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Understanding the International Involvement of China's Subnational Governments: Case Study of Zhejiang and Yunnan Province

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The thesis is submitted for the degree of Doctor of Philosophy
in Politics and International Studies

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Acknowledgements

My deepest gratitude goes first and foremost to my supervisors, Professor Shaun Breslin and Dr Gabriel Siles-Brügge, for their selfless time, instructive advice, and constant encouragement through the entire process. The timely comments and feedback from my supervisors helped me to refine and improve the work considerably. The thesis could not have been finished without the support of my supervisors. I am really grateful for their help in its completion.

Secondly, I would like to express my gratitude to the funding source that made my PhD project possible: The Warwick-China Scholarship Council Joint PhD Scholarship. I still clearly remember the excitement and happiness of the moment when I successfully obtained the scholarship four years ago. I would also like to show my gratitude to the University of Warwick and Doctoral College for the hardship funding provided to me during the tough time in the final year, which greatly alleviated my financial burden and enabled me to concentrate on the thesis writing.

Thirdly, the Department of Politics and International Studies provided a fun and intellectually stimulating environment to pursue my PhD. I learned masses of academic skills and received helpful comments at the early stage of my PhD through the training and annual review offered by PAIS. I would also like to thank Alex in PAIS, who provided valuable support in my application for the hardship funding. I really enjoyed my PhD time in PAIS.

Lastly, my thanks go to my beloved family for their loving consideration and great confidence in me all through these years. Without the financial and moral support from my parents and younger brother I would never have had the chance to take and complete this journey. I also owe my sincere gratitude to my friends, who gave their patience and time in listening to me and helping me work out my problems during the difficult course of this research.

Declaration

This thesis is submitted to the University of Warwick in support of my degree of Doctor of Philosophy. I declare that this thesis is entirely my own work and original research. This thesis has not been submitted for a degree at another university.

Abbreviations

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
ARF	ASEAN Regional Forum
CAFTA	China-ASEAN Free Trade Area
CAREC	Central Asia Regional Economic Cooperation
CCP	Chinese Communist Party
CEO	Chief Executive Officer
CIFCA	Chinese International Friendship City Association
CMC	Central Military Committee
CPPCC	Chinese People's Political Consultative Conference
CoR	Committee of Regions
CTO	Chief Technology Officer
EU	European Union
FDI	Foreign Direct Investment
FIE	Foreign-Invested Enterprises
GDP	Gross Domestic Product
GMS	Greater Mekong Subregion Economic Cooperation Project
GTI	Greater Tumen Initiative
GVIO	Gross Value of Industrial Output
HK	Hong Kong
IR	International Relations
MLD	Multi-Layered Diplomacy
MLG	Multi-Level Governance
MOF	Ministry of Foreign Affairs
NAFTA	North American Free Trade Agreement
NDRC	National Development and Reform Commission
NPC	National People's Congress
NPCSC	National People's Congress Standing Committee
NTS	National Tax Service
NSC	New Security Concept
OBOR	One Belt One Road

PRC	People's Republic of China
PRD	Pearl River Delta
PSC	Politburo Standing Committee
RMB	Renminbi
SASAC	State-Owned Assets Supervision and Administration Commission
SOE	State-Owned Enterprise
SEZ	Special Economic Zone
SNG	Subnational Government
TNC	Transnational Corporation
TRADP	Tumen River Area Development Programme
US	The United States
USD	The United States Dollar
WTO	World Trade Organization
YRD	Yangtze River Delta
ZJITS	Zhejiang Investment and Trade Symposium

Abstract

This thesis examines the international involvement of China's subnational governments from both theoretical and empirical perspectives. The literature review reflected the limitations of existing approaches, including paradiplomacy, multi-layered diplomacy and multi-level governance, in understanding the cases in the context of China. The thesis then develops a theoretical framework concentrating on the transformation that has originated at the central level, which induced changing central-subnational interactions in China and thus affected the international involvements of SNGs. Accordingly, the research examines three big changes at the central level: central diplomatic relations and foreign policy concerns; policies related to reform and opening up; and the changing concept of security. It suggests that these factors caused or affected the international involvements at subnational level. It argues that SNGs in China have also played a proactive role, which has further complicated the central-subnational interaction in terms of SNGs' international involvements. Based on the theoretical framework, this research employs two case studies: Zhejiang and Yunnan provinces. A comparative case study of the two provinces illustrates that these factors are differently reflected at subnational level, and has led to different patterns of international involvements by these two provinces.

This research into the international involvements of China's SNGs has made both theoretical and empirical contributions to existing literature. Firstly, it has employed a theoretical framework to make a comprehensive and systematic analysis of the underpinning reasons for the international involvements of Chinese SNGs. Secondly, it has conducted a comparative case analysis to examine the diversity that exists in SNGs' international involvements. Thirdly, by studying the international involvements of China's SNGs, the research has made a modest contribution to the overall understanding of China's politics, which it is argued should go beyond a simple concentration on the central government alone and pay attention to other domestic actors. Finally, this research on China's SNGs also enriches the general understanding of the international activities of SNGs. Previous approaches to SNGs mainly originated from federal states or democratic decentralized states and the present research on China offers a different perspective to understand the phenomena.

Chapter 1: Introduction

Local Foreign Affairs is an important part of the foreign-related work of the party and state, which is of great importance to promoting foreign interaction and cooperation as well as facilitating local reform and development.

—General Secretary of CCP Xi Jinping[1]

Reinforcing the foreign interactions of the NPC, the CPPCC, the army, local government as well as the civil community, enhancing the mutual understanding and friendship between Chinese and Foreign people.

—General Secretary of CCP Hu Jintao[2]

1.1 Rationale of the Research

There remains a strong tendency in some of the scholarship on international relations (IR) to treat the national government as a unitary rational actor and insist that the central government speaks at the international stage on behalf of its territorial parts. This is particularly the case with China, conventionally regarded as a unified authoritarian regime in which central government holds monopolized power in both domestic and international affairs. As a result, a majority of scholars have focused their attention on the central government in dealing with China's foreign relations. This seems reasonable given the fact that China has long been dedicated to the traditional approach to diplomacy and puts emphasis on the norm of sovereignty and territorial integrity. However, changes happening in recent decades have challenged the traditional perception of China's international relations, which is concentrated on the role of central government. There has been an increasing international involvement by China's

[1] Translated by the author according to Xinhua News (2018-5-15). *Xi Jinping Hosted the First Meeting for Foreign Affairs Commission of the CCP Central Committee* [习近平主持召开中央外事工作委员会第一次会议]. http://www.xinhuanet.com/politics/leaders/2018-05/15/c_1122836914.htm

[2] Translated by the author according to Hu Jintao (2007-10-15). *Report for the 17th National Congress of CCP* [高举中国特色社会主义伟大旗帜 为夺取全面建设小康社会新胜利而奋斗——在中国共产党第十七次全国代表大会上的报告]. http://www.npc.gov.cn/zgrdw/npc/xinwen/szyw/zywj/2007-10/25/content_373528.htm

subnational governments (SNGs) as a result of the decentralization and internationalization in the reform period, especially in international economic affairs.

SNGs in China established specific governmental organs to administer local foreign affairs, mainly reflected as local foreign affairs offices at the prefectural and provincial levels. For example, Yunnan provincial foreign affairs office is responsible for foreign-related work such as receiving important foreign guests, coordinating foreign work in regional cooperation, administering sister-city relations, and examining the work of international conferences.[3] Provincial foreign affairs offices are under dual-leadership of Minister of Foreign Affairs (MOF) and provincial government. SNGs also attach great importance to local foreign affairs, which not only serve diplomacy at the central level, but also serve local economic and social development through promoting international cooperation. As a result, SNGs strive to improve the management and coordination of local foreign affairs through the establishment of foreign affairs leading groups or working committees. For example, Zhejiang province developed China Communist Party (CCP) Zhejiang Provincial Committee Foreign Affairs Leading Group in 1981.[4] In 2001, the State Council issued *Several Provisions About National Foreign Affairs Administration*, referred to as a "small constitution for Chinese diplomacy and foreign affairs", marking a new stage for local foreign affairs development.[5] SNGs in China have developed international interactions through receiving foreign guests, cultivating sister-city relations, hosting international conferences and events, and participating in the transborder cooperative mechanisms, which have all greatly improved the international presence of Chinese SNGs. Therefore, SNGs in reality have acted beyond the national border.

