducing into them a new mechanism of management: the system of general manager responsibility under the board of directors. In the mid-1990s, many enterprises

⁴⁴See note 38 above; and Research Office of the Qingdao City Party Committee, "Some Issues on Learning from Shanghai," *Qingdao ribao*, June 12, 1995.

⁴⁵Song Wei, "A Survey Report on Qingdao's Enterprise Groups," *Qingdao ribao*, April 14 and June 19, 1995; May 7, 1993; *Qingdao nianjian* (1995), 48, 131; *ibid.* (1988), 250.

⁴⁶*Dazhong ribao*, September 23, 1996.

evolved, under the government's encouragement, into share companies with shareholders' meetings as ultimate decisionmaking bodies. With such a new type of management and the advantages of scale economy (i.e., relatively adequate capital and technical personnel), enterprise groups have proven to be more competitive and efficient, particularly in developing new-tech industries and new products.⁴⁷ In Qingdao, enterprise groups have already played a critical role in the city's economic growth and profits. In the first half of 1997, about 30 percent of the city's income from sales and 70 percent of the city's total profit were due to twelve large enterprise groups.⁴⁸

Closely related with the "large enterprises" strategy is the "famous brands strategy" (*mingpai zhanlue*), which specifically aims at promoting the development of products with high quality and high added-value, as well as the capability to prevail in the market. This strategy has also been vigorously promoted by local leaders in Shandong province since the early 1990s. The provincial-level authorities have considered this to be instrumental in transforming Shandong from a "big" economic province to a "powerful" economic province.⁴⁹ The city leaders of Qingdao have formulated slogans such as "famous brands are capital and property" and "famous brands mean efficiency." Officials in Jinan, Taian, Jining, and Linyi have called on the whole society to "foster, develop, publicize, and protect famous brands." In implementing this strategy, local governments have adopted a series of concrete measures such as setting up "funds for the development of famous-brand products" and guaranteeing the supply of energy, raw materials, transport, and capital for enterprises producing such products. Since 1993, the provincial government has designated and promoted seventy-nine provincial-level famous brands, and plans to increase the number to one hundred by the end of this century.⁵⁰

The Maritime Shandong Strategy

The maritime Shandong strategy was formulated by the Shandong provincial government in April 1991 for the purpose of systematically exploiting the rich marine resources that were within the province's administrative juris-

⁴⁷Committee for Economic System Reform of Qingdao City, ed., *Qingdao gaige kaifang shinian* (Qingdao in the decade of reform and opening-up) (Qingdao: 1989), 172-81; Qingdao-Haier Enterprise Group, "To Perfect the Enterprise Group's Functions, Bring Its Advantages into Play, and Develop Scale Economy," in *Zhongguo jingji tizhi gaige nianjian* (1993), 239-41.

⁴⁸*Qingdao ribao*, August 22, 1997.

⁴⁹Han Yuqun (vice-governor of Shandong province), "To Carry Out the Famous Brands Strategy and Build an Economically Powerful Province," *Dazhong ribao*, August 21, 1996.

⁵⁰Interviews in Shandong in July and August 1997. Also see *Dazhong ribao*, August 21, 1996.

diction,⁵¹ but had largely remained untapped. Specifically, the strategy requires expanding and intensifying fishery, the traditional sector of the marine economy, while at the same time exploiting relatively new areas such as marine biology, chemical engineering, medicine, and energy and mines, as well as maritime transportation.⁵² In this way, Shandong's provincial-level officials intend to find a "new point of economic growth" (*xinde jingji chengzhang dian*) in the sea, thereby strengthening the province's economic competitiveness. As the first step in carrying out the strategy, the provincial authorities organized a series of large-scale investigations and research on such issues as the layout of marine industries and scientific and technological input, involving hundreds of experts and local officials.⁵³ The maritime strategy has been well received by leaders in Shandong's coastal areas (e.g., the city of Weihai raised the slogan of "building a maritime Weihai," Yantai, "a maritime Yantai," Weifang, "a maritime Weifang," and Rizhao, "a maritime Rizhao"). They have quickly made their own plans and mobilized the resources at their disposal to develop a marine economy.

Thus far, the maritime Shandong strategy seems to have worked well. In Weihai and Yantai, the aquatic products industry has become a mainstay of the economy, and its product value has surpassed that of agriculture. New types of enterprises (some of them foreign-invested) combining catching (fish, shrimp, etc.), processing, scientific research, trading (or exporting), and overseas transportation have been built and gradually replaced smaller enterprises with only a single function, such as fishing or processing. Even some economically backward coastal areas have experienced an upsurge through exploitation of marine resources. In the two counties of Wudi and Zhanhua, for example, 150,000 *mu* of wasted beaches have been reclaimed primarily for breeding prawns. Meanwhile, industries involving marine chemical engineering have emerged rapidly and weighed heavily in Shandong's economy. For instance, the Shandong Marine Chemical Engineering Corporation has become the largest enterprise of its kind nationwide.⁵⁴

⁵¹Shandong's seacoast line stretches 3,000 kilometers and its marine area is 170,000 square kilometers, which is larger than the province's land area (150,000 square kilometers). The province (particularly Qingdao) also features China's best oceanography institutions and scientists.

