Guangdong Playing the 'Foreign Card':
Politics and Economics across Territorial Boundaries

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Note:

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Introduction

This chapter tells the story of a complex interplay of political skills and economic objectives, and the linkage between transnational interactions and domestic power relations, in the context of attempts of the Guangdong leadership to develop the provincial economy in the post-1978 reform period. It is an empirical study of how the interaction of politico-economic forces across and within national borders --- between the locale, the national, and the global community --- is actually at work. One specific focus is how the interaction of global and local forces exerts an impact on central-provincial power relations.

Notwithstanding the common goal between the central government and provinces in modernization and economic development, incessant conflicts have characterized central-provincial relations in China during reform. Both sides competed to produce the latest strategies to maximize one's interests. This chapter examines one particular strategy, the establishment of transnational linkages, or 'internationalization', which the Guangdong leaders used to expand their room for manoeuvre against central control on their investment policy. The examination leads to two observations. First, it confirms the importance of political strategies and bargaining skills in shaping economic outcomes and in inflecting the contours of power relations. The old premise of the interactions between politics and economics is, once again, demonstrated. Secondly, it testifies the limitation of adopting the nation-state as a unitary unit of analysis. Even in the field of international relations, traditionally reserved as the exclusive domain of the national government, subnational actors have become very important agents. As this chapter shows, through creative manipulation of symbols in a transnational context, a lower-level government may 'soften' the constraining impact of central policies on its economic objective, and consequently improve its bargaining position within an otherwise highly hierarchical structure of power.

The importance of political strategies and bargaining skills has been a major theme of a growing literature.(Yoffie, 1983; Kobrin, 1987; Lampton, 1987a, 1987b; Lieberthal and Oksenberg, 1988; Lieberthal and Lampton, 1992; Chung, Cheung and Lin, 1997) In fact the interactive relations between politics and economics is a recurring topic of concern in international political economy. Hirschman in his classical work (Hirschman, 1945) starting the dependency literature emphasizes the political impact of the pattern of international trade. The original thesis has since been revised by Hirschman himself, among other critics, and it is recognized that economic parameters alone are insufficient in explaining the configurations of international power relations (Hirschman, 1978). One resultant focus of analysis is the role of political strategies and bargaining skills of the actors in the shaping of final outcomes.

Underlying the appreciation of the role of political strategies is a conception of power which sees power not so much in the tradition of the ‘realists’, than as influence in an interdependent context (Keohane and Nye, 1977). Power is then not simply a function of the balance of resources, military, economic or organizational, possessed by different actors, but a product of creative manipulation of symbols and one’s ‘objective’ capabilities in a context of mutual, but asymmetrical, dependence (Parsons, 1967; Li, 1997). The possession of bargaining skills and symbol manipulation capability adequate to specific purposes varies among actors, as well as the level of attention and priority accorded to specific tasks (Hirschman, 1978).[1]

Further complicating the scene are the complex and multi-faceted interactions between forces of different spatial levels from within, and without, national borders (Sum, 1995). The increasingly intense interactions across the national borders in the contemporary period and the multiplicity in nodes of interactions challenge the conventional wisdom of seeing nation-states as the major, if not the only, actors in the international arena.[2] In many cases subnational actors are heavily involved in the conduct of foreign affairs, which are traditionally regarded, at an earlier time, as the exclusive jurisdiction of national governments. Transnational activities by subnationals are also not limited to mere 'implementation' matters but often gather a policy significance,[3] with implication on the power relations in the domestic context.

The rest of the chapter will proceed in two parts. The first part is an exposition of the nature of the conflicts between Guangdong and the Centre in spite of their common goal of economic development, setting the context for the subsequent discussion of the provincial strategies. Part two, the main body of the chapter, examines Guangdong's adoption of the strategy of 'internationalization', and explores how the Guangdong leaders manipulated the national policy of 'open door' to 'blunt' the central control over provincial investment. This covers the early reform period in the 1980s down to the recent financial crisis for a number of its major enterprises in 1998 and 1999 subsequent to the Asian Financial Crisis of 1997. These are followed by a brief conclusion on the impact of the use of the strategy of internationalization on the power relations between the Centre and the province.

Economic Growth and the Regime of Control

The central leaders decided in late 1978 to embark on a large-scale reform programme to modernize the Chinese economy and buttress their mandate to rule. The southern province of Guangdong was assigned the role of reform pioneer, capitalizing on its extensive connections with overseas Chinese, notably those in Hong Kong (Li, 1998, ch. 7).[4] In fact, the provincial officials were as eager as central leaders, if not more, to develop the economy, and news signaling a change in national agenda from class struggle to economic construction immediately struck a chord among Guangdong's officials (Vogel, 1989, ch.2).[5] The Guangdong leaders quickly suggested the setting up of special economic zones at the southern border of the province, which was promptly endorsed and became the hallmark of the national policy of 'opening door'.[6]

Despite this commonality in goal, the post-1978 years have witnessed intense central-provincial conflicts over the course of actions to take in the attainment of economic development. One major focus of conflict is over the level of investment undertaken in a given period (Kornai, 1980; Naughton, 1987; Christine Wong, 1987, 1992; Wong, Heady and Woo, 1995; Oi, 1992, 1995; and Li, 1998). The central government tended to be more worried about the danger of the economy getting 'over-heated', as a result of too much investment within a too short period of time, straining supply and pushing up prices. On the other hand, as Kornai (1980) has argued, local governments and enterprises in a socialist system are more inclined to seek more investment, and less concerned about the spillover effects of their investment activities over the longer run.[7]

Traditionally, under the socialist system of central planning, investment was tightly controlled by the central planning authority (Li, 1998, ch. 2; Dangdai Zhongguo Congshu Bianji Bu, 1989). Whilst this regime of control had been significantly watered down as a result of extensive decentralization measures during the reform period, its basic parameters still imposed a significant influence on the manner whereby investment was achieved in the provinces, and on the strategies the provinces undertook to circumvent central control. An understanding of provincial political strategies to maximize investment will thus require an *a priori* understanding of how the regime of investment control, or what remained of it, actually worked.

One major central control instrument on provincial investment in the reform period was the central control figure prescribing the maximum value of investment to be undertaken within the geographical jurisdiction of a province in a given year. This 'quota' was to cover the investment in both the state and non-state sectors, and was set by the central planning authority (State Planning Commission) after a process of bargaining with provinces at the beginning of the year. This was a mandatory control instrument and the provincial governments were held responsible for its being observed. The problem was that as the number of investing agents proliferated with reform, and as the authority to approve specific investment projects became extensively decentralized, the Centre was simply deprived of an effective means of enforcement of the quota, unless provinces chose to co-operate. Such cooperation was unlikely, however, as the traditional inclination of local governments to expand investment was added fuel by the enhanced localized interests under the contractual fiscal system of the 1980s (Wong, 1992; Oi, 1995). The consequence was that, as a matter of fact, the central quotas were consistently exceeded during the 1980s by 50% (Li, 1998, ch. 2).