Moreover, the reform and opening up process in China since the end of the 1970s has greatly changed the central-local relations in both domestic and international affairs. As

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[3] Yunnan Foreign Affairs Offices, Main Responsibilities of the Office. see http://yfao.yn.gov.cn/ynwb/wbjj/

[4] Zhejiang Foreign Affairs Chronicle Editorial Committee eds (1996). *Zhejiang Foreign Affairs Chronicle* [浙江省外事志]. Zhonghua Book Company, p.236.

[5] Zhang, L.L. (2007). *Foreign Policy Decision-making* [外交决策]. World Affairs Press, p.328; Zhang, J & Ding Y.Y. (2019). 70 Years of China's Civil Diplomacy, Local Diplomacy and Culture Exchange[中国民间外交、地方外交与人文交流 70 年]. *World Outlook* [国际展望], (5), pp.54-72.

a result, some scholars interested in China's politics and foreign relations have paid attention to the changing interactions between national government and SNGs in China – such ideas have challenged the traditional perception that depicted China as a unified authoritarian regime adhering to the norms of sovereignty and integrity. These sinologists emphasized the "fragmentation of authoritarian power" in China, which made it important to be attentive to the role and power of local authorities to understand the real economic, social and political dynamics in China.[6] The changing central-local relations in the reform period led to "the emerging role of entrenched local interests in foreign relations-in foreign economic relations in particular."[7] In this regard, it witnessed the "deconstructing foreign relations" in China, which made it crucial for outsiders to adapt their ways of dealing with China and to develop better knowledge of Chinese localities.[8] As a result, scholarly inquiry into China also greatly evolved, regarding China as a "fragmented, decentralized and internationalized state" involving "multi-level, interagency struggles and local economic imperative" in the formation of grand strategy.[9]

Both the international activities of SNGs in reality and the changing theoretical view of China's politics and foreign relations led us to rethink the international role of SNGs in China. I am curious about the underpinning factors that have induced SNGs – which have conventionally been responsible for local administration and have lacked legitimacy as international actors – to act beyond the national border. Do SNGs develop external relations as required by the Chinese central government, in other words, do the international involvements of SNGs merely serve China's diplomacy or foreign policy at the central level? Is it possible for them to develop international interactions from local interests? I believe that these two aspects both exist in the rationale of SNGs' international involvements. Furthermore, I question whether diversity existed in the aspect of SNGs' international involvements as a result of the significant differences in China's SNGs' local situation and their different positions in national policies. The

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[6] Breslin, S. (2013). *China and the Global Political Economy*. Palgrave Macmillan, p.72.
[7] Zhao, Q.S. (1992). Domestic Factors of Chinese Foreign Policy: From Vertical to Horizontal Authoritarianism. *The Annals of the American Academy of Political and Social Science*, 519(1), pp.158-175.
[8] Segal, G. (1994). Deconstructing Foreign Relations in Goodman, D. S., & Segal, G. (eds.). *China Deconstructs: Politics, Trade and Regionalism*. Routledge Press, pp.322-355
[9] Hameiri, S., & Jones, L. (2016). Rising Powers and State Transformation: The Case of China. *European Journal of International Relations*, 22(1), pp.72-98.

international involvements of SNGs have demonstrated great variety. Their external activities have been influenced by a series of factors, such as "the physical attributes, the policies of the central government and the provincial development strategies."[10] In this regard, my research pays particular attention to the issue of how the underpinning factors leading to the international involvements acted on different SNGs in China. To this end, my research involves a comparative case analysis of two provinces: Zhejiang and Yunnan. The case study not only tells the story of the international involvements of each province, but also illustrates the different patterns of international involvements adopted by them.

1.2 Framing of Research Questions

The increasing involvements of China's SNGs in the reform period added a new dimension to China's foreign relations. This research explores the underpinning dynamics that have encouraged the international involvements of SNGs, which has involved complex interactions between central and subnational levels. Changing policy as well as perceptions of the central level have offered great opportunities and incentives for SNGs in China to act internationally. Simultaneously, SNGs could also positively respond to the national policy by developing local strategy and initiatives. More importantly, I believe that the international involvements of SNGs have shown clear diversity as a result of their inherent natural differences, their positions in terms of national policy, and their different local concerns. It would thus be inappropriate to search for a single answer to understand the international involvements of different SNGs. It is important to be attentive to how factors incorporated in the theoretical framework have influenced SNGs differently and thus led to diverse patterns of their international involvements. Therefore, my thesis addresses the following research questions:

- What factors have induced and affected the international involvements of SNGs?
- How have these factors differently acted on the SNGs and led to significantly diverse patterns of SNGs' international involvements?

[10] Cheung, P. T. & Tang, J. T. (2001). The External relations of China's Provinces. In Lampton, D.M eds *The Making of Chinese Foreign and Security Policy in the Era of Reform: 1978-2000*. Stanford University Press, pp. 91-120.

The thesis thus seeks to enhance the understanding of international involvements at the subnational level in China. To achieve this aim, the thesis first builds a framework to explore different factors that are important to the international involvements of SNGs. For this aim, the next chapter will refer to the previous approaches concentrated on SNGs' international involvement, which is helpful to the following theoretical framework construction in the thesis. Then, two case studies of Zhejiang and Yunnan provinces are conducted to develop a better understanding of how the factors have differently affected two provinces.

1.3 Explanation of Some Important Issues in the Thesis

1.3.1 The Definition of SNG

One of the most important concepts in the research is SNG. This research follows the definition of SNG used by Chen, the earliest scholar of this category of actors in China. Accordingly, SNG refers to the governments that exercise jurisdiction in part of the territory of a specific nation state, including all governments below the central level.[11] Therefore, SNGs include all levels of governments below the national level in unitary countries or states (or provinces in Canada, Lander in Germany, Cantons in Switzerland) as well as local governments below states in federal countries.[12] As will be discussed in the next chapter, previous scholarly research into SNGs' international involvements has concentrated on the states of federal countries. My research adopted a broader definition of SNGs given the fact that not only are provincial government or states involved in international affairs, but sometimes local governments at the lower levels also act beyond national boundaries. More importantly, a broader definition of SNGs in this research can also avoid confusion in the literature review as previous research used various terms such as non-central government, regions, and local governments. All of these previously examined actors are included in the broader definition of SNG.

In the context of China, there exists a four-level subnational administrative division, including provincial, prefectural, county, and township governments. According to the

[11] Chen, Z.M. (2001). *Subnational Governments and Foreign Affairs*. [次国家政府与对外事务]. Changzheng Press, p.5.
[12] Ibid.

above definition, there is a large number of SNGs in China. Table 1-1 shows the basic data and clarification of SNGs in China. However, it must be recognized that not all levels of SNGs are equally developed in international affairs. The international involvements involved the capacity, incentives, and resources at the subnational levels, which to a large extent constrained the international activities of some SNGs, such as those at the county and township levels. In reality, SNGs on the provincial and prefectural levels are the most active in promoting international interactions. As mentioned above, only provinces and prefectures have developed foreign affairs offices. Taking sister-city relationships, for example, according to data for Zhejiang province, there were 343 pairs of sister-city relations, with 246 developed by provincial and prefectural governments (66 on the provincial level and 180 developed by nine prefectures).[13] Moreover, most of the sister-city relations developed on the county level remained symbolic only, which rarely brought substantial effects for the local. As a result, previous studies on Chinese SNGs' international involvements mainly concentrated on the provinces and prefectural governments.

Table 1-1: Administrative Division in China (Updated to 2019)

Different Levels	**Number**	**Brief Introduction**
Provincial	34	23 provinces (including Taiwan); 5 autonomous regions; 4 municipalities; 2 Special Administrative Regions
Prefectural	333	293 prefecture-level cities; 30 autonomous prefectures; in Inner Mongolia, there are 3 Prefectural level units called *Meng* (盟); 7 Prefectural Regions (*Di Qu*)
County	2,846	965 districts; 387 county-level cities; 1,323 counties; 117 autonomous counties
Township	38,755	21,013 towns; 9,221 townships (*Xiang*); 8,519 sub-district offices (*Jie Dao Ban Shi Chu*)

Source: National Bureau of Statistics, https://data.stats.gov.cn/easyquery.htm?cn=C01

[13] Shu, G.Z & Shen, J.M. eds (2014). *The Almanac of Zhejiang2014* [浙江年鉴 2014]. House of Zhejiang Almanac, pp.394-403.

