Issues & Studies© 41, no. 4 (December 2005): 107-139.

Forging a World Production Powerhouse in Coastal China: The Domestic Institutional Foundation of Foreign Investment Growth since the Mid-1990s

YI-FENG TAO AND MING-CHI CHEN

This study provides an institutional explanation for the rapid growth of foreign investment in China since the mid-1990s. The argument is that this increase is caused by domestic institutional changes in China, including intensifying competitive liberalization among local governments, reorientation of the central elite toward stabilization and structural reforms in macroeconomic policies, and widening regional disparities during this period. The first factor encourages local governments to offer various concessions to foreign investors. The second factor maintains the macroeconomic stability conducive to the expansion of export-oriented foreign

---

YI-FENG TAO (陶儀芬) (Ph.D., Columbia University, 2001) is Assistant Professor of Political Science at National Taiwan University. Her areas of specialization include comparative political economy, East Asian development, and Chinese politics. In addition to the political economy of China's opening to the outside world, currently she is studying political business cycle in reform China. She can be reached at <yftao@ntu.edu.tw>.

MING-CHI CHEN (陳明祺) (Ph.D., Yale University, 2002) is Assistant Professor of Sociology, National Tsing-Hua University, where he also serves as an executive board member at the Center for Contemporary China. His research interests include formal organization, economic sociology, sociology of development, and contemporary Chinese society. Currently he is studying the overseas Taiwanese firms in the global context. He can be reached at <mincchen@mx.nthu.edu.tw>.

firms. Finally, the third factor, an unintended consequence of the previous two, supplies labor-intensive firms with abundant migrant workers from the impoverished hinterland. The combination of these three institutional features has helped to forge coastal China into a world production powerhouse since the mid-1990s.

Keywords: China; foreign direct investment (FDI); economic development; domestic institutions; macroeconomic policies.

* * *

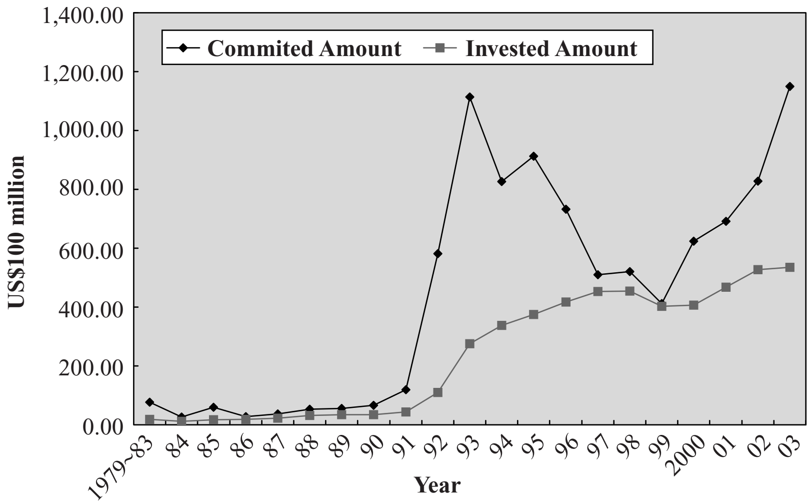
The 1990s witnessed a rapid transformation of the global economy and the role of foreign direct investment (FDI) in economic development in the developing countries. Post-World War II secular trends, including the opening-up of national markets, technological changes, and the resulting increase in competition in the global market, led to rapid expansion and transformation of the international production system. In this process, inward FDI has played a pivotal role in enabling developing countries to achieve export competitiveness as well as economic development.[1] The process has been accompanied by salient increases in both FDI inflows to and exports from developing countries. China, as the most significant beneficiary of this global transformation, has, at the beginning of the twenty-first century, become the largest FDI recipient and the fourth largest exporter in the world.[2]

From the beginning of China's economic reforms in 1979 until 2003, the country absorbed a total of over US$550 billion in FDI, equivalent to around 40 percent of its gross domestic product (GDP) in 2003. As shown

[1]United Nations Conference for Trade and Development (UNCTAD), *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, http://www.unctad.org/en/docs/wir2002_en.pdf.

[2]In 2002, FDI in China hit a record US$50 billion. In the same year, China overtook the United States to become the largest FDI recipient country worldwide. However, as FDI in the United States recovered to US$86.6 billion, almost quadruple the US$22 billion in 2002, and FDI into China grew a mere 1.44 percent in 2003, amounting to US$53.5 billion, the United States regained its status as the world's number one FDI destination. See *China Online*, January 30, 2004, http://www.chinaonline.com. China ranked fourth with a 6.1 percent share of the world export market in 2000. From 1985 to 2000, China's market share grew by 4.5 times, far the largest growth worldwide. UNCTAD, *World Investment Report* 2002, 15-16.

Figure 1
Foreign Direct Investment in China, 1979-2003



Sources: The websites of China's National Bureau of Statistics: http://www.stats.gov.cn; and Ministry of Commerce, http://www.mofcom.gov.cn.

in figure 1, FDI inflows did not arrive at a constant rate throughout the reform era. Most of the FDI pouring into China to date has done so during the last decade. From 1979 to 1992, China absorbed just US$34.3 billion, or less than 7 percent of the total FDI inflow during the reform era. That is, over 93 percent of China's FDI inflow has occurred during the past ten years.

In this decade, China has also experienced a phenomenal growth in exports. From 1993 to 2003, exports grew from US$92 billion to US$438 billion per year, a 4.5-fold increase. Moreover, accumulated exports during this period exceeded US$2.5 trillion, approximately two times the GDP of China in 2003.[3] In addition to significantly contributing to China's

[3]Based on the data compiled by the PRC Ministry of Commerce, http://www.mofcom.gov .cn.

GDP, the rapid increase in exports also reflects profound changes in the global production landscape. For example, China's manufactured goods accounted for 7.8 percent of total global exports of manufactured goods in 2000, compared to just 1.5 percent in 1985.[4] In terms of specific sectors, China now produces more than 70 percent of the world's textiles, 50 percent of its cameras, 30 percent of its air conditioners and televisions, 25 percent of its washing machines, and nearly 20 percent of its refrigerators.[5] However, rather than being responsible for the entire production chain, China occupies only the downstream position in these sectors, namely, processing and assembly. In 2003, 55.2 percent of China's exports were processing exports and, moreover, 54.7 percent of total exports were from foreign-owned firms.[6]

Comparing the Chinese case with the traditional flow of FDI into developing countries, China displays several unique features: First, over 60 percent of the FDI inflows are from East Asia, especially the newly industrialized economies (NIEs), that is, Hong Kong, Taiwan, South Korea, and Singapore, rather than from the advanced Western countries. Second, in terms of size, the bulk of foreign investors are small or medium-sized rather than large multinational corporations (MNCs)—the conventional players in international FDI flows. Third, investors come to China to seek a cheap production base for export rather than to obtain access to the domestic market. In other words, the current foreign investment fever in China is contributing to a radical makeover of the Chinese economy from a socialist autarky into a world production powerhouse. The integration of China into the international division of labor in the capitalist world system has not only fundamentally affected the Chinese economy, but has also strongly influenced other countries involved in this transformation of cross-border production networks.

---

[4]UNCTAD, *World Investment Report 2002*, 162.

[5]Karby Leggett and Peter Wonacott, "Burying the Competition," *Far Eastern Economic Review*, October 17, 2002, 30-35.

[6]Calculated from the data provided by the PRC Ministry of Commerce, http://www.mofcom.gov.cn.

Indeed, the term "world factory" is now frequently applied to the emerging mode of development in China.[7] Why has China stood out as the favorite destination of these foreign investors among all the developing countries? What has made post-socialist China a "capitalist's paradise" that continues to attract cross-border investment?[8] The low price of production factors is the most common answer.[9] However, this fails to explain why other countries with similar advantages, such as India, have failed to attract FDI inflows to an equivalent degree. It is the overseas Chinese connection that offers an alternative answer, since many of the foreign investors in China are indeed part of the Chinese diaspora. The effects of the Chinese connection have been well-documented in previous studies on the role of foreign investors in the development of China's coastal provinces,[10] but these excellent studies cannot explain the timing of the FDI boom: why did it occur only after 1993?