A further complication to the picture was that the coverage of the central quota was by no means consistent over time, and that there were numerous 'exclusion' items in what was to be covered, and thus controlled, by the quotas. Taken at face value the quotas were supposed to impose a ceiling on the total value of investment irrespective of sources of funds and ownership. In practice some categories of investment were not included in the ambit of the quota and thus *not* subject to the ceiling control. One example was the non-state sector. Investment in the non-state sector accounted for an increasing percentage in the 1980s. As a result of inertia the non-state sector was not, however, included within the scope of the quotas until the mid-1980s. Two other major exclusions were central investment projects and direct foreign investments, which, due to policy reasons, had *always* been 'exempted' from ceiling control. The policy intention of the quota as a control instrument was to enable the central planners to control the amount of investment undertaken *by* the provinces. There was thus no point, so the logic goes, to include in the quota central investment, which was supposedly decided by the central planners themselves. Similarly, the central leaders wanted as much as foreign investment as possible, and thus the exclusion of this category (Author's interviews, Guangzhou, September and December 1993). The exclusion of foreign investment is especially material for the analysis here, and underlines the added utility of provinces using foreign investment to expand provincial investment and achieve economic growth.

'Internationalization' as a provincial political strategy

'Internationalization' refers to the opening of the domestic economy to the international community. As a general description it includes the increasing use of foreign capital, the adoption of international management practices, and establishing transnational linkages not directly related to the injection of foreign capital. The question of relevance here is whether the practice of 'internationalization' in Guangdong was a *provincial* strategy, or a provincial implementation of a national policy? In this respect one is reminded of the fact that one of the earliest national reform measures involved the promulgation of foreign investment laws. In July 1979, merely seven months after the close of the landmark Third Plenum of the Eleventh Party Congress, the Law of the People's Republic of China on Chinese-Foreign Joint Ventures was promulgated, allowing the inflow of foreign capital as equity capital of Chinese-foreign joint venture enterprises. Getting foreign investors in has thus been a national policy from the very early days of economic reform, stemming from not the least practical concerns. The national economy as of 1978 had been seriously strained after decades of political mobilization and neglect over economic efficiency. Under these circumstances external capital was regarded as crucial to take off the modernization process, and to turn the vision of change into reality.

That opening China's 'door' to the international market was a national policy from the initial stage of China's reform explained why Guangdong's suggestion of special economic zones in 1979, an idea regarded as very radical at that time, was quickly endorsed by central leaders. In any event, prior to Deng

Xiaoping's resumption of the leadership role, Hua Guofeng during his brief reign had launched in 1978 and 1979 a massive import of foreign capital and technology (Fan, 1992, 4).[8] There was thus a recurring continuity within the central government regarding the importance accorded to the use of foreign capital and know-how.

'Internationalization' as practised in Guangdong was not merely an implementation of national policy, however. Successive Guangdong leaderships had used the 'foreign factor' in the provincial economy to bargain for various kinds of favourable treatment from the Centre, and derived benefits which went well beyond the additional resources which foreign capital brought to Guangdong's investment plans. Although the use of foreign capital was the stated policy of the Centre, the manner in which the Guangdong government implemented the policy suggests the breadth of possibilities between the dichotomy of instrumental agency and subversion.

The use of foreign capital started in the early 1980s with the initial aim of supplementing domestic investment capital and bringing in foreign technology and management techniques in order to speed up modernization. At that time it was largely a demand driven exercise. The onset of economic adjustment between 1980-83 tightened the supply of domestic capital precisely when additional input was badly needed for the take-off of reform in Guangdong. From 1979 to 1998, a total of US$96 billion of realized foreign capital was used in Guangdong.

Of this total, a not insignificant amount, US$6.1 billion, or 6.3% of the total, was invested in infrastructure projects such as roads, ports, electricity, gas, and telecommunication (*Guangdong Statistical Yearbook* 1999, 519). The proportion of foreign capital invested in infrastructure projects was in fact far higher during the earlier period of reform, reaching 18% between 1979 to 1992, and only came down when total foreign investment in the province galloped thereafter (Luo and Guo, 1993, 120-1).[9] This was an interesting phenomenon since infrastructure was traditionally a domain of central planning and investment in this sector borne by budgetary, and often, central, resources. The national policy of attracting foreign capital had also, originally, focused on the manufacturing sectors. The extensive use of foreign capital in infrastructure projects thus amounted to an amendment to the original national policy.

This process of ‘amending’ the national policy is best understood through a re-examination of the historical context of the time. During the early 1980s huge infrastructure investment was required to lay the ground of the special economic zones. Central leaders had, however, repeatedly warned against any expectation for substantial central capital injection. When visiting Guangdong or responding to Guangdong’s request for capital support, central leaders then were famous for the paraphrase, ‘ask for money, no sorry; ask for policies, take a few’ (Guangdong Provincial Party Committee, 1986, 114; Li, 1998). Turning to external sources was thus initially a practical response by the Guangdong leadership to the shortage of central investment input.

In September 1979 Guangdong leaders suggested to central leaders for the first time the idea of using foreign capital in infrastructural investment. The response was, surprisingly, positive and came swiftly (Guangdong Provincial Party Committee, 1986, Vol.1, 47).[10] Central approval was formally given in Central Committee Notice No. 41 in May 1980, which authorized Guangdong and Fujian to utilize foreign capital in infrastructural projects in view of the shortage of state funds.[11] This ground-breaking move was followed by the announcement of tax breaks and exemptions from profit remittance for infrastructural projects using foreign capital in 1981, in order to facilitate loan repayment.[12] Within two years of the start of the open door policy, much of the content of the original policy had been rewritten. This indicated the flexibility and pragmatism among at least some of the then central leaders: that they were prepared to adjust previous policies in view of practical difficulties. On the other hand, it also suggested the extent of influence of provincial leaders in the remaking of central policy by their active articulation of problem and innovative implementation.