1.3.2 Definition of International Involvement

International involvement is another important term to be clarified before going to conduct the in-depth theoretical and empirical study in the following chapters. A broad definition of international involvement is adopted in this thesis, which refers to actions conducted at the subnational level which extend beyond national boundaries. It mainly includes two aspects of involvements, with the first referring to direct international relations and interactions developed by SNGs, such as governmental visits, the conduction of international conference or expos, and the establishment of sister-city relationships.[14] I conceptualize international relations and interactions in a broad manner, which incorporates "the activities conducted by SNGs in establishing contacts with the outside world in the economic, social, culture and diplomatic arenas."[15] In this regard, it is reasonable to say that the targets of international actions of SNGs are not limited to foreign governmental actors, such as the foreign central government or SNGs, but also include foreign private actors, such as foreign enterprises. The Chapter 4–case study of Zhejiang province–shows that foreign enterprises are one of the most important categories of foreign actors being invited to visit Zhejiang province. The decentralization of fiscal and administration authority to the SNGs in the reform period caused SNGs to undertake the major responsibility for local development, which was mainly reflected in the economic sphere, but was not limited to it. As a result, there was the possibility for SNGs to seek international cooperation to deal with some of local development issues, such as education, environment protection, and health care. Therefore, it is reasonable to adopt a broader definition of international interactions which involve various agendas.

The second aspect of international involvement involves local actions taken by SNGs which bring international influence. It implies that SNGs take some measurements or implement policies locally but influence interactions with foreign actors.[16] One of the

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[14] Chen, Z.M. (2001). *Subnational Governments and Foreign Affairs*. [次国家政府与对外事务]. Changzheng Press, p.5.

[15] Cheung, P. T., & Tang, J. T. (2001). The External Relations of China's Provinces. In Lampton, D.M eds The Making of Chinese Foreign and Security Policy in the Era of Reform: 1978-2000. Stanford University Press, pp. 91-120.

[16] Chen, Z.M. (2001). *Subnational Governments and Foreign Affairs*. [次国家政府与对外事务]. Changzheng Press, p.6.

most evident examples is the local policy developed by SNGs in regulating and promoting foreign trade, or investment activities, which has led to significant influences to economic cooperation at the subnational level. In the case of both Zhejiang and Yunnan provinces (discussed respectively in Chapters 4 and 5), examples of provincial governments developing policies to manage international economy activities can be seen. Indeed, I argue that SNGs' involvement in the international economy through the establishment of local policies was one of the primary aspects of their international involvements in the reform period. Therefore, the international involvement of SNGs defined from these two perspectives goes beyond the range of another related and important concept-local foreign affair (*Di Fang Wai Shi*). Local foreign affairs, according to Zhao, refers to the international interaction of local government on the one hand, and the management of local foreign affairs to confirm its complete adherence to the foreign policy of the central government on the other hand.[17] In China, the term 'foreign affairs' (*wai shi*) is used to describe the international activities of local governments, distinguishing it from diplomacy at the central level. The definition of international involvement used in this thesis is broader than that of local foreign affairs.

1.3.3 The Interaction Between Economics and Politics in China

Several chapters in this thesis focus on China's involvement in the global economy, which is also reflected at the subnational level. This causes concern about the political aspect of the research given that involvement in the global economy has been conducted by commercial actors, rather than governmental actors as discussed in the thesis. However, I argue that China's involvement in the global economy in the reform period, reflected in the development of foreign trade or international investment, resulted from political concerns both domestically and internationally. The international economic involvements of the enterprises at both central and subnational levels were induced by the central policy changes and the underpinning political interest at the central level. Chinese central government shifted focal point from class struggle to domestic economic modernization from the end of the 1970s with the establishment of the reform and opening up policy. In the post-Mao reform period, good economic performance was politically important for the CCP-led Chinese government, which provided solid

[17] Zhao, P.T. (1995). *Preview of Foreign Affairs* [外事概说]. Shanghai Social Science Academy Press, p.23

foundation for the party's legitimacy.[18] Involvement in the global economy was regarded as a way to ensure economic growth and capital accumulation.[19] Internationally, continuing growth in economic power has also facilitated China's rise to great power.[20] It is undeniable that China's major source of national power comes from its strong economic growth. In this regard, its international involvement in the global economy was not a merely commercial consideration, but was also politically and strategically important to the Chinese government.

Furthermore, complex interactions existed between China's economic development and foreign policy as well as diplomacy. The idea of economic diplomacy put forward by some scholars illustrates this kind of interaction. Accordingly, economic diplomacy involves two aspects: the use of diplomacy to achieve economic goals and the use of economic means in pursuit of political and strategic objectives.[21] On the one hand, the foreign policy of the Chinese government in the reform period involved "facilitating China's economic development and enabling China's economic progress."[22] The diplomatic activities were highlighted by governmental leaders to serve the creation of a positive international environment for domestic economic development. The economic concern exceeded the political purpose in China's diplomacy and thus diplomacy became a tool to expand economic achievement.[23] Chinese governmental leaders made use of the diplomatic interactions to promote international economic activities. On some occasions, Chinese government leaders acted not as prudent politicians, but like gentle and professional salesmen.[24] Also for example, to encourage overseas investment and expand the foreign market, China's embassies in foreign states built a service network to offer information to decrease the risks of Chinese enterprises

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[18] Breslin, S. (2013). *China and the Global Political Economy*. Palgrave Macmillan & Norris, W. J. (2016). *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control*. Cornell University Press.

[19] Norris, W. J. (2016). *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control*. Cornell University Press.

[20] Ibid, p.58.

[21] Zhou, Y.S. (2003). The Opportunities and Challenges of Economic Diplomacy: A Conceptual Study of Economic Diplomacy [经济外交面临的机遇和挑战—经济外交概念研究]. *World Economics and International Politics*, (7), pp.39-44.

[22] Norris, W. J. (2016). *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control*. Cornell University Press, p.44.

[23] Wu, B.Y. (2008). Diplomacy for Integration: The Economic Aspect of Chinese Foreign Policy [中国经济外交：与外部接轨的持续转变]. *Foreign Affairs Review*, (103), pp.11-19.

[24] Yang, P.D. (2006). China Makes Full Use of Diplomatic Resource to Promote Economic Diplomacy [中国充分利用外交资源推动经济外交]. *China Economic Weekly*, (14), pp. 32-33.

when they attempted to go global.[25] Therefore, diplomacy in the reform period greatly helped to promote China's involvement in the global economy.

The other aspect of economic diplomacy has attracted increasing attention. For foreign observers, there is a long-lasting concern about economic statecraft, which endeavours to understand how economic resources are used by politicians to advance foreign policy goals. For them, this issue is more obvious in the context of China, where the "state's ability to direct its 'private-sector' toward strategic ends is much greater than in other, more liberal states."[26] The unfinished state-led market reform in China led to the specific state-market nexus, which implied that state-control of the market still existed and "the hand of the state on economic activities has been far from an invisible one."[27] As will be discussed in Chapter 3, departments of central government, such as the Ministry of Commerce and National Development and Reform Commission (NDRC), still have the authority to supervise overseas investment and to approve large-scale foreign-investment projects. Through inter-governmental decentralization, SNGs in China – especially those at the provincial level – obtained a certain degree of authority in directing the local enterprises. Also, as a result of China's growing economic clout, it has been observed that "China is using economic statecraft more frequently, more assertively and more diverse."[28]

Moreover, there is also a reversal of perception about the strategic use of economy in foreign policy inside China. It was argued that economic diplomacy should transform from slavishly serving domestic economic development to jointly serving domestic development and foreign strategy.[29] New thinking about economic diplomacy in China was induced by continuing economic development and newfound material power in recent decades. The most significant example of China's economic strategy is the one

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[25] Yang, P.D. (2006). China Makes Full Use of Diplomatic Resource to Promote Economic Diplomacy [中国充分利用外交资源推动经济外交], *China Economic Weekly*. (14), pp. 32-33.

[26] Norris, W. J. (2016). *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control*. Cornell University Press, p.63.

[27] Breslin, S. (2021). *China Risen? Studying Chinese Global Power.* Bristol: Bristol University Press, p.18.

[28] Reilly, J. (2013). *China's Economic Statecraft: Turning Wealth into Power*. Lowy Institute for International Policy.