Recent studies of international political economy have found that domestic institutions play a crucial role in determining the patterns and sequences of economic liberalization.[11] Students of Chinese political economy have also pointed out the indispensable role of domestic institutions in determining amounts and patterns of investment liberalization in China. For example, both Dali Yang and David Zweig have pioneered the field by exploring how informal institutions have evolved from the interplay between the Chinese central elite and local cadres, inducing certain behav-

---

[7]The term "world factory" was first used to describe China by the Japanese Ministry of International Trade and Industry (MITI) in 2001. Since then, this term has proliferated and sometimes provoked heated debates both in China and abroad. See Lü Zheng, ed., *Zhongguo neng chengwei shijie gongchang ma?* (Can China become a world factory?) (Beijing: Jingji guanli chubanshe, 2003).

[8]The term "capitalist's paradise" was first coined by Kenichi Ohmae to describe the favorable investment environment for foreign investors in coastal China. See Kenichi Ohmae, *Profits and Perils in China, Inc.* (New York: Boos, Allen Hamilton, 2002), 5.

[9]See note 5 above.

[10]Constance Lever-Tracy, David Ip, and Noel Tracy, *The Chinese Diaspora and Mainland China: An Emerging Economic Synergy* (New York: Macmillan, 1996); and You-tien Hsing, *Making Capitalism in China: The Taiwan Connection* (London: Oxford University Press, 1998).

[11]Robert Keohane and Helen Milner, eds., *Internationalization and Domestic Politics* (New York: Cambridge University Press, 1996).

ioral patterns that have stimulated feverish internationalization. Yang has coined the term "competitive liberalization" and Zweig uses the concept "segmented deregulation" to describe the phenomenon of local governments in coastal China competing with one another to attract foreign investors, or persuade the central elites to grant them preferential treatment or special status in the administrative hierarchy.[12] Dynamic and fruitful as their works are, most of this empirical research focuses on local competition for foreign investment. In addition to investigating how this institutional effect has led to a foreign investment boom in the last decade, this study will also discuss the positive role that the central government has played in the macroeconomic environment after 1994.

Jun Fu provides an institutional explanation for the changing patterns of China's FDI inflows that combines analyses of the institutional changes at both central and local government levels. However, focusing only on the changes in the FDI regulatory regime over time, Fu fails to recognize the pivotal role that the central government has played in providing a favorable macroeconomic foundation for the cross-border transplantation of export-oriented firms since the mid-1990s. As a result, he reaches the conclusion that, by stipulating a *de jure* regulatory regime that is not particularly favorable to foreign investors compared to other developing countries, the role of the Chinese central government has been relatively passive in the surge in FDI inflows during the reform era.[13] This observation may be true for the pre-1993 period, but the central government was seen to have been more assertive and effective in many policy areas after Jiang Zemin (**江澤民**) and Zhu Rongji (**朱鎔基**) took full charge of economic policymaking in late 1993.[14] As argued later in this article, the central policymakers' ac-

---

[12]Dali Yang, *Beyond Beijing: Liberalization and the Regions in China* (New York: Routledge, 1997), 43-61; and David Zweig, *Internationalizing China: Domestic Interests and Global Linkage* (Ithaca, N.Y.: Cornell University Press, 2002), 49-106.

[13]Jun Fu, *Institutions and Investments: Foreign Direct Investment in China during an Era of Reform* (Ann Arbor: University of Michigan Press, 2000).

[14]See, for example, Dali Yang, *Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China* (Stanford: Stanford University Press, 2004); Barry Naughton and Dali Yang, eds., *Holding China Together: Diversity and National Integration in*

tive involvement in stabilization and structural reforms in macroeconomic policies played a crucial role in transforming China into the most favorable investment environment in the world in the past decade.

In answer to the question why foreign investors have chosen to invest directly, rather than subcontracting, in China, Yasheng Huang points to the failure of Chinese financial institutions. Huang argues that if financial institutions had been able to provide sufficient capital to domestic private firms, China would have opted for subcontracting by locally-owned enterprises, rather than FDI, to carry out its export-oriented development strategy. Therefore, FDI fever over the last decade should be seen as a failure, rather than a success, of the development-driven Chinese government.[15] As critical and provocative as this argument is, Huang's counterfactual analysis cannot explain why the same foreign investors have also set up subsidiaries, rather than finding local subcontractors, in Southeast Asian countries where there is no socialist legacy of numerous state-owned enterprises devouring most of the bank loans.[16] However, his observation of persistent institutional discrimination against Chinese domestic private firms provides a broader context to the phenomenon noted by Yang, Zweig, and Fu, whereby many private firms in China have chosen to disguise themselves as foreign investors in order to take advantage of favorable investment regulations.[17]

---

the Post-Deng Era (Cambridge and New York: Cambridge University Press, 2004); and Yongnian Zheng, *Globalization and State Transformation in China* (Cambridge and New York: Cambridge University Press, 2004).

[15]Yasheng Huang, *Selling China: Foreign Direct Investment during the Reform Era* (New York: Cambridge University Press, 2003).

[16]According to our interviews with Taiwanese investors in China, when they seek local subcontractors with sufficient technical and organizational skills, they find that Chinese private companies would rather be subcontractors of local state-owned enterprises than of foreign firms, because the profit margins in the export sectors are generally much lower than the profits they can gain from joining domestic production networks where political connections usually guarantee huge amounts of rents.

[17]The Chinese government's failure to provide fair rules in the domestic market has not only hindered the growth of domestic private firms as Huang has forcefully argued, it has also deterred foreign investors from entering the domestic market. It may thus help to explain why FDI has so far largely been focused on export-oriented production rather than targeting the domestic market.

In line with the above institutional analyses, this study intends to provide a more complete picture of domestic institutional changes to explain the boom in export-oriented foreign investment in the last decade. From an examination of the changes in formal and informal domestic institutions at different levels of government since the second half of the 1980s, the argument is that the FDI boom over the last decade is the result of the combination of three institutional forces that make China a particularly attractive site for export-oriented production. First, in coastal China, "competitive liberalization,"[18] whereby local governments compete to liberalize their economies in order to attract foreign investors, has intensified due to the introduction of the "export-oriented development strategy in coastal areas" (**沿海地區外向型發展戰略**) in the late 1980s and the rationalization of the taxation system in the 1990s. The former reinforced the bifurcated legal regimes governing foreign-invested and domestic firms and encouraged local officials to compete with each other to set up "economic enclaves" in their jurisdictions in order to circumvent numerous regulations that discriminate against domestic enterprises. The latter enhanced the self-reliant nature of the budgetary relationship between the central and local governments, thus intensifying the "investment hunger" of local governments for foreign capital.

Second, since mid-1993, central government policy has shifted from one of "devolving power and yielding benefits" (**放權讓利**, *fangquan rang-li*) to "macro-level adjustments and controls" (**宏觀調控**, *hongguan tiao-kong*), and this has provided a macroeconomic environment that favors export-oriented foreign investment. The depreciation of the Chinese currency, the *renminbi* (RMB, **人民幣**), combined with stabilization and structural reforms in macroeconomic policies, has significantly reduced production costs in China, making it the most attractive destination for export-oriented foreign firms from East Asia, especially in the wake of the Asian financial crisis.

---

[18]For a definition, see Yang, *Beyond Beijing*, 44-46.

Third, the competitive liberalization among the coastal local governments and the macroeconomic stabilization initiated by the central elite together produced an unintended sharpening of regional disparities. Consequently, rural workers from the hinterland rushed to the coastal areas to seek a better life. This development provided export-oriented foreign investors with a seemingly unlimited supply of cheap labor.

Domestic institutional changes in the above three dimensions helped to forge coastal China into a production powerhouse in the mid-1990s. During just one decade, China has become the most favored destination for foreign direct investment, encouraging all kinds of export manufacturers from around the world, especially East Asia, to move their production to coastal China. In the following, we analyze in detail how each of these domestic institutional changes has proceeded.