This is not to say, however, that all obstacles to the use of foreign capital in investment were then removed. The approval given in 1980 and 1981 referred primarily to roads, ports and railroad projects. The importance of the developments in 1980-81 was that they laid the ground for later more specific bargaining with the Centre. In 1983, for instance, Guangdong government sought to extend the use of foreign capital to telecommunications. Despite initial resistance from the central ministry, the request subsequently won the support of Hu Yaobang, the then General Secretary of the Party (Guangdong Provincial Party Committee, 1986, Vol. 2, 23).

Circumventing Central Control

The extensive use of foreign capital in Guangdong not only brought in a massive amount of external resources from abroad (Zhang, 1992, 120).[13] no less importantly, it enabled the Guangdong government to circumvent some of the control measures imposed by the Centre on provincial investment. By 1990s it is commonly acknowledged that reform in China needed foreign technology and know-how, not foreign funds as such, given the huge domestic savings inside the country (Thurow, 1996, 53). The net inflow of foreign money was however important in the initial stage, not only for the additional resources it brought but also for its impact on the loosening of institutional controls on the use of domestic capital, many of which being features of the lingering centrally planned system. The Guangdong leadership, for one, had learnt to make use of the 'foreign factor' in the provincial economy as a means to obtaining favourable treatment from the Centre. Foreign investment was, for instance, instrumental to the upward adjustment of central control figures prescribed for Guangdong during times of economic retrenchments in 1986 and 1989. The argument the Guangdong officials made in their bargaining with central authorities was simple: more domestic capital had to be made available to Guangdong to enable it to make use of the hard-won foreign capital.

The rationale of the argument needs to be understood in the context of the regime of investment control in China. As noted in the previous section, foreign investment was excluded from the coverage of central quotas on total investment, as quotas were designed as a control instrument on the use of *domestic* investment resources only. However, since most foreign investment projects were joint venture projects with the Chinese, the use of foreign capital would require matching of domestic capital, which fell under the scope of the quota. Because of this linkage of foreign and domestic capital, the contraction of investment quotas during retrenchment could seriously affect foreign investment projects. On the ground that Guangdong absorbed the largest amount of foreign capital in the country, the Guangdong government was quite successful in exacting concessions from the Centre and having the quotas increased. In 1986, for instance, in the middle of a retrenchment exercise, a State Council notice stated that,

> for those foreign investment projects which were already registered or under construction, provincial governments and various ministries should ensure the provision of the capital required by the Chinese partners in foreign investment projects within the central control figure. *If that was really impossible, this year's control ceiling of investment scale and total bank finance could be raised*.... From 1987 onwards, the investment and bank finance required by the Chinese partners in foreign investment projects will be covered in *separate quotas* in the central and provincial plans.[14] (emphasis added)
>
> (Guangdong Provincial Party Committee, 1988, Vol. 1, 137-38)

It was likely that, in that instance as well as others, provincial governments had deliberately held back capital for foreign enterprises in order to press for a higher investment ceiling (Author's interviews, Guangzhou, December 1993). The provincial officials surmised that, when foreign investors complained about the tightening capital supply, the Centre, being anxious to maintain foreign confidence, was likely to yield to pressure and loosen its grip. By holding foreign investment as hostage, provincial leaders hoped to ease both the central control over its total investment ceiling and increase the supply of domestic capital to the province.

Bargaining in this respect sometimes involved the highest level of central leadership. In October 1986, for instance, Guangdong's leaders took up the case with Zhao Ziyang during Zhao's visit to Zhuhai and complained about the shortfall of bank finance. Guangdong's leaders told Zhao that there had been a mismatch between investment plans and the centrally authorized supply of investment capital, and that very often projects approved and included in state plan still received no capital. Zhao replied:

> Nationwide there are now about 6000 foreign joint ventures... involving a total of foreign investment of US$20 billion, and requiring 'partner capital' from our side of over 10 billion yuan.... We do not have the capacity to provide that much.... There is simply not enough money.[15]
> (Guangdong Provincial Party Committee, 1988, Vol. 1, 195)

Despite Zhao's lukewarm response, getting the attention of top leaders did help Guangdong to gain additional resources from the Centre. Within a year, in October 1987, the Centre agreed an additional 100 million yuan of special 'circulating' loans to Guangdong to solve the shortage of domestic 'partner capital' arising from the increase in foreign capital investment since 1986 (Guangdong Provincial Party Committee, 1988, Vol. 2, 389).[16] A petition had been filed to central leaders reporting the good inflow of foreign capital in 1986 and the prospect of having still more foreign investment to come. Corresponding 'adjustments' in policy and domestic capital supply, according to the report, were thus necessary so as not to let loose the ‘golden opportunity’ (Guangdong Provincial Party Committee, 1988, Vol. 2, 370-75).[17] What the Guangdong leadership did could be described as the ‘fishing’ of domestic capital through its success in attracting foreign investment, and it worked.

The foreign factor was put to use again in 1989, when the Centre ordered a severe cut in investment nationwide. The ceiling then prescribed for Guangdong was substantially lower than what the provincial government had contemplated. The strategy of the provincial leadership was to shift the emphasis of the provincial investment plan to the foreign sector. Efforts to attract foreign investment intensified. As a result, despite the constrained atmosphere in foreign relations at the aftermath of the Tianamen and the retreat of many foreign projects and personnel nationwide, more, not less, foreign capital was used in Guangdong in the three years of national retrenchment between 1989 and 1991. The total value of realized foreign capital from 1989 to 1991 was US$7 billion, 38% more than the total value realized in the three years preceding 1988 (*Guangdong Statistical Yearbook*, 1993, 363).

Here a closer look at the composition of the ‘total realized foreign capital’ is illuminating. Table 1 and 2 show the two main components of foreign capital, namely foreign loans and foreign direct investment, in Guangdong and nationally respectively, during the 1989-91 retrenchment period and the preceding three years.

Table 1

Realized Foreign Capital, Guangdong (Billion USD)

	1986-88	**1989-91**	**Change %**
Total	5.08	7.01	37.8
Loans	2.36	2.16	-8.5
% of total	46.4%	30.8%	
FDI	2.16	4.44	105.8
% of total	42.4%	63.4%	

Source of information: *Guangdong Statistical Yearbook*, 1993, 363.

Table 2

Realized Foreign Capital, National (Billion USD)

	1986-88	**1989-91**	**Change %**
Total	25.94	31.90	23.0
Loans	17.31	19.71	13.9
% of total	66.7%	61.8%	
FDI	7.38	11.25	52.3
% of total	28.5%	35.3%	

Source of information: *China Statistical Yearbook*, 1999, 594.