[29] Sun Y.R. (2019). 70 Years of China's Economic Diplomacy: Views and Choices [新中国 70 年经济外交—观念与选择]. *World Economy Studies*, (10), pp.27-34.

belt one road (OBOR) initiative. OBOR surpassed the mere promotion of economic cooperation in the region to reflect the new fact that the economy serves a grand foreign strategy.[30] This initiative was further illustrated as a way of reorienting regional discourse from security to economic cooperation, preventing US efforts to contain China's development.[31] Therefore, suspicion about China's overseas commercial activities has always existed in foreign states and has become more significant in recent years due to China's rise. The economic activities conducted by China's commercial actors were always viewed by the foreigners as 'China's' interest or grand strategy. The blurred line between state and market induced the specific perceptions of China in IR. In other word, some issues, such as foreign investment, are considered to be central IR questions in the context of China but would not be so in the case of other countries.[32]

The complex interaction between economy and politics discussed above has also manifested at the subnational level. The economic growth of China in the reform period depended highly on its involvement in the global economy. And the process of China's involvement in the global economy was not only pushed by national policy changes, but also relied on the positive role of SNGs. As a result, inter-governmental decentralization was adopted to motivate the SNGs to promote an export-oriented economy. As discussed in Chapter 3, SNGs in China obtained a certain degree of autonomy in fiscal arrangements and authority in supervising the economic activities of local enterprises. In other words, the state control of the economic activities was not only reflected at the central level, but also devolved to the subnational level. Moreover, government leaders at the subnational level, like those at the central level, took advantage of international interactions with foreign actors as a way to provide more business opportunities for local enterprises. This phenomenon can be found in both Zhejiang and Yunnan case studies, discussed in Chapters 4 and 5. Thus, involvement in the global economy at the subnational level became part of the story of economic diplomacy in China. For example, Chinese central government conducted a conference

[30] Ren, J.J. (2015). Dual Transformations: Theoretical Innovation and Strategic Arrangement of China's Economic Diplomacy Since the 18th CCP National Congress [双重转型：十八大以来中国经济外交的理念创新与战略布局]. In Liu D.B. eds. *China and World*. China Social Science Academy Press.

[31] Gao, C. (2015). View the Strategic Characteristic of OBOR from the Perspective of Transformation of China's Economic Diplomacy [从中国经济外交转型的视角看一带一路的战略性]. *International Review* (4), pp.35-48

[32] Breslin, S. (2021). *China Risen? Studying Chinese Global Power.* Bristol: Bristol University Press, p.18.

for economic diplomacy aimed at developing countries, and representatives from Chinese provinces attended the meeting.[33] Therefore, international economic involvement at the subnational level is to some extent showed the complex interaction of economics and politics in the context of China, rather than just the commercial story of local enterprises. The involvement in the global economy at the subnational level has constructed important part of SNGs' international involvement, which receives in-depth discussion in the following chapters. More importantly, the different patterns of involvement in the global economy of different SNGs can provide insights into complex central-local interactions.

1.4 Main Argument of the Research

The thesis aims to understand the underpinning factors that caused and influenced Chinese SNGs' international involvements. The main argument is that those transformations coming from the central level have considerably changed central-subnational relations in China and ultimately induced and affected Chinese SNGs' international involvements. Three aspects of transformations at the central level are regarded as essential factors in inducing and shaping SNGs' international involvements: changing diplomatic relations and the foreign policy concerns; the reform and opening up policy; changing concept of security. In this regard, the international involvements of Chinese SNGs have shown a robust top-down characteristic because of the active role of the national government. Firstly, it is argued that the reform and opening up policy since the end of the 1970s played a dominant role in changing the central-subnational relations in China, which provided SNGs motivations, autonomy and resources to act internationally. Secondly, changing diplomatic environment, reflected as the improved relations with a lot of foreign states since the 1970s, offered SNGs in China a better international environment to go out. Also, diplomatic and foreign policy concerns at the central level provided crucial platforms for SNGs to improve international interactions. Finally, the development of the new security concept enabled SNGs to go beyond economic cooperation and have a role to play in non-traditional security cooperation internationally.

[33] People's Daily (2004-9-3). National Workshop of Economic Diplomacy Aimed at Developing Countries Held in Beijing [全国对发展中国家经济外交工作会议在北京召开].

However, it is further argued that those transformations originating at the central level have not equally acted on each SNG given that SNGs in China obtained significantly different local variables. Both central government and SNGs per se have desired to maximize the advantages of the locals when going internationally. In this regard, to a large extent, local variables could affect both sides of central-subnational interactions, which ultimately leads to the diverse patterns of SNGs' international involvement. On the one hand, the transformations at the central level, for example, the launching of reform and opening up policy, had to consider the specific local conditions. As a result, SNGs have been positioned differently in the central policy arrangements. On the other hand, SNGs in China made full use of local advantages to respond to the central policy and promote their international involvement. Therefore, it is reasonable to argue that the international involvements of China's SNGs showed great diversity. Bearing this in mind, then, what variables appear to be significant in determining the diversity of central-subnational interactions and thus causing the diverse patterns of SNGs' international involvements.

Firstly, I argue that SNGs in China vary in terms of their geographic location and the consequences that this may have for SNGs' position in the central domestic and foreign policies. Reform and opening up policy–regarded as the dominant force that significantly changed the central-local relations in China–divided China into coastal and inland areas.[34] Coastal provinces with better transportation and easier access to the international market were positioned as centre while those inland provinces were positioned as periphery in the reform and opening up. Unequal positions in the reform and opening up policy induced different reactions from SNGs and thus caused diverse of SNGs' international involvement. Also, there is a possibility that SNGs' variety in physical location leads to diverse responses to the transformations of China's diplomatic relations and foreign policy concerns. For example, SNGs in the border area are more sensitive to China's transformations in the neighbouring foreign policy. Furthermore, the geographic location of some SNGs brings different influences on SNGs' participation in the international security cooperation provided that border provinces are more likely to be affected by some security threats and are thus more

[34] See Chapter 3, section 3.3, for detailed information on reform and opening up process.

motivated to be involved in international cooperation. Therefore, geographic location is an important variable that can fill into the central-subnational interactions and thus induce the diversity of SNGs' international involvement.

Secondly, the international linkage of SNGs is also an important variable that influence the concerns of central government and the possible strategy developed by SNGs. I tend to understand the international linkage from two aspects. On the one hand, the existing or historical international linkage between SNGs and some foreign states can be an important resource for the following interactions. On the other hand, other local variables can shape the advantages of developing international linkage by SNGs. Of course, these two aspects are always interwoven in reality. Then it will return to the variable of geographic location, which I argue, is one of the factors that could influence SNGs' international linkage, particularly evident for SNGs in the border area as "the continuous borders encourage the development of transnational and trans-governmental links".[35] Nevertheless, geographic proximity is not the only factor that promotes international connection. The similarity in language, culture, or ethnicity also can promote the international connection, such as SNGs' international connection through overseas Chinese. Thus, SNGs in China is possible to develop international linkage based on the local advantages in one or more of these factors. These international linkages can affect the position of SNGs in China's foreign policy or become local resources to react to the transformations at the central level.

Thirdly, a series of local variables that are important to the economic development model–both natural and acquired resources–can greatly influence the central-subnational interactions. Geographic location is regarded as a variable that induced the different positions of SNGs in the reform and opening up process. However, only geographic location alone is not enough to decide the preferential position of coastal provinces. Other variables, such as qualified labour force, better industry foundations, also played an important role in promoting the export-oriented economy and FDI development in the coastal area, which is vital for China to better involve in the global economy and thus, coastal provinces were able to obtained advantages in the opening

[35] Hocking, B. (1993). Localizing Foreign Policy. New York: St. Martin's Press, p.54.

up process. Moreover, SNGs' international involvements obtained high economic profile and promoting international economic cooperation has become an important part. Therefore, those variables can decide the economic development model of the local can, to a large extent, affect their international involvement. In sum, local variables, filling into the central-subnational relations induced by the transformations at the central level, ultimately led to the diverse pattern of SNGs' international involvement. However, it does mean that diversity in all three aspects leads to the diverse pattern of SNGs' international involvement. It is possible that two SNGs varied in only one or two aspects but also established different patterns in terms of their international involvements. Moreover, the diversity of their international involvements can also show in different dimensions of motivations, the intensity of involvement and strategy.