The Intensifying Game of Competitive Liberalization Among Local Governments

As mentioned earlier, both Dali Yang and David Zweig have observed how informal institutions evolved from the interplay between the Chinese central elite and local cadres, inducing behavioral patterns that have stimulated feverish internationalization. "Competitive liberalization" and "segmented deregulation" are the terms they use to describe the phenomenon of local governments in coastal China competing with one another to attract foreign investors or persuading the central elite to grant them preferential treatment or special status in the administrative hierarchy. This pattern of behavior has been further intensified in the last ten years by two factors—the introduction of the Coastal Development Strategy in the late 1980s and the rationalization of the taxation system in the 1990s.

The Coastal Development Strategy

Looking back at the evolution of China's national regulatory framework for FDI in the reform era, it is apparent that the central government has adopted a gradual approach to attracting FDI. In line with China's general reform strategy of "crossing the river by groping for stepping stones" (摸著石頭過河), the central leaders cautiously controlled the scope and speed of opening-up, assessing the consequences of each step before taking another one. Initially, national policies toward FDI were sketchy and ambiguous because of both a lack of experience and the absence of elite consensus regarding the direction of economic reform.

Only in the late 1980s did absorbing FDI and promoting outward-oriented development become an essential component of the economic strategy of China's central leaders. The introduction of the "export-oriented development strategy in the coastal area," or the Coastal Development Strategy (CDS), in 1987 marked a historic watershed in the attitude of the central government toward FDI.[19] As a number of policy guidelines, auxiliary rules, and regulations were promulgated from the mid-1980s onwards, the legal regime governing FDI gradually took shape.[20] Compared to FDI legal regimes in other developing countries, China's remained fairly restrictive in terms of ownership, management autonomy, market access, and foreign exchange. However, in contrast to the socialist legal regime governing Chinese domestic enterprises, it provided foreign investors with "supra-national treatment" (超國民待遇).[21] For example, while all domestic firms were subject to a 55 percent income tax rate, the rate for joint ventures was set at 30 percent and some local governments offered foreign investors further tax exemptions of various kinds.[22]

---

[19]Fuh-wen Tzeng, "The Political Economy of China's Coastal Development Strategy: A Preliminary Analysis," *Asian Survey* 31, no. 3 (March 1991): 270-84; and Dali Yang, "China Adjusts to the World Economy: The Political Economy of China's Coastal Development Strategy," *Pacific Affairs* 64, no. 1 (March 1991): 42-64.

[20]In addition to an increasingly clear legal regime for foreign investment, the establishment of foreign exchange centers in most coastal cities and the introduction of export-tariff exemption for export-related goods provided the most important institutional foundation for the export-oriented development strategy at this stage.

[21]This study borrows the term "supra-national treatment" from a Chinese economist, Jin Fang (金芳). See Jin Fang, *Shuangying youxi: waiguo zhijie touzi jili zhengce* (A win-win game: the preferential policies for foreign direct investment) (Beijing: Gaodeng jiaoyu chubanshe, 1999), 214-25.

[22]The dual track taxation system for domestic and foreign enterprises has gradually been converted into a unified income tax rate as a part of China's WTO accession.

At first glance, the difference in the income tax rate should have induced local governments to attract domestic, rather than foreign, firms to invest in their districts. However, under China's taxation system, the higher tax rate was not usually reflected in increased revenues for the local governments responsible for determining which firms should be encouraged to invest in localities.[23] Local governments would make use of the *bifurcated legal regime* resulting from the "supra-national treatment" granted to foreign investors to attract real and/or disguised foreign firms to help develop their local economies.[24] Therefore, the CDS was well-received among urban and rural communities in coastal China. Local governments took the chance to set up "special investment areas" and establish joint ventures with foreign investors to enjoy "supra-national treatment."[25] By the end of 1989, these "special investment areas" covered a total area of 420,000 square miles, about three times the size of Germany, and embraced a population of 280 million, slightly more than that of the United States (263 million).[26] However, the Tiananmen Incident (天安門事件) and the austerity policies that followed greatly reduced FDI inflows. Thus the effects of the CDS were subdued until the early 1990s when the atmosphere of liberalization resumed.

Intensification of Competitive Liberalization
Among Local Governments

Fiscal decentralization is considered to be one of the most important driving forces behind the economic transition of China. It has, on the one

[23]Although the tax assignment system (分稅制) set up in 1994 has assigned income tax paid by local enterprises to local governments, this clear division has been implemented only between the central and provincial governments in most places. Within the provinces, there is still no revenue division. Therefore, local governments at city and county levels still have a strong incentive to grant preferential tax policies to foreign firms in order to create local economic booms through massive inflows of foreign investment.

[24]Some Chinese domestic firms disguise themselves as foreign firms to enjoy the "supra-national treatment" under this *bifurcated legal regime*.

[25]Wu Jieh-min, "Strange Bedfellows: Dynamics of Government-Business Relations between Local Authorities and Taiwanese Investors," *Journal of Contemporary China* 6 (1997): 319-46.

[26]Fu, *Institutions and Investments*, 39.

hand, engaged local governments and state-owned enterprises in spontaneous reforms through tightening their budget constraints and, on the other hand, deprived central policymakers of traditional instruments for keeping local investment in line with central policy. As local governments at different levels increasingly have to rely on their own efforts to finance public expenditure, they will promote local economic growth by any means.[27]

Attracting foreign investment has become central to the economic development strategy of numerous local communities along the coast of China. Observers have found that, in their efforts to create an environment conducive to foreign investment, these localities have behaved in a similar way to the East Asian NICs of thirty years ago, which have been termed "developmental states."[28] With sufficient autonomy from domestic social groups and the capacity to promote foreign investment and trade, these local governments play a pivotal role in "designing and shaping the development processes" within their jurisdictions.[29] "Developmental com-

---

[27]For how fiscal decentralization has encouraged local officials to pursue economic development, see Jean C. Oi, "Fiscal Reform and the Economic Foundation of Local State Corporatism in China," *World Politics* 45, no. 1 (October 1992): 99-126; Christine P.W. Wong, "Central-Local Relations in an Era of Fiscal Decline: The Paradox of Fiscal Decentralization in Post-Mao China," *The China Quarterly*, no. 128 (December 1991): 691-715; and Christine P.W. Wong, "Fiscal Reform and Local Industrialization: The Problematic Sequencing of Reform in Post-Mao China," *Modern China* 18, no. 2 (1992): 197-227. Despite central government recentralization efforts focused on the revenue side in the 1994 tax reforms, the trend toward self-reliance on the expenditure side, if not intensified since 1994, has never changed throughout the post-Mao era. For the contents and effects of the 1994 tax reform, see Roy Bahl, "Central-Provincial-Local Fiscal Relations: The Revenue Side," in *Taxation in Modern China*, ed. Donald J.S. Brean (New York: Routledge, 1998), 125-49; and Le-Yin Zhang, "Chinese Central-Provincial Fiscal Relationship, Budgetary Decline, and the Impact of the 1994 Fiscal Reform: An Evaluation," *The China Quarterly*, no. 157 (March 1999): 115-41.

[28]For a definition and analysis of the developmental state, see Alice H. Amsden, *Asia's Next Giant: South Korea and Late Industrialization* (New York: Oxford University Press, 1989); Frederic Deyo, ed., *The Political Economy of East Asian Industrialism* (Ithaca, N.Y.: Cornell University Press, 1987); Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in Newly Industrializing Countries* (Ithaca, N.Y.: Cornell University Press, 1990); Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford, Calif.: Stanford University Press, 1982); and Robert Wade, *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization* (Princeton, N.J.: Princeton University Press, 1990).