Tables 1 and 2 indicate that for both Guangdong and nationally, direct foreign investment was the main growth area in the use of foreign capital in the retrenchment period and, in the case of Guangdong, the increase in this area more than offset the decline in foreign loans. Unlike foreign loans which comprised foreign bank loans, government loans and loans by international agencies, the latter two items often requiring a role of the central government, the negotiation of direct foreign investment had been extensively decentralized to the provincial and sub-provincial authorities. Table 1 shows that total realized foreign capital in Guangdong increased by 37.8% during 1989-91 over 1986-88. When counting foreign direct investment alone, the surge was even higher at 105%. In fact, the percentage share of Guangdong's direct foreign investment in the national total increased from 29.2% during 1986-88 to 39.5% during the retrenchment years of 1989-91. Of the total increase of USD 3.86 billion in foreign direct investment nationally during this period, Guangdong accounted for almost 60%, indicative of the priority placed on the attraction of foreign investment in Guangdong during the retrenchment.

Putting the effort in the foreign sector in 1989 served two purposes for the Guangdong government. First, the foreign sector enabled the provincial government to bargain for preferential treatment for Guangdong, which included exempting the province from some central control measures imposed nationwide since late 1988. Consequently the Guangdong government managed to raise the investment quota (Sun, 1989: 18),[18] relax central control over bank finance, and remove custom duties on imported raw materials and semi-finished parts for export processing (*Zhongguo Jinbao*, April 21, 1989, 8; March 10, 1989, 1). The 'foreign hostage' strategy worked, and the domestic sector benefited as a 'free-rider' (Author's interviews, Guangzhou, December 1993). Secondly, the increased use of foreign capital enabled Guangdong's economy to continue to develop at a time whilst most other provinces were badly affected by the straitened financial situation caused by retrenchment.[19] Since the use of foreign capital effectively brought in additional resources to the domestic economy, it could not, in theory, worsen, but rather improve, the supply and demand situation within the economy. In the event that the use of foreign capital had an adverse effect in terms of continuing to 'heat up' the economy, it would nonetheless be difficult for the Centre to dampen Guangdong's enthusiasm for attracting foreign investment, due to the negative repercussions this might cause within the international community and on Guangdong's future prospects of attracting foreign investment.

In order to make the most from the exemption policy awarded to the foreign sector, the Guangdong government also moved beyond the traditional approach of using foreign capital in brand new projects. More emphasis was placed instead on linking the *existing* domestic sector to a foreign element, thereby expanding the benefits originally intended to the foreign sector only to the domestic sector. A mixed sector would maximize flexibility, as it would be able to enjoy benefits derived from its foreign as well as domestic linkages. Yu Fei, then Guangdong's vice-governor, made this new strategy explicit in his speech to a provincial planning and economic meeting:

> We must make every good use of the favourable conditions given by the 'exemption policy'. Those capital construction projects which have a linkage with foreign-invested enterprises should be supported by all means. *We should try to convert some domestic investment projects and find for them a foreign linkage so that they can enjoy the 'exemption policies'* (Yu, 1989). (emphasis added)

Consequently, the number of co-operative joint ventures formed between existing state enterprises and a foreign partner rose conspicuously in 1989. For Guangzhou alone, the number of such contracts from January to April 1989 was 2.5 times greater than those of the same period the previous year, with the value of realized foreign capital leaping by more than 20 times (*Zhongguo Jinbao*, July 21, 1989, 1). This tactic was repeated in the second half of 1993 when the Centre once more tightened its supply of funds and clamped down on investment projects. In July 1993, at the onset of the Centre's tightening of bank credit, then the mayor of Guangzhou, Lai Ziliu, said that his government would expand the use of foreign capital in the city, thereby enabling local enterprises to withstand the capital shortage problems resulting from the Centre's move (*Ming Pao Daily*, (Hong Kong) July 8, 1993). Foreign investors were offered, as an incentive, the prospect of a larger share in the domestic market, more profits, and shares in the existing state enterprises.

One bargaining tactic effectively used by the Guangdong leadership in loosening the Centre's grip was bargaining at the margins. When seeking to expand the investment quotas, to increase the supply of domestic capital, or to abolish custom duties, Guangdong's officials seldom argued squarely with central officials. Instead they would stress the utility and value of *specific* investment projects in terms of, for instance, the value of foreign investment involved, and the gap that the projects would fill in the existing industrial structure (Wang, 1989; Li, 1998, ch. 5).[20] This tactic was especially conspicuous during periods of retrenchment, when economic situations nationwide make the Centre more strongly in favour of control. During 1989-91, the Guangdong leadership had thus openly expressed support for the retrenchment policy, and at the same time kept raising 'practical difficulties' with central leaders. The tactic was not to argue with the Centre on matters of principle, but to focus on 'mundane' issues. Using a set of language shared with the Centre, Guangdong officials then put forward specific calculations of costs and benefits and convinced central leaders that it was in the interest of the country, thus of the Centre, to allow Guangdong to launch more investment.

Hints of this approach may be detected from the remarks of Yu Fei, vice-governor as of 1989, at the same provincial meeting noted above:

> The adjustment and retrenchment policy of the Centre not only suits the needs of our country, the policy is also good for the situation in Guangdong... We should take the initiative to adjust our economy, based on Guangdong's local conditions, and should not regard retrenchment as a matter of obeying orders (from the Centre). Moreover, we have to start early and be *progressive* in our *specific* actions (Yu, 1989, 2). (Emphasis added)

One *specific progressive* action Yu Fei referred to was the establishment of linkages between the domestic sector and the new, foreign, sector (Author's interviews, Guangzhou, September 1993). To quote an example of innovative implementation of national retrenchment policy, the construction of a glass factory in Guangdong faced the prospect of being discontinued in February 1989 as a result of the lower than expected central quotas prescribed for Guangdong (Wong, 1989) (Author's interviews, Guangzhou, September 1993). Arguments then emerged that stopping the project would do more harm than good because a total of US$2 million of imported equipment would then stand idle, and compensation would have to be made to previously signed sale contracts. The project had also spent 5 million yuan of bank loans, which would still have to be repaid even if the project was suspended and had no prospect of realized income (*Zhongguo Jibao,* October 7, 1989, 1). The tactic paid off, and the central quota prescribed for Guangdong in 1989 was subsequently adjusted upwards by 42%, to 14 billion yuan (Author's interviews, Guangzhou, September 1993).