1.5 Methodology

This research involves both a theoretical and empirical exploration of the international involvements of China's SNGs. The primary aim of the research is to elaborate on the underpinning factors that caused and influenced the international involvement of SNGs in China. For this aim, this thesis starts from a theoretical examination of the existing research on SNGs' international involvements. Non-Chinese scholars have gone much more further in the theoretical exploration of SNGs' international involvements. Non-Chinese scholars have developed several approaches to understand the international presence of SNGs, though with an unbalanced concentration on the experiences of federal states. Chinese scholars have also drawn on these approaches. Thus, my theoretical exploration reviews these approaches, including paradiplomacy, multi-layered diplomacy (MLD), and multi-level governance (MLG). A theoretical exploration of these approaches will help develop a solid foundation for the theoretical framework construction of the thesis. However, it is also crucial to realise that specialities exist in the context of China, which differentiates the international involvements of China's SNGs from those of federal states or decentralised democratic states discussed in the abovementioned approaches. Therefore, examining the limited previous work on China's SNGs can help understand China's situation and better develop the theoretical framework.

The theoretical framework in the thesis concentrated on the changes originating at the

central level, which resulted in the transformation of central-subnational interactions and ultimately induced and affected the international involvements of Chinese SNGs. The theoretical framework explores the changes at the central level from three aspects. Firstly, it pays attention to the changing diplomatic environment and foreign policy considerations at the central level, which offered SNGs in China a stable environment and important platforms to develop international interactions. The second change at the central level was the establishment of reform and opening up policy at the end of the 1970s, which greatly changed the central-subnational relations through the twin process of decentralisation and internationalisation. As a result, SNGs in China have obtained motivations, autonomy, and resources to act internationally. Lastly, the changing security concern at the central level is also incorporated into the theoretical framework, which expanded the foreign policy agenda and provided an opportunity for SNGs in China to involve in international security cooperation. Theoretical framework concentrated on the transformations at the central level laid a solid foundation to systematically understand international involvements of Chinese SNGs. However, the applicability of the framework and how these transformations acted on the specific central-subnational interaction remain a puzzle, which needs further empirical studies.

1.5.1 Empirical Case Study: Zhejiang and Yunnan Provinces

Empirically, the thesis will conduct case study of two provinces: Zhejiang and Yunnan – the rationale for the case selection is presented below. Two cases, rather than one case, are chosen for the thesis with the purpose of exploring two issues of SNGs' international involvement in China. As put forward in the research questions, this thesis is going to explore the underpinning factors resulting in SNGs' international involvement and elaborate on the diversity existing in Chinese SNGs' international involvements. The thesis primarily argues that the transformations at the central level have greatly changed the central-subnational interactions and thus affected the international involvements of SNGs in China. However, it is further argued that those transformations have not equally acted on each SNG provided that SNGs in China varied significantly in many aspects, mainly including geographic location, international linkage, natural or acquired resources for economic development. To a large extent, those variables affected both sides of central-subnational interactions, which ultimately led to the diversity of SNGs' international involvement.

Nevertheless, an in-depth analysis of a single case can tell how those transformations influenced the international involvement of that SNG, and it cannot clearly show the diversity that existed in SNGs' international involvement. Therefore, the thesis is going to conduct case study of two Chinese SNGs, which on the one hand, helps to develop a detailed understanding of the international involvements of two SNGs separately based on the theoretical framework established in the next chapter. On the other hand, it enables exploration of how the factors put forward in the theoretical framework acted differently on two SNGs and thus led to the diversity of their international involvements. A huge number of SNGs existed in China, among which I chose two provinces as cases, rather than SNGs of other levels, because the central-subnational interaction in China is primarily reflected at the central-provincial level. In most cases, the central policy in China goes firstly to the provincial level and then through provinces to lower-level government. Of course, it is also much easier to select two cases from 34 provincial-level governments (or more correctly, from 31 provinces excluding Hong Kong, Macao, and Taiwan). Then, it comes to the question of which two provinces are chosen as cases that can be effective and representative to purvey the key arguments in the thesis.

Case selection, as the basis for a successful case study, triggered a lot of methodological arguments. For example, it was summarized three ways of with-in case study (most likely cases, least likely cases and deviant cases) and two ways of cross-case study (most similar and least similar case comparisons) by Andrew according to the previous discussions.[36] Gerring further illustrated the techniques for case selection and concluded nine ways for identifying cases, including both within-case and cross-case analysis: typical, diverse, extreme, deviant, influential, crucial (most or least likely case), pathway, most-similar and most-different.[37] Although this thesis will conduct two cases of Chinese SNGs of their international involvement, it is not going to do the comparative cross-case analysis based on the idea of Mill's method of most-similar and least similar case comparison, which primarily aims at figuring out the specific causal

[36] Bennett, A., & Elman, C. (2007). Case Study Methods in the International Relations Subfield. *Comparative Political Studies*, 40(2), pp.170-195.
[37] Gerring, J. (2008). Case Selection for Case-Study Analysis: Qualitative and Quantitative Techniques. In Janet M. Box-Steffensmeier, Henry E. Brady, and David Collier eds. *The Oxford Handbook of Political Methodology.* Oxford University Press, pp. 645-684.

relationship between dependent and independent variables. In this regard, the purpose of these two comparative case study methods is hypothesis-testing or hypothesis-generating.[38] However, this thesis will firstly conduct a within-case analysis of two SNGs for process tracing, which "looks at the observable implication of putative causal mechanism in operation in the cases".[39] More implicitly, case analysis in the thesis concentrates on exploring how three aspects of factors incorporated in the theoretical framework influenced the international involvements of the chosen provinces in practice. As a result, it is able to find out how the specific local variables filled into the central-subnational interactions of a specific province and thus ultimately shaped the international involvements of that province. In the end, the diversity of the international involvements could be clearly seen after the with-in case analysis of two provinces (in Chapter 6).

However, it is ineffective to randomly choose two cases from 31 provinces (in mainland China), although I believe that any two of the provinces will to some extent, show differences in their international involvement as none of the two provinces in China are exactly the same. I agree with the idea that "classification is prior to comparison in the sense that we choose cases to compare because they belong to a particular classification".[40] Rather than selecting two typical cases from all the provinces, the thesis adjusted the typical-case method to "choose typical cases from different subgroups of a general population" according to the classification.[41] It will be effective to make a classification first and then choose cases from two subgroups that can display the diversity of SNGs' international involvement. In this regard, the thesis divides the provinces in China into two big categories–coastal provinces and inland provinces–with the following concern. It is argued that the gradual process of reform and opening up in China deliberately favoured the provinces in the coastal provinces while inland provinces in China obtained a disadvantageous position. This arrangement of the central policy greatly shaped the international involvements of SNGs. The thesis

[38] Gerring, J. (2008). Case Selection for Case-Study Analysis: Qualitative and Quantitative Techniques. In Janet M. Box-Steffensmeier, Henry E. Brady, and David Collier eds. *The Oxford Handbook of Political Methodology.* Oxford University Press, pp. 645-684.
[39] Bennett, A. (2004). Case Study Methods: Design, Use, and Comparative Advantages. In Sprinz, D.F & Nahmias-Wolinsky, Y. eds. *Models, Numbers, and Cases: Methods for Studying International Relations*, p.22.
[40] Burnham, P., Lutz, K. G., Grant, W., & Layton-Henry, Z. (2008). *Research Methods in Politics*. Macmillan International Higher Education, p.81.
[41] Gerring, J. (2001). *Social Science Methodology: A Critical Framework*. Cambridge University Press, p.219.

followed this dichotomy of Chinese provinces provided the dominant role of reform and opening up policy in affecting SNGs' international involvement.

Therefore, Zhejiang and Yunnan province have been selected as two of the cases for intensive analysis is not because they are representatives of the Chinese province as a whole but samples of two categories, respectively. Zhejiang is chosen as a typical example of a coastal province that has obtained an advantaged position in China's reform and opening up policy and deeply involved in the global economy. In comparison, Yunnan is selected as a typical instance of inland provinces that possessed a disadvantageous position and were less developed in the linkage with the global economy. Detailed analysis of two cases can display how local variables of two provinces caused their different positions in the reform and opening up policy and how those different positions influenced the following international involvements of two provinces. Besides, the comparison of Zhejiang and Yunnan can shed light on the other two aspects of transformations put forward in the theoretical framework. The geographic location of Yunnan as a border province and the influences it brings to the international linkage of the province is possible to be significantly different from Zhejiang province. Therefore, it can figure out how the central diplomacy and foreign policy acted differently on the two provinces and, in return, how the international involvements of the two provinces affected the central diplomacy differently. From this perspective, Yunnan's successful involvement in subregional cooperation also pushed me to select it as a case. On the other hand, as a border province, Yunnan is more vulnerable and sensitive to various non-tradition security issues. Therefore, the transformation of the security concept at the central level has become more influential in Yunnan province than in Zhejiang. In general, the study of two cases–Zhejiang and Yunnan province–enables the thesis to explore the effects of all the three aspects of transformations incorporated in the theoretical framework.