[29]Jae Ho Chung, "A Sub-Provincial Recipe of Coastal Development in China: The Case of Qingdao," *The China Quarterly*, no. 160 (December 1999): 920.

munities" and "local developmental states" are terms commonly used to characterize these local governments.[30]

What distinguishes these Chinese local developmental states from their predecessors among the East Asian NICs is their attitude toward foreign capital. Fearing foreign capital domination, the East Asian developmental states generally chose to cultivate domestic enterprises as the primary driver of their industrialization. However, their Chinese counterparts target foreign investors as major partners in developing their economies. Since the early 1990s, especially after Deng Xiaoping's (**鄧小平**) southern tour (**南巡**) and the issuance of Central Document No. 4 on the expansion of development zones in early 1992, numerous "economic and technological development zones" (ETDZs, **經濟技術開發區**) designed for foreign investment were established in coastal areas. By the end of 1995, some thirty-two ETDZs had already been approved by the State Council, in addition to smaller-scale ETDZs set up by local governments.[31]

Establishing these ETDZs allows the local developmental communities not only to enjoy the prosperity brought by foreign investment, but also to cash in on the huge rent generated by the preferential policies that can only be enjoyed in these "economic enclaves." Once an enterprise is registered in the special zone, it enjoys lower tax rates, more flexibility in labor management and environmental protection measures, greater opportunities to obtain bank loans, and expediential services for government approvals and regulations. It is the *rent* generated from the *de facto* bifurcated legal regime rather than the *tax* collected through the *de jure* taxation regulations that has created strong economic incentives for local governments to compete with each other to attract foreign investment.

Special zone authorities gain from higher priority in the national construction plan, increased bank loan quotas, the right to retain revenue and

[30]See, for example, ibid.; Marc Blecher and Vivienne Shue, "Into Leather: State-Led Development and the Private Sector in Xinji," *The China Quarterly*, no. 166 (June 2001): 368-93; and David Zweig, "'Developmental Communities' on China's Coast: The Impact of Trade, Investment, and Transnational Alliances," *Comparative Politics* 27, no. 3 (1995): 253-84.

[31]In 2000, the central government permitted the establishment of another eleven ETDZs in the western regions of China as part of its effort to redress regional disparities.

foreign exchange, foreign trade privileges, and greater leeway in governing economic activities within their territories. Given the bifurcated legal regime between the ETDZs and the rest of China, local governments all over the country rushed to set up various types of zones to remove the restrictions associated with the traditional planned economy, and capture the rent that only zones can enjoy. If they did not have the chance to set up their own zones, they would open representative offices, subsidiaries, or joint ventures in zones in other localities to share the advantages. Under such circumstances, economic units located outside the zones suffered severe shortages of talent, money, and raw materials, as they were all flowing into the neighboring special investment zones.[32] Establishing ETDZs to stem the outflow of local resources thus becomes a crucial defensive strategy for local communities. This dynamic resulted in even more fierce, sometimes pointless, competition among local governments to set up special investment zones and attract FDI inflows.

Moreover, ETDZ status also provided local officials with better control of land use in their jurisdictions. In the reform era, land has become one of the most valuable assets held by local governments. However, land use falls under a multi-layered system of control. Local governments and their superiors in the government hierarchy often share ownership of the same piece of land. Persuading the central or provincial government to grant ETDZ status to a locality can enable local officials to circumscribe the intervention of their superiors and increase their control over land usage.

In the intensifying game of competitive liberalization, many entrepreneurial local officials follow the strategy of "building a nest to attract birds" (**築營引鳥**) by first setting up development zones (nests), and then lobbying the central government to grant them official status. From our fieldwork on relations between local governments and Taiwan investors over the last three years in the Yangtze River Delta (**長江三角洲**) area, we have observed that Kunshan (**崑山**) was a typical example of this. Kunshan, a

[32]Yang, *Beyond Beijing*, 44-50.

county in Jiangsu Province (江蘇省) just outside Shanghai (上海), established a new industrial district with its own funds in 1985, and later obtained approval from the Jiangsu provincial government for it to be classified as a preferred development district in 1990. Then in 1992, as FDI poured in, the district was finally recognized by the central authorities as a national ETDZ.[33]

Since 1994, rationalization of the taxation system and marketization of the banking system have significantly reduced local government control over financial resources in many areas. For instance, after the "tax assignment reform," the central government's share of total government budgetary revenues increased from 22.3 percent in 1993 to 51.6 percent in 2001.[34] In other words, the share assigned to local governments has dwindled from around 80 percent to less than half. The situation for local governments below the provincial level is even worse. The siphoning-off of fiscal resources in the government administrative hierarchy has resulted in a rapid transformation of local economic structure: foreign firms and private firms have replaced state-owned enterprises (SOEs) and township and village enterprises (TVEs) as the core components and thus the major job providers and revenue contributors in most coastal local communities. The restructuring of local economies therefore further intensified the competitive liberalization among local governments.

In the meantime, changes in the Chinese state banking system have made it increasingly difficult for local officials to intervene in bank lending decisions.[35] Since the beginning of the reform era, bank loans had already replaced government budgetary funds as the major source of soft money for SOEs and TVEs controlled by local governments. Therefore, the banking

---

[33]Zweig, *Internationalizing China*, 83-85.

[34]Hsueh-wei Chao, "Cong caizheng wenti kan zhongyang yu difang guanxi" (A review of central-local relations with respect to fiscal problems), in *Hu Jintao shidai de tiaozhan* (The challenges in Hu Jintao's era), ed. Arthur Ding (Taipei: Xin xinwen chubanshe, 2002), 209.

[35]Yi-feng Tao, "Cong 'fangquan rangli' dao 'hongguan tiaokong': hou-Deng shidai zhongyang yu difang jinrong guanxi de zhuanbian" (From "devolving power and yielding benefits" to "macro-level adjustments and controls": the evolution of central-local financial relations in the post-Deng era), in Ding, *Hu Jintao shidai de tiaozhan*, 235-62.

reform played an even more crucial role than taxation reform in tightening budget constraints on enterprises controlled by local governments. Local officials therefore had to find new financial resources to continue investment-driven growth within their jurisdictions. Foreign investment was able to fill this gap. In this climate of fierce competition, local governments habitually promise foreign investors more benefits than are authorized by the central authorities. According to one estimate, after counting all concessions and tariff exemptions on imports by export processing companies, high-tech companies, and strategic industries, China's actual average tariff rate in 2001 was only 3.6 percent, well below the nominal rate of 11.1 percent.[36] The reorientation of China's development strategy in the late 1980s and the intensification of local competition for foreign investment since the early 1990s form the first pillar in the construction of a world production powerhouse in China's coastal regions.

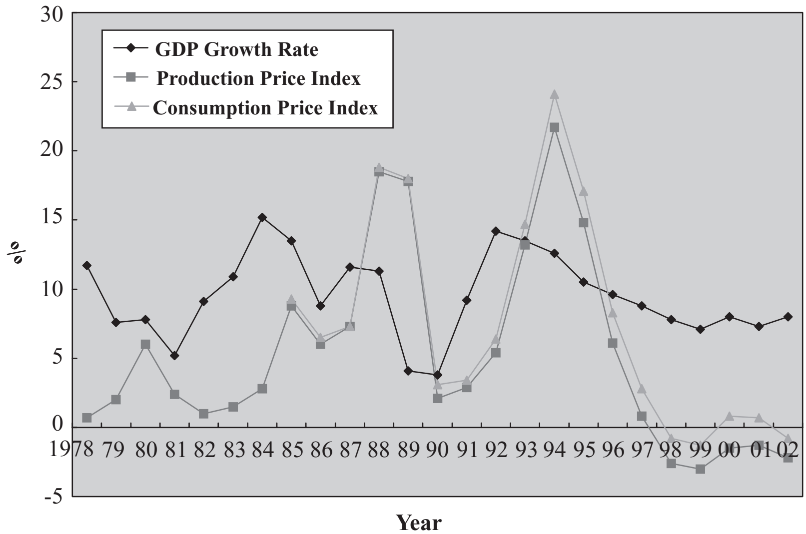
Central Government Reorientation toward Stabilization and Structural Reforms in Macroeconomic Policies

To Chinese central leaders, one of the most disturbing facts about the post-Mao economic reforms has been the cyclical inflation that has followed each wave of economic liberalization. From 1978 to 1993, China experienced four cycles of economic overheating, each being faster and more threatening than the previous one (see figure 2).