Building International Centres

As foreign capital flowed in and the provincial economy became more externally oriented,[21] there emerged a demand to target the development of Guangzhou and Shenzhen at the comparable of 'international cities', taking cues from global cities like Hong Kong, Tokyo and New York. The implication of setting this objective, from a provincial perspective, were two-fold. First, it would justify Guangdong's plans for a larger number of high-quality investment projects in order to make the infrastructure and industrial structure of the two cities commensurate with the standards of international cities. Secondly, it would strengthen Guangdong's bargaining position for more autonomy from the central government, as a high degree of autonomy in the domestic setting was often both a symbol and characteristic of international cities.

Bearing in mind the utility of the call for provincial purpose, the origin of the idea might be attributed to Deng Xiaoping as early as 1987. When receiving a foreign delegation, Deng stated that a few more ‘Hong Kongs’ would be built in Mainland China, and the idea was raised again during Deng's southern tour in February 1992 (Lin, 1993, 4). As Hong Kong is an international city, Deng’s statement could be easily translated as a call for the building of several more international cities in China. With the end of the retrenchment policy and the change towards a relaxed economic ‘atmosphere’ after the southern tour, the call for building international cities was picked up seriously in the more developed coastal regions, and particularly in Guangdong and Shanghai.

For the Guangdong leadership, the opening of Pudong in Shanghai in 1990 had posed new challenges to the development of Guangdong, its special economic zones in particular. There was increasing concern among the Guangdong leadership that other open areas and cities had come to enjoy preferential policies similar to, if not more favourable than, those once exclusively found in its special economic zones, and that its special economic zones were no longer that special. There was therefore a need to find new goals in order to keep up the momentum of development, and to sustain the image of the province as the pioneer of economic reform. For Guangdong as a whole, the new aim was to reach and surpass the economic and social development of the 'four little dragons' in two decades.[22] For

Guangzhou and Shenzhen, their sights were set on becoming the first batch of international cities in Mainland China.[23]

International cities require good infrastructure as well as a correspondingly high standard of economic development. Thus the quest for investment has acquired a legitimate and focused pretext. The prospect of being an international city provides an objective yardstick against which the investment and development plans of the two cities may be evaluated. Since the standards of the two cities as of the 1990s still lagged substantially behind most international cities, the city governments had a strong 'alibi' through which to justify their ambitious investment plans and, in the event of pressure from the Centre to cut investments, a legitimate position from which to defend their investment activity and to bargain for exemptions and preferential treatment.

To make way for the realization of this goal, for instance, the Guangzhou city government planned to build a new airport with the capacity to handle 63 million passengers per year---more than twice the capacity of Hong Kong's Kai Tak Airport. Prestige infrastructure projects include a mass transit rail system in the city area, costing tens of billions of yuan, and a long list of road and railway projects (*Economic Daily* (Hong Kong), February 15, 1994, 2). In Shenzhen, investment projects for the 1990s would require more than 100 billion yuan of capital (Lin, 1993, 6). To finance development plans on such an immense scale, however, more foreign capital would need to be used. Increasing internationalization of the economy of the two cities is, therefore, an inevitable consequence. More importantly, making internationalization as the *goal* of the two cities increases the chance of the city governments to obtain the necessary clearance from the central government for their ambitious investment plans.

Another interesting implication of the new goal of international cities was the legitimization of provincial calls for less central control and more provincial autonomy generally. Ever since the conception of the Special Policy for Guangdong and Fujian in 1979,[24] the prospect of allowing more provincial autonomy was represented as the necessary *expedient* to enable the province to pioneer in economic development and reform. The goal was national economic development, to be achieved through the means of local autonomy for Guangdong. The delegation of additional authority to Guangdong in the 1980s was, in other words, necessitated by the difficulty in bringing changes to the country as a whole at one time. With the progress of reform and the subsequent changes in other parts of the country, Guangdong had become less ‘exceptional’, and had less need to remain exceptional, in terms of the application of central policy. There was concern among the Guangdong leadership that the Special Policy no longer existed in practice, and that the autonomy of the Guangdong government to manage its own economy would gradually vanish.[25]

By setting itself the new goal of building international cities, under these circumstances, the Guangdong government attempted to transcend the crisis arising from the end of the experimental role of Guangdong during the initial stage of China's reforms. Not only did the idea of international cities represent a new and higher-order goal in the development of China's reforms, which served to extend the life of Guangdong's pioneer position among other provinces, inherent in this new goal was an essential level of autonomy for the provincial government. The Guangdong government could easily refer to the examples of other international cities outside China when arguing for a higher degree of local autonomy for Guangzhou and Shenzhen, and by extension, for the provincial government itself. Local power and autonomy was no longer merely the expedient to a desirable goal; it constituted an integral, and legitimate, part of the goal of internationalization.

Riding the Asian and Provincial Financial Crisis

The utility of the foreign factor in the provincial economy was once again demonstrated in the aftermath of the Asian Financial Crisis, started in Thailand in July 1997. Many of Guangdong's local financial companies went insolvent or came near the brink of insolvency, including two 'flagship' provincial corporations, Guangdong Enterprises Holdings (GDE) and Guangdong International Trust and Investment Corporation (GITIC), due to a host of reasons including over-borrowing, poor management and failing investment decisions, and sheer corruption.[26] In October 1998, one year after the Asian financial crisis erupted in Hong Kong, the central bank of China ordered the closure of the Guangdong International Trust and Investment Corporation, which had been unable to pay back matured foreign debts (*Ming Pao* (Hong Kong), 7 October 1998, A2). This decision sparked off a protracted process of heated negotiation over the status of debts owed to foreign banks between the central authorities, provincial government and the various foreign banks.

One contentious issue was whether those debts would be honoured and thus repaid by the guarantor, which was the Guangdong Provincial Government, or whether repayment would hinge on prior registration with the People's Bank of China when the loan was first approved. After three months of confusion, a decision was finally made in January 1999 to wind up the GITIC group in line with the Bankruptcy Law, enacted in 1986, under which provision foreign debts would not enjoy any priority in repayment relative to domestic debts (*Hong Kong Economic Times* 11 January 1999, A2). This was a turnaround move from the various assurances by central leaders including Premier Zhu Rongji and the President of the People's Bank of China, Dai Xiang-lung, made right after the central government's closure order in early October 1998.[27] In fact, as Dai later explained to the aggrieved foreign creditors, the change of mind was largely due to an earlier under-estimation of the problems involved (*Hong Kong Economic Journal* 28 January 1999, 1). With the actual amount of debts being at least three times more, and many assets found to be void, the central government no longer regarded it amenable to fully repay all foreign debts without unduly damaging the interests of the domestic creditors, and thus threatening domestic social stability.[28]