⁵²Shandong was the first province in the nation to formally put forward a maritime strategy for economic development. In the author's opinion, the importance of such an act lies in that it marks a change in the orientation of local leaders from an inward or inland view to an outward or seaward one.

⁵³*Shandong nianjian* (1992), 526.

⁵⁴Liu Kunfeng, Qi Jianguo, and Wang Jie, "It Is Not a Dream to Build a Maritime Shandong,"

The above four strategies have represented Shandong leaders' attempt to emulate or compete with other economically advanced regions, especially Guangdong, Shanghai, and Liaoning. In other words, the competition from other regions has given Shandong leaders the impetus to search for development strategies. This does not mean, however, that Shandong has simply duplicated the practices of other regions. Instead, with a pragmatic approach, it has attempted to adapt others' experiences to local conditions. As a matter of fact, the formation of strategies has been based on both the experiences of other regions (e.g., Shanghai) and a thorough assessment of local advantages involving extensive feasibility research by professionals or experts from various fields and institutions. Even though these strategies are still in their early stage of implementation, they have already yielded encouraging results and moved Shandong's economy in a positive direction.

It should be pointed out that Shandong is not an isolated case in vigorously searching for new strategies to meet interregional competition. Other regions, particularly coastal provinces or cities (e.g., Guangdong, Fujian, Shanghai, Tianjin, and Liaoning), have been equally concerned with interregional competition and have tried hard to cope with it effectively. In so doing, they have often formulated strategies similar to Shandong's, particularly strategies striving to gain preferential policies (or treatment) from the central government, building or expanding economic development zones with the purpose of attracting foreign investment, and adjusting industrial structure or developing key (or high-tech) industries (or products).⁵⁵ As defined in this paper, all of these strategies can be classified as measures for positive economic competition, or self-strengthening. However, this is only one side of the coin; the other side includes negative economic competition, in which one region attempts to undermine others' economic advantages, often by administrative and irrational means. For the sake of a relatively balanced understanding of the issue of interregional competition, such negative competition will be discussed, although it is not the focus of this paper.

Negative economic competition has been prevalent in the reform era and has taken two major forms: "scrambling" for raw materials (mainly in the 1980s) and market blockades (particularly since the late 1980s). In the former case, local governments attempt to prevent native raw materials from leaving

Qingdao ribao, May 20, 1996; Deng Xueqing, "The Rise of the Marine Economy in Our Province," *ibid.*, August 22, 1997.

⁵⁵Hu Ping, ed., *Zhongguo quyu jingji fazhan zhanlue xuan* (A compilation of selected strategies for China's regional economic development) (Beijing: Gaige chubanshe, 1995).

their own administrative territories by such means as setting up lookout posts on borders. In so doing, they intend to both keep these materials and process them locally, although they may not have the capabilities (technologies and personnel) to do so, and create inconveniences for regions that desperately need them. What have emerged are the so-called "great wars" over wool, tobacco, cotton, cocoon, coal, and steel, as local governments have made efforts to control these materials. In 1990, for example, the city of Shenyang only obtained 312 tons of cotton from Shandong province, far from the planned target of 2,050 tons, as a result of Shandong's obstruction. Local authorities of some cotton-producing areas in Henan province stipulated in the late 1980s that no export of cotton to other provinces was allowed without approval. In 1990, Guangdong province experienced a serious shortage of grain due to Hubei's and Hunan's tight control over grain export between 1988 and 1989. Such a situation can partly be explained by the then-distorted price system, which set overly low prices for raw materials and left little incentives for raw materials-producing regions. The second type of negative competition, market blockades, aims at protecting local markets or local enterprises by blocking the entrance of other regions' products. Market blockades have been particularly favored by economically backward areas which are unable to compete in the market on an equal footing. In addition, they have not only existed among provinces, but also among smaller areas such as counties of the same province.⁵⁶ Given that China's market system is still in its formative stage and the nation's economic development is uneven, negative economic competition will certainly continue to exist in the foreseeable future. However, we do not need to be pessimistic: as this paper has noted, positive economic competition has been a dynamic force behind economic development.

Interregional Competition, Local Governments, and Building a Market Economy

As illustrated in the preceding two sections of this paper, interregional competition has functioned as a dynamic force in the reform years, driving Chinese local leaders to take initiatives in developing local economies.