Finally, some pragmatic considerations also exist in the process of case selection, although it is not "methodological in character."[42] Access to the data is one of the most important pragmatic for case selection in the research. I chose Zhejiang as a case also

[42] Seawright, J., & Gerring, J. (2008). Case Selection Techniques in Case Study Research: A Menu of Qualitative and Quantitative Options. *Political Research Quarterly*, 61(2), pp.294-308.

because I am familiar with the province where I was born and grew up, which enables me to better understand the studied case and the place for data collecting. Regarding Yunnan, the existing research on Yunnan's relations with Southeast Asia can be an important resource for the case study. Moreover, the previous scholarly inquiry into Yunnan's foreign relations can be a reference point for the analysis of Zhejiang, of which there is little research has been conducted. Also, the decision to select Zhejiang as a case to some extent was influenced by personal concerns. The lack of study on Zhejiang pushed me to fill in the gap and introduce Zhejiang to more foreign researchers. Thus, the selection of these two case studies arose from a pragmatic consideration of data collection and analysis. The methodology and pragmatic consideration together make two selected cases suitable and adequate to purvey the arguments of this thesis.

1.5.2 Data Collection for the Case Studies

In order to conduct an in-depth case study of two provinces, documentary analysis is adopted as the main method in the research, for it is of immense value for the case study.[43] An analysis of documents from the two provinces allows for an exploration of what provinces have done and to discover what is regarded as the most important work in terms of international involvement. It is reasonable to argue that the more often an issue arises in the documents, the more critical it is to the province. The most important data was derived from various yearbooks or almanacs of the two provinces. For Zhejiang, information about international activities conducted by the provincial government was mainly found in copies of the *Zhejiang Foreign Affairs Yearbook* (from 2005-2017) and *Almanac of Zhejiang* (1992-2018). Moreover, as the international economic involvement of the province is also an essential part of the case study, valuable data was also collected from the *Zhejiang Commerce Yearbook* (2010-2017), *Zhejiang Foreign Trade and Economic Cooperation Yearbook* (2000-2009), *Zhejiang Yearbook* (1992-2018), and *Zhejiang Statistic Yearbook* (1986-2019). Similarly, data for Yunnan province was mainly collected from the *Yunnan Yearbook* (1986-2017), *Yunnan Commerce Yearbook* (2011-2016), and *Yunnan Statistic Yearbook* (1986-2018). This data was collected both online and through fieldwork in the local libraries of

[43] Bowen, G. A. (2009). Document Analysis as A Qualitative Research Method. *Qualitative Research Journal,* 9(2), pp.27-40.

Hangzhou and Kunming.

The documents available in the two provinces were not recorded in an identical manner and thus are displayed differently in the case study. However, these differences do not significantly affect the comparability of the two cases. In addition to the material above, I also collected documents from official websites, such as local foreign affairs offices, provincial governments, official websites of some transborder cooperation projects, and online news, which is supplementary to the various yearbooks. Furthermore, despite considerable hurdles, I was able to conduct interviews with some scholars from Yunnan University when doing fieldwork in Kunming. These interviews with experts about Yunnan's international interactions with Southeast Asia offered insights and helpful information for conducting the case study. These various data collection methods provided a wealth of material and laid a solid foundation for the case studies conducted in this research.

1.6 Contributions of the Research

The thesis primarily contributes to understanding the nature of China's international interactions by concentrating on exploring a specific type of actors–subnational governments. It aims to make both theoretical and empirical contributions to studying China's SNGs as international actors. Theoretically, this research develops a systematic framework that emphasises the changing central-subnational interactions induced by the transformations at the central level. There has been some scholarly exploration on the international involvements of China's SNGs previously, but there is a lack of systematic analysis of the underpinning factors leading to the international involvements of China's SNGs. Most of the research in this field has paid attention to the changing central-local interactions caused by the twin process of reform and opening up.[44] I agree that this twin process, which originated at the central level in the reform period, played a primary role in promoting and affecting the international involvements of SNGs in China. However, I extend the idea by further exploring two aspects of transformation at the central level: changing diplomatic relations and foreign policy strategy on the one hand; and the changing concept of security and foreign policy

[44] See Chapter 2, section 2.5.2, for more information about this idea in the previous literature.

agenda on the other hand. I argue that these two changes also complicated the central-subnational interactions and have thus played an important role in promoting the international involvements of SNGs.

Empirically, this research conducted case study of two provinces–Zhejiang and Yunnan, which enables the thesis to make contributions in the following aspects. Firstly, the thesis conducts an in-depth systematic analysis of two provinces based on the theoretical framework. Some Scholarly inquiry into the international involvements of Yunnan province did exist, which became an important second-hand resource for the case study in my research. However, previous research on Yunnan province has tended to be descriptive, with little systematic and theoretical exploration of the causes behind the phenomena of SNGs' international involvements, which leaves a gap for this research to fill. Secondly, the empirical contribution is particularly evident through the case study of Zhejiang province, as scholars rarely explore its international involvements. More importantly, the case study of two provinces is helpful to understand the diversity that exists in SNGs' international involvements, the exploration of which is far from sufficient. The study of a single case in the previous research cannot clearly illustrate the issue of diversity, which is regarded as an important aspect of SNGs' international involvements in the thesis. Some previous approaches to understanding SNGs' international involvements also emphasised the diversity that existed among SNGs.[45] The thesis argued that those transformations put forward in the theoretical framework have not equally affected each SNGs provided the diverse local variables and their consequences have for SNGs' position in central policy and SNGs' response to those transformations. By conducting a case study of two provinces, the thesis can shed light on the understanding of the diverse patterns of Chinese SNGs' international involvements. Last but not least, this research provides a wealth of detailed information and data for two case studies, displayed clearly through the tables and figures in Chapters 4 and 5. The data offered by the thesis has not been presented at this level of detail in previous research.

More slightly, this research can also shed some light on the understanding of

[45] The study conducted by Hocking and scholars of MLG reviewed in Chapter 2 mentioned the diversity of SNGs' international involvements.

subnational governments as international actors more generally. There exited some approaches to understand SNGs' international involvements, which was developed primarily based on the experiences of federal states or democratic decentralised states. The central-subnational relationship in those states is significantly different from that in China. In this regard, research on China's SNGs in the thesis can add new ideas on SNGs' international involvements. Furthermore, this research can also offer insights into understanding China's central-subnational relations in terms of international interactions. I argue that SNGs in China have played a more proactive role than believed by some foreign scholars who have simply emphasised the role of the central government.[46] The international involvements of China's SNGs, although promoted by a state-led process in the reform period, involved complex central-subnational interaction. In the process, SNGs in China did not passively follow the central policy. And instead, they are motivated by the local interests and develop specific strategies for their international interactions, as shown in the thesis. Therefore, the thesis can make a moderate contribution to the understanding of Chinese politics in terms of central-subnational relations.

1.7 Outline of the Research

The thesis consists of seven chapters, including this introduction and a conclusion. The introduction chapter has illustrated the rationale of this research and formulated the research questions. This research explores the underpinning dynamics of the international involvements of China's SNGs. To better conduct the research and avoid confusion, some important concepts have been elaborated in the introduction chapter. The methodology employed in the research, including the main research methods, the source of data as well as the justification of case selection, has been presented, along with an identification of the gaps in the existing literature that this research will fill. This research intends to develop a systematic framework to explore the factors that have led to and affected SNGs' international involvements. It involves case study of two provinces – Zhejiang and Yunnan– from a comparative perspective, which enables a clear illustration of the diversity existing in SNGs' international involvements.

[46] For example, in Kuznetsov, A. S. (2014). *Theory and Practice of Paradiplomacy: Subnational Governments in International Affairs*, Routledge, the author briefly shared the idea about China's SNG from a realist perspective concentrating on the role of the national government.