The central government apparently was caught by surprise at the extent of problems it had unleashed by mandating the closure of GITIC. Social stability concerns called for a more even-handed approach to the foreign and domestic debts, even if it meant a renouncement of central policy.[29] Central leaders found themselves backtracking earlier promises made to foreign banks, and at one time, in order to 'save face' and camouflage the change in central policy, there was even an attempt to resign the turnaround move to a matter of local discretion. The decision to follow the procedures of the Bankruptcy Law and not to accord any priority in debt repayment to foreign banks was thus described as merely a 'specific' decision made by the Guangdong Provincial Government in view of the circumstances of the GITIC case (*Hong Kong Economic Times*, 12 January 1998, A4).[30]

On surface the foreign factor therefore seemed to have made little difference in the GITIC case. The impact was delayed, however. The January 1998 decision caused great uproar among the foreign banking sector and the fermenting confidence crisis in Chinese enterprises reached a new high. As early as in late October 1998, many major Chinese enterprises in Hong Kong and Guangdong had petitioned Zhu Rongji about the possible snowballing effects of the GITIC crisis.[31] The worry was for the log-on effect on the financing arrangements and liquidity of other Chinese enterprises in a major confidence crisis in the financial market, and there were already signs that other major Chinese enterprises, including Guangdong's other flagship, Guangdong Enterprises, were in danger. The controversial January 1998 decision caused further outcry and there were even questions directed at the credibility of Hong Kong as an international financial centre (*Hong Kong Economic Journal*, 21 January 1999, 3).[32]

As early as mid December 1998 a decision had apparently been made not to repeat the dramatic development of the GITIC case, when Zhu Rongji directed the Guangdong provincial government to 'take a close look' at the situation in GDE.[33] By early February 1999 the ice was finally broken. After a series of meetings with the central bank, Central Monetary Authority of Hong Kong, and representatives of Chinese enterprises in Hong Kong, the central government under Premier Zhu Rongji softened its stance and agreed to lend a helpful hand to enterprises in case of genuine need. This made possible a more amicable deal for GDE, proposed in December 1999, under which GDE would receive new assets of substantial value from the provincial government, and the creditor foreign banks receiving repayment of their debts of up to 60-70% of total, and a prospect of eventual full recovery (*South China Morning Post*, 17 December 1999, Business 1).[34] The central government also agreed to inject capital of 38 billion yuan to Guangdong in the form of a 'loan' to help Guangdong authorities repay domestic and foreign debts of other enterprises (*South China Morning Post* (Hong Kong), 17 December 1999, Business 1).[35]

Whilst the crisis was unfolding there had been various interpretations of the events. One popular reading was to see the crisis as a central crack-down on the 'loose running' of a Guangdong 'clique'. Together with the tightening control on smuggling activities, the financial crisis was but part of an overall attempt to rein in the southern province in a constant tug of war between the centre and the province (*Hong Kong Economic Journal*, 10 November 1998, 23).[36] Another interpretation was to see the crisis as one stage in the progress of economic reform. Now that the international credit and investment enterprises had served their historical role, their mal-practices became less tolerable. The 'crisis' was, under this view, a result of a move of the central government to reassert its authority to steer the direction of reform to its proper path, along the lines of improved institutionalization and strengthened credit control (*Ta Ka Pao* (Hong Kong), 12 October 1998, A2).[37]

Of particular interest here is the interplay of forces from the centre, province and the foreign (including Hong Kong) sector. It was obvious that the central government had stepped up its intervention in the affairs of Guangdong. Apart from appointing Wang Qishan, a Beijing senior banking official, as the provincial executive vice-governor, Premier Zhu Rongji also personally intervened on a number of occasions.[38] The close links between Wang and Zhu in fact made the attempt to assign the January bankruptcy decision to entirely a local discretion untenable. The central government had successfully impressed upon foreign banks of its might over provincial authorities, and that without its endorsement local government guarantees to their loans amounted to nothing. On the other hand, the fear for snowball effects beyond GITIC and the Guangdong province, and a deepening confidence crisis in the international financial community eventually caused the central government to adopt a more cautious approach in dealing with Guangdong's economic and management problems. As noted above, the Guangdong government subsequently won an enormous injection of central funds to bail out the debts of its enterprises.

Not only did Guangdong obtain additional central resources in dealing with its financial problems, the provincial government had also utilized the foreign factor in legitimizing the GITIC bankruptcy decision. Facing an angry and frustrated group of foreign creditor banks, Guangdong's leaders explained that they were merely following the international established practice in not awarding any special privilege to foreign debts in a liquidation case (*Hong Kong Economic Times*, 11 January 1999, A2).[39] Furthermore, it was said that foreign banks had also themselves to blame, since they had not performed any proper credit assessment for the loans in line with usual international practice. The banks were also criticized for unfairly charging interest rates at the level of commercial loans on the one hand, and assuming sovereign risk on the other (*Hong Kong Economic Journal*, 12 February 1999, 1).[40] In other words, the Guangdong government had been making use of international practice to make the international financial community to accept the propriety of its decision, which would help to stop the confidence crisis from further expansion and contain the size of problem the provincial economy would have to face. These international practices, or the knowledge of them, were in fact made known to the Guangdong leaders through a group of international accounting professionals.[41]

Strategies, Symbols and Power

Discussion so far shows that through skilful manipulation of national policies and use of the foreign element the Guangdong provincial leaders sought to create new room for discretion and further its development goals. In the process sometimes central policy had been bypassed, and sometimes amended, and very often with the connivance if not participation of central officials. Given the constitutional and political arrangements in the political system, the central government was no doubt the stronger party in a structurally asymmetrical relationship. Yet power in complex societies is not merely a function of resources. As this chapter illustrates, political strategies and skills of symbol manipulation do help a weaker party to wield its influence and yield results in its favour.

Seeking transnational linkages was only one of the strategies adopted by the Guangdong officials since reform to achieve its objective of expanding investment and attaining a high rate of economic growth (Li, 1998, ch. 5).[42] The strategy of ‘internationalization’ had a special importance, however, because of its two characteristics. The first was the existence of the foreign element. The foreign investors were an actor external to the domestic setting of power. Through establishing transnational linkages the Guangdong government managed to blunt somewhat the superior power of the Centre, whose positional authority on the provincial government could not be just automatically extended to the international community. Secondly, ‘internationalization’ itself was a national policy having a high degree of priority within the central government. This meant that the

Guangdong leaders could more easily camouflage its own interests by speaking the language of the Centre. By talking a similar language Guangdong's leadership minimized the risk of being seen as obstructing central policy. A high degree of congruence of national and provincial policy, under these circumstances, could be a product of the effort of symbol manipulation by provincial actors.