In the summer of 1993, reinvigorated by Deng Xiaoping's pronouncements during his famous southern tour the previous year, the Chinese economy experienced another spike of rapid growth and inflation in a new round of liberalization. The economy was growing at an annual rate of 14.2 percent, with consumer prices in most cities rising by 20 percent and producer prices rising by more than 40 percent annually. The economy appeared to be on the brink of chaos.

[36] Jun Ma, *Quantifying the Impact of China's WTO Entry* (Hong Kong: Deutsche Bank Global Market Research, 2001), 4.

Figure 2
Economic Cycle in China, 1978-2002



Sources: The website of China's National Bureau of Statistics, http://www.stats.gov.cn.

This economic situation alerted the central leaders, who took a series of policy initiatives to put the economy in order. In addition to the immediate introduction of austerity programs in the summer of 1993, a fifty-point "Decision on Some Issues Concerning the Establishment of a Socialist Market Economic Structure" was issued at the Third Plenum of the Chinese Communist Party's (CCP) Fourteenth Central Committee in November that year. More than a temporary remedy for the overheated economy, the fifty-point "Decision" marked a new stage in the economic transition of China. The focus now shifted from "gradual devolution of power and resources to the localities" (放權讓利) to an institutional arrangement aimed at enhancing the capacity of central policymakers to exercise "macro-level adjustment and control" (宏觀調控).[37] In the context of an

[37]Dali Yang, "Reform and the Restructuring of Central-Local Relations," in *China Decon-*

increasingly liberalized market economy, the capacity of the central government to maintain macroeconomic stability was improved during this round of economic reforms.

In retrospect, the policy reorientation toward "macro-level adjustment and control" has created a mercantilist macroeconomic environment conducive to the success of outward-oriented development. Here, "mercantilist macroeconomic policies" refer to policies that emphasize the accumulation of foreign reserves (originally precious metals) by promoting the domestic manufacturing of exports and suppressing domestic consumption of imports. The mercantilist macroeconomic regime that has gradually taken shape since 1994 comprises two elements: foreign exchange system reform and banking system reform.

Reform of the Foreign Exchange System

Following the guidelines announced in the fifty-point "Decision," the State Council installed a new foreign exchange system on January 1, 1994. First, the dual exchange rate regime was abolished and on that date, the official exchange rate of 5.80 *yuan* (RMB) to US$1 was changed to the swap market rate of 8.70 *yuan* to US$1, representing a 50 percent depreciation. Second, the foreign exchange retention mechanism was pronounced void. Government units, enterprises, and individuals were no longer allowed to retain a portion of their foreign exchange takings, a privilege originally provided as an incentive for economic players under the socialist planned system to earn more foreign exchange. Instead, a new rule of immediate settlement was introduced. Under the new mechanism current account convertibility was granted, but all transactions had to go through designated foreign exchange banks. The rule of immediate settlement requires that all current account income is either sold to or deposited in designated foreign exchange banks as it is received. Meanwhile, all purchases/payments of foreign currencies for trading and non-trading ex-

---

structs: Politics, Trade, and Regionalism, ed. David S.G. Goodman (New York: Routledge, 1994), 59; and World Bank, *China: Macroeconomic Stability and Industrial Growth under Decentralized Socialism* (Washington, D.C.: World Bank, 1995), 59.

penses must be accompanied by transaction documents verified by banks. Third, a unified inter-bank currency market was established to replace the decentralized foreign exchange swap centers. As the foreign exchange retention mechanism was abolished and all foreign exchange income was required either to be sold to or deposited with designated banks, there was no more need for such swap centers. Instead, designated banks needed an inter-bank currency market to adjust their foreign exchange holdings. Under the new system, the central bank, the People's Bank of China (PBC), sets foreign exchange reserve ratios for designated banks and financial institutions. Banks whose foreign exchange holdings exceed the reserve ratio are required to sell the excess on the inter-bank market. Conversely, banks whose foreign exchange holdings are below the ratio have to buy foreign currency to make up the difference.[38]

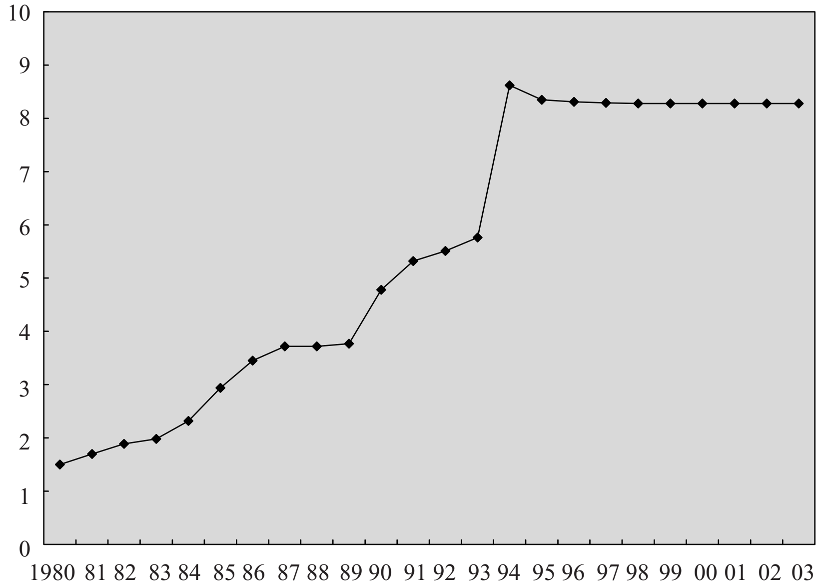
Through the abolition of the foreign exchange retention mechanism and the unification of the foreign exchange market, the PBC has achieved much better control of the foreign exchange system. It has done this by adjusting the foreign reserve ratios for designated banks, implementing an open market in the inter-bank currency market, and changing the rules for current account transactions. As a result, the PBC is now the dominant player in China's foreign exchange market and can easily set the exchange rate to a level that the Chinese central policymakers consider desirable. One key year for the nominal exchange rate between the RMB and the U.S. dollar was 1994. Since then, the exchange rate has maintained a level of approximately 8.3 *yuan* to the dollar, a very competitive and stable price for exports (see figure 3).

Reform of the Banking System

The foreign exchange system reform flooded the Chinese economy with excessive liquidity. This could have resulted in serious inflation and destabilization of the economy. In this case, the *real* exchange rate of

[38]He Zerong, *Zhongguo waihui shichang* (China's foreign exchange market) (Chengdu, Sichuan: Xinan caijing daxue chubanshe, 1996), 28-36.

Figure 3
Changes in Nominal Exchange Rates between Chinese *Yuan* and the U.S. Dollar, 1980-2003



Sources: Economist Intelligence Unit (EIU) Data Services.

the RMB would have become neither low nor stable, and the mercantilist macroeconomic environment could have become unsustainable. Fortunately, the mounting inflationary pressure was halted by the end of 1995. In 1996, when inflation declined to 8.3 percent per annum, the Chinese central authorities declared that a "soft landing" had been achieved, with the economy still growing at 9.6 percent. Moreover, price stability was successfully maintained throughout the remainder of the decade. The restructuring of the banking system during this time is the key concurrent institutional change that has contributed to a decade of domestic price stability.

The Chinese banking reform has proceeded through several steps. First, the enhancement of central bank independence relieved the PBC of its previous fiscal function. Through the "People's Bank of China Law," passed in 1995, the abolition of the credit plan in 1998, and the creation of the nine trans-regional branches in 1998, the central bank has been made independent not only of the Ministry of Finance and other central government economic planning agencies, but also of local governments.

Before this round of reform, the PBC relied on the annual cash plan and credit plan to control money supply. However, when the role of the central bank was not clearly defined, and when the cash and credit plans were designed mainly to serve the need of the state economic plan, economic growth rather than monetary stability was the goal for the creation and implementation of the annual cash and credit plans. The "People's Bank of China Law" clearly stipulated for the first time that the primary task of the central bank was to maintain monetary stability, and that the central bank was not allowed to directly finance any government unit. The clarification of the organizational goal together with the restructuring of the bank's internal institutions and the financial flows between the central bank and the state banking system in subsequent years have significantly enhanced central bank independence and fundamentally altered the role of the central bank in the economy.