Chapter 2 firstly reviews existing studies on the international involvements of SNGs, which have mainly been conducted by non-Chinese scholars based on the experiences of federal states and democratic decentralized states. These scholars have already developed several theoretical approaches for understanding the phenomena of SNGs' international involvements. These approaches shed light on my research but are not wholly transferrable to study of SNGs in China. The chapter also examines research which specifically relates to Chinese SNGs. This category of scholarly exploration enables a better understanding of the Chinese context. It then builds the theoretical framework to systematically explore the international involvements of Chinese SNGs based on the revision and synthesis of ideas from existing approaches in conjunction with China's lived reality. Specifically, the theoretical framework examines the changes on the national level from three aspects: diplomacy and foreign policy reality and strategy; the national policy of reform and opening up; and the changing conception of security. These three aspects of transformation have caused the changing two-level game between central and subnational governments, which has given SNGs both capacity and incentives to become involved internationally.

Chapter 3 develops an overall understanding of Chinese SNGs' international involvements from the three aspects of transformations at the national level. It first examines changing diplomatic relations and foreign policy strategy and the resultant influence on the international involvements of SNGs. Diplomacy of central government and international interactions at the subnational level mutually affect each other. The dominant role of decentralization and internationalization caused by the reform and opening up policy, which significantly changed the central-local interactions not only in domestic administration, but also in the international affairs, is also illustrated. As a result, SNGs in China have obtained both autonomy and incentives to become involved internationally. The chapter then turns to the changing concept of security on the central level, which has also offered SNGs the chance to become involved in international security cooperation. The final section illustrates SNGs' involvement in the global economy, which is the most important component of SNGs' international involvement and reflects the complex interactions at the central and subnational levels.

Based on the in-depth discussion of how the three main factors in the theoretical framework are reflected in China as a whole (Chapter 3), Chapters 4 and 5 focus on the two cases of Zhejiang and Yunnan province respectively. Through the case studies, it can be seen how the factors put forward in the theoretical framework are manifested in Zhejiang and Yunnan. The provinces have developed specific patterns to improve international interactions. After presenting the individual case studies, Chapter 6 involves a comparative analysis of the two cases to figure the diversity of their international involvements. Chapter 7 presents the conclusion of this thesis, which summarizes the theoretical and empirical findings of the thesis. As a result of the large size of China and the huge number of the actors at the subnational level, the thesis cannot cover the whole story of the SNGs' involvements, thus there is scope for future research. Therefore, the last section of Chapter 7 discusses the limitation of the research and delineates the implications of this work for future research in this area.

Chapter 2:
Literature Review

2.1 Introduction

This chapter reviews existing research into international involvements of subnational governments (SNGs). The literature reviewed in this chapter is divided into two major parts. The first focus is on different approaches developed by scholars to understand the international activism of SNGs, which have mainly been conducted by scholars from federal countries, from North America to Europe.[47] The chapter goes through three approaches which have paid particular attention to the international role of SNGs: paradiplomacy; multi-layered diplomacy (MLD); and multi-level governance (MLG). I will particularly pay attention to how these approaches have understood the causes behind the international activism of SNGs. The majority of these studies were developed from the experiences of federal or decentralized Western states, first from North America and then spreading to the EU. Though most of these studies did not originate from a Chinese background, they can shed light on my research which explores the international involvements of China's SNGs. My theoretical framework building will refer to the ideas obtained from these approaches. While these approaches were developed by scholars based on observations of SNGs in democratic decentralized states, especially considering the attention given to the federal states, it is reasonable to suggest that these approaches could not fully explain the situation in China.

Secondly, the chapter reviews existing studies on Chinese SNGs' international involvements conducted by both foreign and Chinese scholars. Research on China's SNGs in international affairs started much later than those on foreign SNGs, appearing in the 2000s, and such research has been insufficient both theoretically and empirically. But a review of the previous literature on China's SNGs is necessary to consider how international transformation has influenced China and how China has chosen to respond through domestic reform and thus motivated the international activism of SNGs. In

[47] In some research, non-central governments, sub-state governments, regions, or subnational authorities were used instead of subnational governments, so these terms will be cited in this review. But all of these are included in the definition of SNGs given in Chapter 1, section 1.3.1.

other words, examining the literature on China's SNGs enables me to have a better understanding of the reality in China, which is significantly different to that in democratic decentralized or federal states studied in existing literature. It is necessary to be sensitive to both general ideas of SNG's international presence and the specific situation of China and thus develop a comprehensive understanding of the underpinning forces of Chinese SNGs' international involvements.

2.2 Different Approaches to SNGs' International Involvements

2.2.1 The Paradiplomacy Approach

Research into the international activities of SNGs originated in the 1970s and was mainly conducted by scholars from North America at that time. Such research during this period narrowly concentrated on the case studies of constituent units in Canada, United States, and Australia.[48] The emergence of research into SNGs' international activities in the 1970s in these states can be explained by political changes in both Canada and the US, manifested in the "Quiet Revolution" in Quebec and "New Federalism" launched by the Nixon Administration in the US.[49] Scholars mainly explained the phenomena from the constituent power distribution between federal and state governments and jurisdictions under state governments, with an increasingly international dimension. This research has evident limitations due to the narrow concentration of cases on one side and lack of theorization and conceptualization of the phenomena on the other side. However, the inception of research into the international presence of SNGs in the 1970s greatly inspired the development of research in this field in the next decades.

The 1980s witnessed significant progress in the study of the international involvements of SNGs. Researchers in this period not only conducted cases studies, more importantly, some endeavoured to develop theoretical insights about SNGs' international activism.

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[48] For examples see: Atkey, R. G. (1971). The Role of the Provinces in International Affairs. *International Journal*, 26(1), pp.249-273; Sharman, G. C. (1973). The Australian States and External Affairs: An Exploratory Note. *Australian Outlook*, 27(3), pp.307-318; Leach, R. H., Walker, D. E., & Levy, T. A. (1973). Province-state Trans-Border Relations: A Preliminary Assessment. *Canadian Public Administration*, 16(3), pp.468-482; Levy, T. A. (1975). The International Economic Interests and Activities of the Atlantic Provinces. *American Review of Canadian Studies*, 5(1), pp.98-113; Johannson, P. R. (1978). British Columbia's relations with the United States. *Canadian Public Administration*, 21(2), pp.212-233; Burmester, H. (1978). The Australian States and Participation in the Foreign Policy Process. *Federal Law Review*, 9(3), pp.257-283.

[49] Kuznetsov, A. S. (2014). *Theory and Practice of Paradiplomacy: Subnational Governments in International Affairs*. Routledge, p.36.

The primary scholarly achievement was the publication of the fourth volume of the *Journal of Federalism* in 1984, which collected several articles under the title of "*Federated States and International Relations*". The contribution of Ivo Duchacek with the article "*The International Dimension of Subnational Self-Government*" is especially deserving of mention as the beginning of the paradiplomacy approach.[50] With this article and follow-up studies, Duchacek made crucial theoretical contributions to understanding SNGs' international activities. The paradiplomacy approach emphasized SNGs as a new type of actors in international affairs and stressed competition as well as conflicts between national and state governments in federal countries. As Duchacek observed, "the world is not only divided into 160-odd national states, but in some cases, also into their territorial components."[51]

Panayoto Saldatos, another important scholar in this field, went further in developing SNGs as 'foreign policy actors', saying that the external activity of SNGs in federal states has "the constitutive elements of a foreign policy, in that it has objectives, strategies, tactics, institutions, a decision-making process, instruments, and a foreign policy outputs."[52] The idea that viewing SNGs as relatively independent actors in foreign affairs is also reflected in the terms coined to describe this phenomenon. Duchacek first used "micro-diplomacy", replacing it with "paradiplomacy" following the suggestion of Soldatos.[53] Both terms use diplomacy of national governments as a reference but for Duchacek, paradiplomacy better expressed the meaning he wanted, that the activities of SNGs run parallel to centre-to-centre macro-diplomacy. This term was later applied by many other scholars to refer to the phenomena of the increasing international involvements of SNGs. Duchacek was the first scholar who not only coined the term "paradiplomacy" to refer to the external activities of SNGs, but also categorized these activities into "transborder regionalism" and "global micro-diplomacy."[54] In his later work, Duchacek further advanced this typology and added

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[50] Duchacek, I. D. (1984). The International Dimension of Subnational Self-Government. *Publius: The Journal of Federalism*, 14(4), pp.5-31.
[51] Duchacek, I.D. (1986). *The Territorial Dimension of Politics: within, among, and across Nations*. Westview Press, p.290.
[52] Soldatos, P. (1990). An Explanatory Framework for the Study of Federated States as Foreign-Policy Actors. *Federalism and International Relations: The Role of Subnational Units*, pp.34-53.
[53] Aguirre, I. (1999). Making Sense of Paradiplomacy? An Intertextual Enquiry about a Concept in Search of A Definition. *Regional & Federal Studies*, 9(1), pp.185-209.
[54] Duchacek, I. D. (1984). The International Dimension of Subnational Self-Government. *Publius: The Journal of Federalism*, 14(4), pp.5-31.

another two categorizations: "transregional paradiplomacy" and "proto-diplomacy."[55] This categorizing work substantially reflected the different incentives underpinning the international activities of SNGs.