Discussion on the GITIC case and the provincial financial crisis also illustrated that national policies were not static objects waiting to be implemented or evaded by local authorities. Rather they constitute a set of symbols the meaning and content of which is subject to interpretation and negotiation by contending parties, in that case the central and provincial authorities, the international creditor banks, and international professionals. Power is elusive, mediated by formal structures, idiosyncratic influences and interactions of perceptions and choices of actors, all played out in a certain 'time-space envelope' (Sum, this book) involving actors across various territorial boundaries. In the process of interpretation and reinterpretation, the policies are continuously being made and remade. The dichotomies of 'formulation-implementation' and 'implementation-evasion', and the corresponding top-view view of central-local relations, simply break down. Interactions across national borders participated in changes *within* borders.

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[1]Hirschman argued that the preponderance of 'objective' capabilities in terms of economic and military resources in 'stronger' states may be offset by the stronger 'desires' by the 'weaker' states to free themselves from the relative domination situation than the desires by the 'stronger' states to maintain the domination. The attention of the weaker states may also be more focused than the stronger ones which are more distracted by their other commitments so that the former may be able to extract a better deal from their dealing with the latter than what they may expect from a simple calculation of their 'objective' capabilities.

[2] Ohmae (1995) even proclaims the end of the nation-state as the meaningful unit of analysis of internatinal political economy.

[3] One example of such instances is the role of the Jilin provincial government since 1988 in the formulation of the Tumen cooperation scheme, a transnational economic cooperation scheme sponsored by the United Nations Development Program involving China, Soviet Union, North Korea, South Korea, Japan and Mongolia (Cotton, 1995).

[4]The decision is facilitated by Guangdong's relative marginality in the national context prior to 1978. Guangdong's fiscal revenue as of 1978 accounted for only 3.5% of the national total, against Shanghai's share of 15%. The same role was bestowed on Fujian in 1979 as well, to capitalize on its proximity and extensive contacts with Chinese in Taiwan.

[5] Guangdong's eagerness to seek economic growth was partly due to the influence of Hong Kong next door, especially since trade and informal contacts through emigres and family visits became more frequent in the 1970s.

[6] The idea of setting up special economic zones was first raised in a Guangdong Provincial Party Committee meeting in January 1979. Author's interviews in Guangzhou, December 1993.

[7] Kornai describes the tendency of socialist governments and enterprises to expand investment irrespective of economic efficiency concerns as the 'investment hungry syndrome'.

[8] The value of foreign capital and technology imported during 1978-79 amounted to nearly US$8 billion, over 55% of the total between 1950 and 1979.

[9] In 1992, realized foreign capital increased by 88% over 1991. Realized foreign capital in Guangdong continued to increase steadily for a couple of years, reaching US$9.65 billion in 1993 and US$11.45 billion in 1994, whilst the increase significantly slowed down since 1995 (US$12.1 billion, and US$14.2 billion in 1997 and US$15.1 billion in 1998).

[10]Guangdong's Vice-Governor, Wu Nansang, raised the idea of using foreign capital in electricity and highway projects whilst Gu Mu was visiting Guangdong in September 1979. Gu Mu immediately agreed to the suggestion, and added that since both the central government and the Guangdong government were short of funds, foreign capital should also be used to finance roads and power stations.

[11]Central Committee Notice No. 41 (1980), May 16, 1980, 'On Approving the Notes of Meeting on Guangdong and Fujian'.

[12]Central Committee Notice No. 27 (1981), July 19, 1981, 'On Approving the Notes of Meeting on the Work of Guangdong, Fujian and the Special Economic Zones'.

[13]The total value of foreign capital used from 1979 to 1991 accounted for more than 25% of total investment in the province.

[14]State Council Notice No.6 (1986), 'On Further Improving the Production and Operation Conditions of Foreign-Funded Enterprises', July 11, 1986.

[15]'Zhao Ziyang Speaking When Inspecting the Zhuhai Special Economic Zone', October 18, 1986

[16] 'The Central Leading Group on Guangdong's Report', October 27, 1987.

[17] Guangdong Party Committee and Guangdong People's Government, 'A petition on fully utilizing the current opportunity to speed up economic development', October 12, 1987. Realized foreign capital in Guangdong in 1986 rose by 55% over 1985.

[18] Sun was a central government official who was then inspecting Guangdong's retrenchment efforts. After the inspection, he suggested that consideration be given to the special needs of the foreign-funded enterprises in Guangdong, apparently convinced by Guangdong's presentation of its special circumstances.

[19] The growth rates of GDP in Guangdong during 1989-91 were consistently higher than the national average. GDP grew by 16.2%, 10.9% and 17.3% in 1989, 1990, and 1991 in Guangdong, against the national rates of 11.7%, 8.8%, and 14.2%. *China Statistical Yearbook* and *Guangdong Statistical Yearbook*, various years.

[20] It does not preclude the occurrences of more fore-front criticisms of central policy, however, or articulations for policy change of a comprehensive nature. During 'more normal' periods when the economy was developing well and the reformers at the Centre were more secure in their positions, the Guangdong leaders had occasionally lobbied for more fundamental changes in central policy. One example is the suggestion of special economic zones in 1979, as mentioned earlier, when central leaders had decided to embark on reform and were receptive to suggestions of specific policies. Guangdong was less successful in 1988, however, when it requested for comprehensive reform status and a host of aggressive policies, including the abolition of the central control figures on provincial investment. The Guangdong leadership also attempted, in early 1989, to challenge the retrenchment policy imposed in late 1988. In an article published in a provincial newspaper, the propaganda chief of the Provinical Party Committee defended Guangdong's 'flexible implementation' of national policies as being totally in line with the Centre's policy of opening and reform, and that imposition of new controls as a result of retrenchment in Guangdong should not come into the way of the more important, and thus overriding, policy of economic reform. The role of reform pioneer which Guangdong was assigned, it was argued, *required* Guangdong to be different, and thus exemptional measures in face of the nationwide retrenchment were mandated.

[21]Shenzhen took over Shanghai's long-held position as the No.1 city in export trade in 1993. The total export value of Shenzhen in 1993 reached US$8.33 billion, 15% of the national total, surpassing Shanghai's US$7 billion. Foreign-funded enterprises, together with enterprises engaging in export processing, accounted for 87% of the total export trade of Shenzhen (*Shenzhen Special Economic Zone Daily*, March 8, 1994, 1). If compared on a provincial level, Guangdong has, since 1986, surpassed Shanghai as the No.1 exporter of the country.