The balance sheet of the PBC clearly reflects these major changes. Since 1994, claims on government and other government units and claims on financial institutions have declined sharply as a share of total PBC assets, while net foreign assets increasingly dominate total assets (see table 1). The decline in the claims on government and financial institutions indicates the termination of government overdraft and the reduction of central bank loans (or "re-lending," **再貸款**) to the state banking system since the mid-1990s. That is, the Chinese central bank has tried very hard to get rid of its fiscal function and gradually shift its focus solely to maintaining monetary stability.

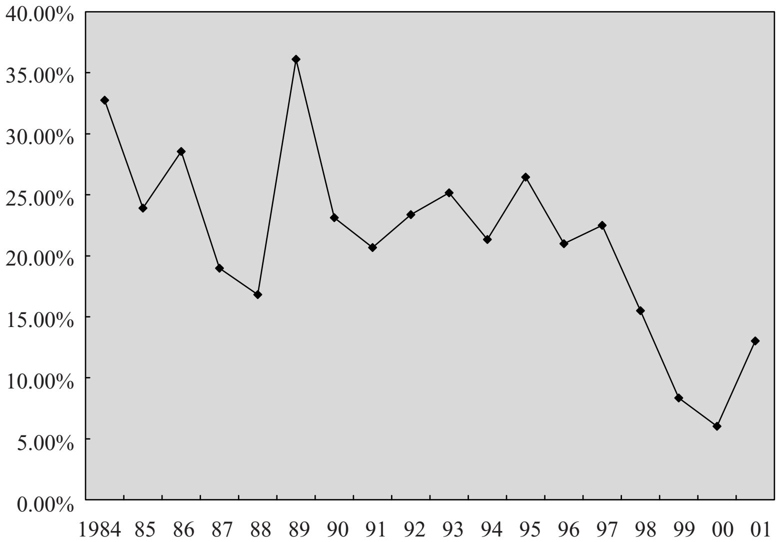
Although the reform of the state banking system has its own purpose in reducing systemic financial risk and bolstering the competitiveness of Chinese state-owned banks, the reform has also significantly influenced domestic price stability. In short, the establishment of the three policy banks in the mid-1990s has relieved the four state banks of the tasks of issuing policy loans to government projects as they did under the tradi-

Table 1
People's Bank of China's Balance Sheet (in billion *yuan*)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Net foreign assets	119.5	100.7	445.1	667.0	956.2	1,322.9	1,356.0	1,445.9	1,518.9	1,937.6
Claims on central government	124.1	158.2	168.8	158.3	158.3	158.3	158.3	158.3	158.3	282.1
Claims on deposit banks	678.0	962.6	1,045.1	1,151.0	1,451.8	1,435.8	1,305.8	1,537.4	1,351.9	1,131.2
Claims on other financial institutions	20.1	27.3	27.0	18.2	11.8	207.2	296.3	381.1	860.0	854.7
Claims on other government units	53.4	68.2	72.8	68.0	65.9	17.1	10.4	10.2	11.0	19.6
Reserve money	903.0	1,245.9	1,721.8	2,976.0	2,688.9	3,063.3	3,133.5	3,362.0	3,649.1	3,985.2
Cash in circulation	457.5	628.8	788.4	857.4	944.0	1,098.1	1,206.4	1,507.0	1,593.8	1,686.9
Liabilities to financial institutions	306.7	554.1	746.8	967.3	1,435.5	1,611.5	1,474.5	1,472.9	1,601.9	1,708.9
Liabilities to non-financial institutions	48.9	63.0	186.6	251.3	309.9	353.7	452.6	382.2	453.4	589.4
Bonds	0	0	0	19.7	0	11.9	11.9	11.9	0	0
Government deposits	91.8	120.0	83.3	97.3	122.5	148.6	172.6	178.6	310.0	285.1
Capital	50.9	66.4	26.6	37.1	36.7	36.6	36.7	36.7	36.7	35.5
Other	–50.5	–115.3	–72.9	167.7	–204.1	–119.1	–228.0	–54.2	–95.7	–83.1

Sources: PBC, *Almanac of China's Finance and Banking*, various years; and the PBC website: http://www.pbc.gov.cn.

Figure 4
Bank Loan Growth in China



Sources: China's National Bureau of Statistics, *Xin Zhongguo wushi nian tongji ziliao huibian* (Comprehensive statistical data and materials on fifty years of new China) (Beijing: Zhongguo tongji chubanshe, 1999), 66; and the website of the People's Bank of China, http://www.pbc.gov.cn.

tional planned system; the "Commercial Bank Law" of 1995 clarified the status of the bank headquarters as the sole representative of the legal banking units, and thus fundamentally transformed the power relations between the Beijing headquarters and local branches; the abolition of the credit plan and the introduction of asset-liability ratio management helped to create a commercial credit culture in the state banking system and reduced local government intervention in loan-making decisions. As a result, since the mid-1990s bank officials at each level of the Chinese state banking hierarchy have become more prudent in their loan-making decisions. This change in atmosphere is reflected in the declining growth rate of credit expansion during this period (see figure 4).

Finally, the development of financial markets, especially the bond market, has provided the PBC with an environment that has enabled it to shift toward conducting monetary policy with market instruments. As the Ministry of Finance and the three policy banks have issued more government bonds via the financial markets in recent years, these bonds have become a key component of the assets held by Chinese financial institutions, and the bond market has thus become the primary arena for these institutions to adjust their liquidity. This development has provided the conditions for the PBC to implement monetary policy through open market operation in the bond market. Since 1998 the PBC has exercised open market operation in the government treasury bond market. Moreover, since 1999, such operations have become the major channel for the central bank to provide base money.[39]

Structural reform of the Chinese banking system allowed the central authorities to achieve better control of domestic price stability. The nightmare of cyclical inflation seems to have been checked: since the mid-1990s China has maintained its longest period of domestic price stability since it first implemented its economic reforms (see figure 2). Domestic price stability was sustained through the stabilization of money supply in the 1990s (see figure 5). Institutional changes in central banking, commercial banking, and financial markets are the pillars underpinning this achievement.

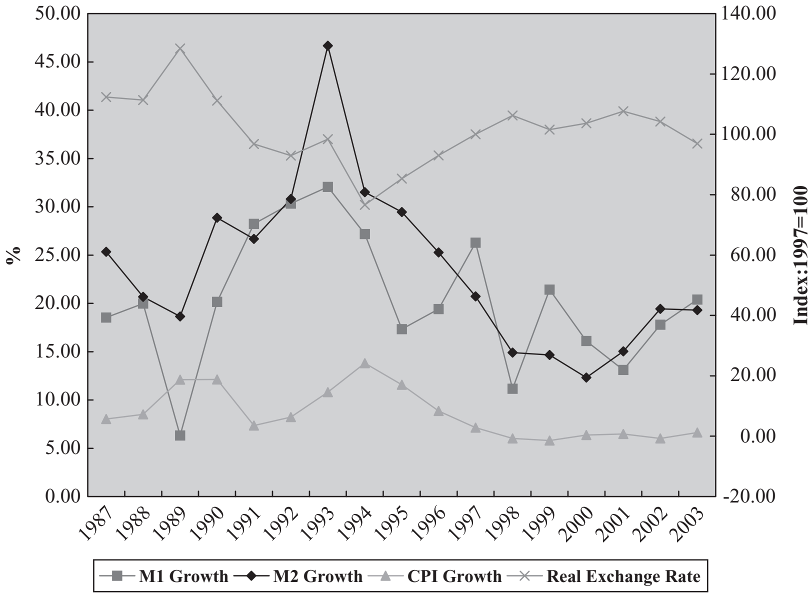
Domestic price stability helped China maintain a stable *real* exchange rate, and thus created the most stable macroeconomic environment for foreign investment, both in comparison to other historical periods in China and to other countries in the region in recent times. Therefore, although the Chinese central government reorientation toward stabilization and structural reforms in macroeconomic policies has hurt the interests of the non-tradable sector and import-competing domestic firms, it should be seen as another important domestic institutional change that has helped make China the most favored destination for cost-driven export-oriented foreign investors during the late 1990s.[40]

---

[39]Xie Duo, "Zhongguo gongkai shichang yewu shijian" (The practice of open market operation in China), *Dongnan xueshu* (Southeast Academy), 2000, no. 4:28.