⁵⁶Zhang Keyun, "A Study of the Operation of China's Regional Economies," *Jingji yanjiu*, 1992, no. 2:52-58; Wei Shien and Guo Zhiyi, *Zhongguo yanhai yu neidi jingji fazhan guanxi* (Relations between China's interior and coastal regions in terms of economic development) (Lanzhou: Lanzhou daxue chubanshe, 1992), 131-33.

Keenly concerned with competition from other regions, local leaders have formulated and carried out crucial economic strategies or policies based on local conditions. Instead of passively waiting for directives from their central counterparts, they have been active players in the process of China's economic modernization; and they have sometimes even moved ahead of the central government, dragging the latter forward (as testified by the Qingdao city leadership's tactic of "doing things first and then seeking the center's sanction"). Such local enthusiasm, fueled by interregional competition, has indeed been a major contributor to China's sustained economic boom in the reform era and has made it difficult for any conservative elements within the central government to turn back from economic reform.

Since this study exploits the concept of interregional competition and local leaders' competition mentality as central explanatory tools, it is worth further discussion. The emergence of interregional competition and the cultivation of a local competition mentality in the reform era has marked a significant departure from the Mao years. During the latter period (except perhaps during the Great Leap Forward), such competition was largely absent or stifled under the rigid Maoist socialist system, which endorsed a command economy and the balanced development of regional economies based on egalitarian principles. The system allowed the center to monopolize all major economic decisionmaking powers, especially the power of allocating resources, while leaving local authorities little room to maneuver; and it functioned to narrow or eliminate economic disparities between regions, often at the expense of relatively developed regions (or provinces and cities). Thus, the socialist system in the pre-reform years virtually made interregional competition unnecessary and deprived local leaders of both motivation and ability to compete with each other in the economic arena. Although the Mao years witnessed the prevalence of a unique technique in which "models" were set up for localities to emulate (e.g., "learning from Daqing in the industrial sector" and "learning from Dazhai in agriculture"), and seemed to have the potential to encourage interregional competition, it actually failed to do so due to the restraints of Maoist socialism. Only when this system was abandoned and replaced by a market-oriented economic system, which recognizes or encourages regional differences and endorses decentralization of power to localities, did interregional competition and a local competition mentality become possible.

Here arises a key question: Why are local leaders so concerned with interregional competition? Local leaders in this paper refer to principal decisionmakers of a city (mayor, deputy mayors, and city party secretaries—

city-level officials) or a province (governor, deputy governors, and provincial party secretaries—provincial-level officials). In terms of the relative importance of their localities in the nation's development strategy, local leaders can be divided into two major groups: (1) those who work in high-profile localities, such as centrally-administered cities (*zhixia shi*), economically separately-listed cities (*jihua danlie shi*), key coastal cities (e.g., Qingdao), or some provincial capital cities, as well as economically advanced provinces (e.g., Shandong); and (2) those who work in lower-profile localities (small cities and economically backward provinces, mostly in the interior). While both groups may share the same concern for a successful political career, they also differ from each other in their career orientations. Generally, leaders from the second group tend to identify their interests with those of the localities under their administration and regard the latter as their main arena of career activities, primarily because they do not have the resources to compete for higher-level positions with their counterparts in high-profile localities. What they desire is to consolidate their existing official positions. In this sense, they can be identified as "locally-focused" local leaders. In contrast, local leaders from the first group, namely those from high-profile localities, are more concerned with upward mobility. Instead of confining their careers to the localities they are working with, they expect advancement in the bureaucratic hierarchy and aspire for higher positions at provincial or central levels. For them, working at the local level only serves as a springboard to higher levels and as an opportunity to accumulate political capital. Their ambitions are primarily based on the nationwide significance of their localities and the rich resources at their disposal. In the case of Shandong province, both provincial-level leaders and city-level leaders of Qingdao belong to this category of local leadership, as they have the potential to expand their bureaucratic careers to the center.⁵⁷ This group can thus be defined as "upward-looking" local leaders.

For both groups of local leaders, it is no easy task to translate their ambitions (consolidation of local power or transfer to higher positions) into reality, and intense competition is involved. As far as "locally-focused" leaders are concerned, they must demonstrate their legitimacy for continuing to hold

⁵⁷One of Shandong's former governors, Jiang Chunyun, actually realized his ambition, first rising to become a member of the CCP's Politburo and Secretariat in 1994 and then vice-premier of the State Council. Yu Zhengsheng, as city party secretary of Qingdao, a major and increasingly important "separately-listed" city, was generally believed to have a good chance to enter national-level politics in the 1990s. Such a prediction has proven to be true, as in August 1997, some in Qingdao were already talking about the possibility of Yu immediately leaving for Beijing to assume a ministerial position. Interviews in Qingdao and Jinan in 1994 and 1997.

power in the face of competition from their colleagues, while "upward-looking" leaders face far more formidable challenges, given the quite limited number of higher (central)-level positions in comparison with the large numbers of candidates. In view of the overwhelming emphasis of leadership criteria on economic achievement in the reform era, only local leaders with superb economic performance records have a good chance to win the competition. This is the fundamental rationale for local leaders' obsession with interregional competition in the economic area.