[22] In a speech at a provincial government meeting in July 1992, Guangdong's governor, Zhu Senlin, stated that Guangdong had set its aim at reaching the standards of the 'four little dragons' in 20 years. The provincial government had already completed a preliminary plan for the attainment of the goal (*Nanfang Ribao*, July 25, 1992, 1). The description, 'four little dragons', refers to four newly industrialized countries/territories in East Asia whose rapid economic development since the 1960s has startled the international community. The four are: South Korea, Singapore, Taiwan and Hong Kong.

[23]The vice-mayor of Guangzhou, Dai Zhiguo, stated unambiguously that the target of Guangzhou was to develop into an international city. He revealed in a press interview that Guangzhou had applied for membership of the Association of International Cities in May 1993, and was accepted in September, the first city in China to become a member of the worldwide association (*Economic Daily* (Hong Kong), February 15, 1994, 2). The Shenzhen Government spearheaded a seminar in February 1993 on the strategies to realise the goal of becoming an international city. The essays of the seminar were published in (Lin, 1993).

[24] The 'Special Policy' is a general policy endorsement given by the central government in a State Council Document No. 50 in July 1979, giving Guangdong and Fujian 'pioneer' status in the economic reform, which at that time had yet to come into shape. With the pioneer status the two provinces also obtained increased fiscal and other policy autonomy.

[25]This is, of course, more in a relative sense than in an absolute sense. As a result of the economic reforms, the degree of planning and administrative controls from the Centre had been on the decline. Fewer number of detailed prescriptions were issued to the provincial government. However as decentralization of authority extended nationwide, the Guangdong government had a feeling that its additional autonomy *relative to other provinces* was less than before.

[26] During a session of the Guangdong Provincial People's Congress (GPPC) in late January 1999, Zhu Sen-lin, then Chairman of the Standing Committee of GPPC and former provincial governor, attributed the recent outbreak of a 'regional financial crisis' in Guangdong to three factors: (1) the lack of knowledge in financial affairs among senior leaders both in central government and in Guangdong; (2) bad management at the enterprise level; and (3) administrative interference in major investment decisions of enterprises. *Hong Kong Economic Journal*, 29 January 1999.

[27] Dai gave a general assurance on the day of the closure order that foreign loans that had been properly registered with the central authorities need not worry about repayment. See *Hong Kong Economic Journal*, 7 October 1998, p. 2. Though no hard-and-fast promise was ever given, and the assurance was often coded in ambiguous and general terms, a similar message was repeated in subsequent meetings between central bank officials and the foreign banks. *Hong Kong Economic Times*, 10 October 1998, p. A8. Zhu Rongji dismissed fears about the snowball effect of the GITIC closure on the banking sector in Hong Kong when he met the Chief Executive of the Goverrnment of Hong Kong Special Administrative Region, Tung Chee-wah on 16 October. Taken together with Dai's earlier messages, this amounted to a strong suggestion, in the eyes of the international financial community, that most of the foreign debts owed would be honoured. *Ming Pao* (Hong Kong), 17 October 1998, B2.

[28] The full extent of bad debts was only starting to be better realized after months of detailed calculation by accountants from Hong Kong, contracted by the Guangdong Government for the job. A total amount of 11 billion yuan of debts owed to Hong Kong banks formed only less than one third of the total debts of 36 billion yuan (foreign and domestic) found, yielding a net liability of 14.6 billion yuan after deducting a diminished asset value of 21.4 billion. The total asset on the books when the central closure order was made was 35.8 billion yuan. Moreover, these figures had not included liabilities incurred by GITIC enterprises overseas. *Ming Pao* (Hong Kong), 11 January 1999, A2; *Hong Kong Economic Times*, 11 January 1999, A2. Then it was further announced in April 1999 that the net liabilities had increased to 17.5 billion yuan,

as a result of more debts being registered (at 38.8 billion yuan) and a reduced asset value (at 6.5 billion yuan). *Hong Kong Economic Journal*, 23 April 1999, 4.

[29] Many domestic creditor companies felt aggrieved at the lack of transparency and regard to their interests by the authorities since the closure order, and some commented that 'Chinese were often regarded by the Chinese Government as less than human.' *Hong Kong Economic Times*, 11 January 1999, A2.

[30] This comment was made shortly after the announcement of the use of the Bankruptcy Law by Guangdong authorities on 10 January 1998.

[31] Two indicators of such an effect were the trend of downward adjustment of the credit rating of Chinese enterprises by international crediting rating agencies, and the reluctance of banks to extend old loans. *Hong Kong Economic Journal*, 23 October 1998, 2.

[32] That surmised during a meeting between the Chief Executive of Hong Kong SAR and a group of international advisors consisting of elite business and financial people in late January 1999.

[33] A different approach was strongly suggested when an American investment bank was employed to advise on restructuring strategy. Guangdong's executive vice-governor Wang Qishan also took length to distinguish Guangdong Enterprises from GITIC. *Apple Daily* (Hong Kong), 17 December 1998, B3, and *Hong Kong Economic Journal*, 17 December 1998, 3.

[34] This arrangement was announced in December 1999, after protracted negotiations of 10 months.

[35] The sum was intended to pay for the debts of 14 international trust investment corporations in the province, excluding the two flagship companies of GITIC and Guangdong Enterprises. The amount was to be repaid to the central government by the provincial government in eight to nine years.

[36] Guangdong's executive vice-governor, Wang Qishan, widely seen as the Centre's man in Guangdong, reportedly said that the GITIC case was a warning to Guangdong Provincial Government: that Guangdong should stick closely to central policy in the future. *Apple Daily* (Hong Kong), 9 March 1999, B3.

[37] Those forwarding this interpretation include a vice-president of the People's Bank of China.

[38] One such occasion was when the Bankers Association (Hong Kong) visited Beijing in May 1999, Zhu pledged to the banks that debts owed to them by GDE would be fully repaid. *Hong Kong Economic Journal*, 24 May 1999, 2.

[39] This comment was made when the assistant to provincial governor first indicated that the government was planning to follow the bankruptcy procedures and give no priority to foreign debts.

[40] These comments were made by Wang Qishan and reported widely in press.

[41] According to an informed source, both pieces of information (that on equal treatment of domestic and foreign debts in bankruptcy cases, and that on the disparity of interest rates) were alerted to Guangdong officials by senior professionals of an international accounting firm.

[42] Other strategies not discussed here include direct bargaining for favourable central policies, seeking more investment resources from the central government, feigned compliance and 'flexible' implementation of central policies, and developing new areas of high investment growth beyond the traditional domains of the state sector.

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