[40]According to Jeffry Frieden's specific-factors model, producers of non-tradable goods and

Figure 5
China's Money Supply and Price Stability, 1987-2001



Sources: EIU Data Services.

Widening of Regional Disparities and Increases in the Supply of Cheap Labor

Easing regional disparities was one of the reasons for the "macro-level adjustments and control" reform, launched by the central government in late 1993, yet regional disparities have not shown any signs of reduc-

services and import-competing producers of tradable goods for the domestic market prefer a flexible exchange rate that could preserve national monetary autonomy, because their business prosperity relies more on the expansion of the domestic market. On the other hand, export-oriented producers of tradable goods would prefer a fixed exchange rate to national monetary autonomy because they rely more on a stable economic environment in the international market. See Jeffry Frieden, "Invested Interest: The Politics of National Economic Policies in a World of Global Finance," *International Organization* 45, no. 4 (1991): 425-51.

Table 2
The Levels and Differences of Rural Resident Incomes in China's Eastern, Central, and Western Regions (*yuan* per capita)

	1996	1997	1998	1999	2000	2001
Levels						
Eastern	2,549	2,746	2,854	2,929	2,994	3,267
Central	1,763	1,931	1,986	2,003	2,030	2,165
Western	1,289	1,405	1,474	1,502	1,557	1,662
Differences						
Eastern/Central	1.45	1.42	1.44	1.46	1.47	1.51
Eastern/Western	1.98	1.95	1.94	1.95	1.92	1.97
Central/Western	1.37	1.37	1.35	1.33	1.30	1.30

Source: Chinese Academy of Social Sciences and National Bureau of Statistics, *Zhongguo nongcun jingji xingshi fenxi yu yuce, 2001-2002* (The analysis and prediction of China's rural economic situation, 2001-2002) (Beijing: Shehui kexue wenxian chubanshe, 2002), 139.

tion. From the grass-roots point of view, regional disparities have actually worsened further during the last ten years.[41]

At the aggregate level, the Chinese central government, through a series of large infrastructure projects, did channel a considerable portion of the budget and large quantities of bank loans into the hinterland. However, at the grass-roots level, the income gap between residents of inland and coastal areas has persisted. From 1996 to 2001, the income gap between rural residents in eastern, central, and western China was persistently wide, with residents of the eastern coastal regions consistently earning 1.5 times more than residents of the central regions, and up to twice as much as residents of the western regions (see table 2).

As the rationalization of the fiscal and financial systems since 1994 has tightened the budget constraints on local governments, these governments have come to depend increasingly on local resources to finance their

[41]Wang Shaoguang and Hu Angang, *Zhongguo: bupingheng fazhan de zhengzhi jingjixue* (China: the political economy of unbalanced development) (Beijing: Zhongguo jihua chubanshe, 1999); and Yehua Dennis Wei, *Regional Development in China: States, Globalization, and Inequality* (London: Routledge, 2000).

expenditures. In the coastal regions, competition among local governments for foreign investment has thus intensified. However, in the interior, most of the governments at county level or below have fallen into severe fiscal crisis. According to one estimate, in 1999 most of the county-level governments in China had incomes barely sufficient to finance two-thirds of their expenditures. Over 40 percent of county governments can finance less than half of their expenditures.[42] Meanwhile, the financial situation of township level governments is even worse. These bankrupt local governments have shifted their fiscal burden onto the poor peasantry by charging various fees and levies. This predatory behavior has suffocated local economic development and forced young peasants to leave home to seek better opportunities in the coastal cities.

This is vividly described by Kenichi Ohmae in his work on the rise of China Inc. as a "capitalist's paradise":

> I caught my first glimpse of this new China in the summer of 2000, on a visit to a three-year-old electronics components manufacturing plant in the city of Shenzhen. ... This plant had 10,000 workers, earning about $80 per month each. They were all young women, and none of them wore glasses. "Don't you have any employees who wear eyeglasses?" I asked the manager. He replied, "We fire them when their eyes go bad. ... There are plenty of people who want to work for us."[43]

Ohmae observes that "such brutally cruel attitudes and practices do not exist in other nations of China's stature because labor laws prevent them. ... But in Shenzhen [深圳], Shanghai, Suzhou [蘇州], Dalian [大連], and many more Chinese cities, where hundreds of millions of people eagerly flock to urban jobs from the hinterland, such practices are taken for granted." Indeed, from our own interviews with foreign investors in China, we learned that export-oriented foreign investors prefer to hire workers fresh out of school in the countryside, because these new migrant workers are "cheaper and more obedient." The sharp contrast in income levels and job availability between the interior and the coast has left rural

---

[42]Minxin Pei, "China's Governance Crisis," *Foreign Affairs* 81, no. 5 (September/October 2002): 102.

[43]Ohmae, *Profits and Perils in China, Inc.*, 3.

workers with little bargaining power against foreign employers.

Therefore, the widening of regional disparities in the 1990s became the primary cause of the unlimited supply of cheap labor to foreign investors in China. According to Chinese official estimates, in 2002, rural migrant workers as a whole earned 528 billion *yuan* in the cities, or about 40 percent of China's GDP. These workers remitted 327 billion *yuan* (about 60 percent of their combined incomes) back home to their villages, a sum equivalent to the Chinese government's annual budget revenue from the countryside.[44]

To sum up, the persistent income gap between the impoverished hinterland and the developed coastal regions during the 1990s has led to massive labor migration to the cities and effectively depressed labor costs. The situation has in turn become a major attraction to export-processing foreign-owned firms that have been pressed by rising wages in their home countries.[45]

Conclusion

This study provides a domestic institutional explanation for the foreign investment fever in China during the last ten years. The argument is that the changes in domestic formal and informal institutions at different levels since the second half of the 1980s have caused the FDI boom. First, the competitive liberalization among local governments has been

---

[44]Xinhua News Agency, August 22, 2003.

[45]However, in the last couple of years the supply of migrant workers seems to have reached its limit. "Labor shortage" (缺工) has become a new phenomenon in coastal China. Explanations for this have ranged from price rises in coastal area and the new central government agricultural policy, to the creation of more jobs in the hinterland. Although still too early to tell what is the real cause, it is plausible to argue that the regional disparity and seemingly "unlimited" supply of migrant workers may only be transitional phenomena that will disappear as market forces expand further into the heartland of China. For explanations of the changes in migrant workers' behavior, see Li Peilin, ed., *Nongmingong: Zhongguo jincheng nongmingong de jingji shehui fenxi* (Migrant workers: an economic and sociological analysis of migrant workers in China) (Beijing: Shehui kexue chubanshe, 2003).

intensified by both the introduction of the coastal development strategy during the late 1980s and the rationalization of the taxation system in the 1990s. Second, since mid-1993, the central government reorientation toward stabilization and structural reforms in macroeconomic policies has provided a macroeconomic environment favorable for export-oriented foreign investment. The depreciation of the Chinese currency, the *renminbi*, combined with stabilized domestic prices, made China the most attractive destination for foreign direct investment in East Asia. Finally, the combination of the above two factors has caused an unintended consequence in the widening of regional disparities, which in turn has produced a seemingly unlimited supply of cheap labor that has further encouraged foreign investors to accelerate the cross-border migration of production chains.

These domestic institutional changes helped build the coastal regions of China into a world production powerhouse in the mid-1990s. During just one decade, China has become the most favored destination for FDI, attracting all kinds of export producers from around the world, especially from East Asia. The foreign investment fever has not only helped the Chinese economy to grow at a startling pace, but has also eased the pain of its transition from socialism.

Bibliography

Amsden, Alice H. 1989. *Asia's Next Giant: South Korea and Late Industrialization*. New York: Oxford University Press.

Bahl, Roy. 1998. "Central-Provincial-Local Fiscal Relations: The Revenue Side." In *Taxation in Modern China*, ed. Donald J.S. Brean, 125-49. New York: Routledge.