The type of local leadership (characterized by a strong competition mentality) as discussed in this paper is compatible with the development of a market economy. While a mature or typical market economy (whose basic characteristics include competition between independent economic agents, namely enterprises) may have little or no state interference, in the Chinese context, building such an economy requires state participation and leadership or supervision. As it is still in an early stage of industrialization and has a nearly thirty-year history of a command economy, China faces enormous constraints in its transition to a market economy. First, building a market economy involves rationalization of production, which in turn certainly means high unemployment rates, given the existence of a large number of redundant laborers, particularly in state-owned enterprises. If mishandled, unemployment would easily lead to social unrest and hence derail market-oriented reform. Therefore, the rationalization of production entails cautious planning or coordination (e.g., coupling rationalization with the establishment of a safety net for workers), for which only the state is capable.⁵⁸

Secondly, building a market economy means integrating China's economy into the world economic system and bringing it into competition with other nations. To enhance the nation's economic competitiveness in the international market, China desperately needs to transform its labor-intensive industries to capital- or technology-intensive (or high-tech) industries, a process that requires large-scale capital accumulation and technology acquisition. In this respect, the state has a positive and critical role to play. As discussed in the second section of this paper, Shandong's four major development strate-

⁵⁸ As Peter Nolan argues, a central condition for the success of transition is the ability of the state to plan effectively. In his opinion, "planning" is not necessarily a characteristic feature of communist economies, which should be more correctly described as "command" economies. See Peter Nolan, *China's Rise, Russia's Fall: Politics, Economics and Planning in the Transition from Stalinism* (London: Macmillan, 1995), 4. Also see his *State and Market in the Chinese Economy: Essays on Controversial Issues* (London: Macmillan, 1993).

gies (particularly the greater Qingdao strategy), which aim to promote high-tech industries through cooperation with foreign companies, could hardly have been carried out without the active participation of local governments.

To further testify to the above arguments, Robert Wade's "governed market theory" which attempts to explain the superior economic performance of East Asian countries such as Japan, South Korea, and especially Taiwan, should be noted. Unlike the neoclassical paradigm, which stresses allocation of resources through competitive markets as the key to economic growth, the governed market theory emphasizes capital accumulation and a high level of investment in technology-intensive industries that is made possible by state intervention as the principal force for growth. Specifically, according to this theory, Taiwan's economic success is due to a high level of productive investment that allows for fast transfers of newer techniques into actual production; a high level of investment in certain key industries; and the exposure of many industries to international competition in foreign markets. All these are in turn the result of a series of government policies and the functioning of special governmental organs. In the words of Wade, "Taiwan's big push into these capital- and technology-intensive industries was state-led"; according to him, "the role of the state has been especially important in building technological competence in advanced electronics"; and "the government [in Taiwan] has been trying to increase Taiwan's general attractiveness to firms in high-technology sectors."⁵⁹

The governed market theory as testified by Taiwan's experience is quite relevant to mainland China. The 1990s' mainland seems to be facing some challenges similar to Taiwan's in the 1970s and 1980s: to accumulate capital and enhance productive investment in high-tech industries, thereby increasing native products' competitiveness in the international market. As in Taiwan, local governments in the mainland have proven to be instrumental in developing such industries. It should be made clear that the role of local authorities as described in this paper is basically one on the macro level: creating a favorable environment for foreign investment and for industrial enterprises to operate efficiently. Microscopically, local levels have gradually retreated from

⁵⁹Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, N.J.: Princeton University Press, 1990), 10, 26-29, and chaps. 4 and 5. Also see Vincent Wei-cheng Wang, "Developing the Information Industry in Taiwan: Entrepreneurial State, Guerrilla Capitalists, and Accommodative Technologists," *Pacific Affairs* 68, no. 4 (Winter 1995-96), 551-76; and Joel D. Aberbach, David Dollar, and Kenneth L. Sokoloff, eds., *The Role of the State in Taiwan's Development* (Armonk, N.Y.: M. E. Sharpe, 1994), part I.

direct management of enterprises and attempted to allow the latter to become independent agents in the market. In short, the Chinese local state has played a positive role in facilitating the nation's economic development and its transition to a market economy.