Blecher, Marc, and Vivienne Shue. 2001. "Into Leather: State-Led Development and the Private Sector in Xinji." *The China Quarterly*, no. 166 (June): 368-93.

Chao, Hsueh-wei (**趙學維**). 2002. "Cong caizheng wenti kan zhongyang yu difang guanxi" (A review of central-local relations with respect to fiscal problems). In *Hu Jintao shidai de tiaozhan* (**胡錦濤時代的挑戰**, The challenges in Hu

Jintao's era), ed. Arthur Ding, 206-34. Taipei: Xin xinwen chubanshe (**新新聞出版社**).

China Online. 2004. http://www.chinaonline.com, January 30.

Chinese Academy of Social Sciences and National Bureau of Statistics. 2002. *Zhongguo nongcun jingji xingshi fenxi yu yuce, 2001-2002* (**中國農村經濟形勢分析與預測**, The analysis and prediction of China's rural economic situation, 2001-2002). Beijing: Shehui kexue wenxian cubanshe.

Chung, Jae Ho. 1999. "A Sub-Provincial Recipe of Coastal Development in China: The Case of Qingdao." *The China Quarterly*, no. 160 (December): 919-52.

Deyo, Frederic, ed. 1987. *The Political Economy of East Asian Industrialism*. Ithaca, N.Y.: Cornell University Press.

Frieden, Jeffry. 1991. "Invested Interest: The Politics of National Economic Policies in a World of Global Finance." *International Organization* 45, no. 4: 425-51.

Fu, Jun. 2000. *Institutions and Investments: Foreign Direct Investment in China during an Era of Reform*. Ann Arbor: University of Michigan Press.

Haggard, Stephan. 1990. *Pathways from the Periphery: The Politics of Growth in Newly Industrializing Countries*. Ithaca, N.Y.: Cornell University Press.

He, Zerong (**何澤榮**). 1996. *Zhongguo waihui shichang* (**中國外匯市場**, China's foreign exchange market). Chengdu, Sichuan: Xinan caijing daxue chubanshe.

Hsing, You-tien. 1998. *Making Capitalism in China: The Taiwan Connection*. London: Oxford University Press.

Huang, Yasheng. 2003. *Selling China: Foreign Direct Investment during the Reform Era*. New York: Cambridge University Press.

Jin, Fang (**金芳**). 1999. *Shuangying youxi: waiguo zhijie touzi jili zhengce* (**雙贏遊戲: 外國直接投資激勵政策**, A win-win game: the preferential policies for foreign direct investment). Beijing: Gaodeng jiaoyu chubanshe.

Johnson, Chalmers. 1982. *MITI and the Japanese Miracle*. Stanford, Calif.: Stanford University Press.

Keohane, Robert, and Helen Milner, eds. 1996. *Internationalization and Domestic Politics*. New York: Cambridge University Press.

Leggett, Karby, and Peter Wonacott. 2002. "Burying the Competition." *Far Eastern Economic Review*, October 17.

Lever-Tracy, Constance, David Ip, and Noel Tracy. 1996. *The Chinese Diaspora and Mainland China: An Emerging Economic Synergy*. New York: Macmillan.

Li, Peilin (**李培林**), ed. 2003. *Nongmingong: Zhongguo jincheng nongmingong de jingji shehui fenxi* (**農民工**: **中國進城農民工的經濟社會分析**, Migrant workers: an economic and sociological analysis of migrant workers in China). Beijing: Shehui kexue chubanshe.

Lü, Zheng (**吕政**), ed. 2003. *Zhongguo neng chengwei shijie gongchang ma?* (**中國能成為世界工廠嗎**? Can China become a world factory?). Beijing: Jingji guanli chubanshe.

Ma, Jun. 2001. *Quantifying the Impact of China's WTO Entry*. Hong Kong: Deutsche Bank Global Market Research.

National Bureau of Statistics. 1999. *Xin Zhongguo wushi nian tongji ziliao huibian* (**新中國五十年統計資料彙編**, Comprehensive statistical data and materials on fifty years of new China). Beijing: Zhongguo tongji chubanshe.

Naughton, Barry, and Dali Yang, eds. 2004. *Holding China Together: Diversity and National Integration in the Post-Deng Era*. Cambridge and New York: Cambridge University Press.

Ohmae, Kenichi. 2002. *Profits and Perils in China, Inc*. New York: Boos, Allen Hamilton.

Oi, Jean C. 1992. "Fiscal Reform and the Economic Foundation of Local State Corporatism in China." *World Politics* 45, no. 1 (October): 99-126.

Pei, Minxin. 2002. "China's Governance Crisis." *Foreign Affairs* 81, no. 5 (September/October): 96-109.

People's Bank of China. Various years. *Almanac of China's Finance and Banking*.

Tao, Yi-feng (**陶儀芬**). 2002. "Cong 'fengquan rangli' dao 'hongguan tiaokong': hou-Deng shidai zhongyang yu difang jinrong guanxi de zhuanbian" (From "devolving power and yielding benefits" to "macro-level adjustments and controls": the evolution of central-local financial relations in the post-Deng era). In Ding, *Hu Jintao shidai de tiaozhan*, 235-62.

Tzeng, Fuh-wen. 1991. "The Political Economy of China's Coastal Development Strategy: A Preliminary Analysis." *Asian Survey* 31, no. 3 (March): 270-84.

United Nations Conference for Trade and Development (UNCTAD). 2002. *World Investment Report 2002: Transnational Corporations and Export Competitiveness*. http://www.unctad.org/en/docs/wir2002_en.pdf.

Wade, Robert. 1990. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton, N.J.: Princeton University Press.

Wang, Shaoguang (王紹光), and Hu Angang (胡鞍鋼). 1999. *Zhongguo: bupingheng fazhan de zhengzhi jingjixue* (中國: 不平衡發展的政治經濟學, China: the political economy of unbalanced development). Beijing: Zhongguo jihua chubanshe.

Wei, Yehua Dennis. 2000. *Regional Development in China: States, Globalization, and Inequality*. London: Routledge.

Wong, Christine P.W. 1991. "Central-Local Relations in an Era of Fiscal Decline: The Paradox of Fiscal Decentralization in Post-Mao China." *The China Quarterly*, no. 128 (December): 691-715.

_______. 1992. "Fiscal Reform and Local Industrialization: The Problematic Sequencing of Reform in Post-Mao China." *Modern China* 18, no. 2:197-227.

World Bank. 1995. *China: Macroeconomic Stability and Industrial Growth under Decentralized Socialism*. Washington, D.C.: World Bank.

Wu, Jieh-min (吳介民). 1997. "Strange Bedfellows: Dynamics of Government-Business Relations between Local Authorities and Taiwanese Investors." *Journal of Contemporary China* 6:319-46.

Xie, Duo (謝多). 2000. "Zhongguo gongkai shichang yewu shijian" (The practice of open market operation in China). *Dongnan xueshu* (東南學術, Southeast Academy), no. 4:28-30.

Yang, Dali. 1991. "China Adjusts to the World Economy: The Political Economy of China's Coastal Development Strategy." *Pacific Affairs* 64:42-64.

_______. 1994. "Reform and the Restructuring of Central-Local Relations." In *China Deconstructs: Politics, Trade, and Regionalism*, ed. David S.G. Goodman, 59-98. New York: Routledge.

_______. 1997. *Beyond Beijing: Liberalization and the Regions in China*. New York: Routledge.

_______. 2004. *Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China*. Stanford: Stanford University Press.

Zhang, Le-Yin. 1999. "Chinese Central-Provincial Fiscal Relationship, Budgetary Decline, and the Impact of the 1994 Fiscal Reform: An Evaluation." *The China Quarterly*, no. 157 (March): 115-41.

Zheng, Yongnian. 2004. *Globalization and State Transformation in China*. Cambridge and New York: Cambridge University Press.

Zweig, David. 1995. "'Developmental Communities' on China's Coast: The Impact of Trade, Investment, and Transnational Alliances." *Comparative Politics* 27, no. 3:253-84.

______. 2002. *Internationalizing China: Domestic Interests and Global Linkage*. Ithaca, N.Y.: Cornell University Press.