The conceptualization work of Duchacek laid a solid foundation for latecomers to study the phenomena of SNGs' international involvements, although some scholars did not agree with the term of paradiplomacy and replaced it with other terms, for example, "constituent diplomacy."[56] My research will not try to determine which term is the best, instead I am interested in exploring the underlying causes and patterns of the international involvements of SNGs. In this regard, I review the previous research in paradiplomacy and examine how scholars have understood the causes leading to the international activities of SNGs. Paradiplomacy approach has evolved in both theoretical and empirical aspects since its inception in the 1980s. It was originally established based on the experiences of external activities of SNGs in North American federal countries and then spread to EU in the 1990s. To date, study of paradiplomacy has been diffused worldwide and more cases have been considered by scholars throughout the world.

As a result, a growing number of factors have been investigated by scholars to understand different cases. Some scholars using the paradiplomacy approach have constructed explanatory frameworks incorporating different factors to understand the causes of SNGs' increasing international involvements. According to previous research, the international activism of non-central governments was caused by structural changes, manifested at domestic and international levels. These structural changes pushed and enabled SNGs to go into the international arena – described by some scholars as an opportunity structure.[57] At the same time, SNGs per se also responded positively to these changes and went beyond national boundaries to promote local interests. Therefore, the previous literature has analysed the driving forces of SNGs' international involvements based on structural and actor perspectives, with some paying attention to

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[55] Duchacek, I.D. (1986). *The Territorial Dimension of Politics: within, among, and across Nations*. Westview Press, p.290.
[56] Kincaid, J. (1990). Constituent Diplomacy in Federal Polities and the Nation-State: Conflict and Co-operation. *Federalism and International Relations: The Role of Subnational Units*, pp.54-75.
[57] Keating, M. (1999). Regions and International Affairs: Motives, Opportunities and Strategies. *Regional & Federal Studies*, 9(1), pp.1-16.

factors at a specific level while others have developed a systematic analysis of different factors. The sections below will review the ideas in detail and illustrate what elements have been discussed.

2.2.2 Causes of SNGs' International Presence in the Paradiplomacy Approach

Scholars have explored the structural factors leading to the international activities of non-central governments from both external and internal changes, on subnational, national, regional, and global levels. Some have focused on factors at a specific level while others have endeavoured to develop a systematic understanding and establish comprehensive explanatory frameworks examining factors at different levels. For example, Panayiotis Soldatos constructed an explanatory framework to discuss the causes of paradiplomacy that distinguished between external causes, such as global interdependence and domestic causes on both federal level and federal-units level.[58] Andre Lecours expanded this framework and suggested a multi-level analytical framework to understand the opportunity structure that conditioned the international activities of SNGs, including regional system, national structures, continental regimes and the global system.[59] A comprehensive understanding of SNGs' international involvements needs to consider the factors on different levels, although these factors may not be equally important for different cases. Below the factors discussed by scholars are presented to develop an overall understanding of the possible causes, which will inform the theoretical framework building and case study of Chinese SNGs.

2.2.2.1 The Determinants of Global Structure

The change in global system, reflected as globalization and international interdependence, is the primary factor inducing the international activities of SNGs. Globalization here adopts a broader definition, which, as argued by Keating, involves economic, culture and political aspects.[60] The development of globalization, refers to the growing interdependence in the aspects of economy, culture and populations in

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[58] Soldatos, P. (1990). An Explanatory Framework for the Study of Federated States as Foreign-Policy Actors. *Federalism and International Relations: The Role of Subnational Units*, pp.34-53.

[59] Lecours, A. (2002). Paradiplomacy: Reflections On the Foreign Policy and International Relations of Regions. *International Negotiation*, 7(1), pp.91-114.

[60] Keating, M. (1999). Regions and International Affairs: Motives, Opportunities and Strategies. *Regional & Federal Studies*, 9(1), p.1-16.

different countries as a result of the transborder trade and flow of investment, people and information brought by the advanced transportation and communication technology.[61] Many scholars have recognized this global change and explored how it has influenced the international activities of SNGs. For example, Ivo Duchacek argued that "complex interdependence as well as domestic issues in recent decades have encouraged many constituent governments to assert international competence of their own."[62]

Keating expressed a similar idea about the influence of globalization. According to him, "the globalization and the rise of transnational regimes, have eroded the distinction between domestic and foreign affairs and transformed the division of responsibilities between state and SNGs."[63] Changes in international environment can be very influential in the following aspect. On the one hand, both SNGs and national governments face opportunities and challenges beyond national boundaries. Domestic issues become internationalized and vice versa, which ultimately cause the expansion of the foreign policy agenda. As a result, national governments would find it difficult to deal with some issues and SNGs would suspect the capacity of central government to deal with the expanded international-related issues, especially those related to local development. Therefore, SNGs would seek 'self-help' to respond to a number of issues in economic, environment, security and culture areas which goes far beyond their territories and develops global paradiplomacy or transregional diplomacy with distant and transborder partners.[64] It is no exaggeration that transformation on the global level is the root of the changes to other structures and has finally caused the international presence of SNGs.

2.2.2.2 The Determinants of Regional Structure

The global transformation discussed above is important for the emergence of paradiplomacy but cannot fully explained the structure that has conditioned the

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[61] Peterson Institute for International Economics. What Is Globalization? And How has the Global Economy Shaped the United States?. https://www.piie.com/microsites/globalization/what-is-globalization.
[62] Duchacek, I. D. (1984). The International Dimension of Subnational Self-Government. *Publius: The Journal of Federalism*, 14(4), p.5.
[63] Keating, M. (1999). Regions and International Affairs: Motives, Opportunities and Strategies. *Regional & Federal Studies*, 9(1), p.1.
[64] Duchacek, I. D. (1984). The International Dimension of Subnational Self-Government. *Publius: The Journal of Federalism*, 14(4), pp.5-31.

international activities of SNGs worldwide. Scholars also attached great importance to the cooperation and even integration schemes at a continental or transborder level which offered opportunities for SNGs to go beyond national boundaries, for example, regional schemes such as the European Union (EU) or North American Free Trade Agreement (NAFTA). Cornago argued that regional integration created both constraints and opportunities and fostered the mobilization of sub-state governments in the international arena.[65] For instance, European integration has been regarded by some scholars as establishing a favourable context for SNGs' paradiplomacy.[66] Cornago noted that several events have been milestones for the EU's recognition of sub-state governments, including the creation of the Committee of Regions in 1994, the recruitment of regional governments as partners to implement structural policies and the provision that regional governments can be represented in the Council of Ministers.[67]

The positive influence of the EU on international activism for EU regional governments has been observed by other scholars. For example, Lecours stated that "political supra-national structures such as the EU legitimize … the bypassing by regional governments of central institution."[68] The effects of the EU on the international activism of SNGs was especially highlighted in MLG, which will be reviewed in the following section. Compared to the EU, some scholars tended to be less positive about the influence of NAFTA. Keating held the opinion that NAFTA has more influence on North America through states rather than regional governments.[69] Cooperation and integration schemes on a continental or transnational level have brought positive effects to the international activities of SNGs and offered them important platforms to directly develop international relations with various actors. However, there was a significant distinction about the influence of regional structures on different SNGs. In the case of

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[65] Cornago, N. (2010). On the Normalization of Sub-State Diplomacy. *The Hague Journal of Diplomacy*. 5, pp.11-36.

[66] Soldatos, P., & Michelmann, H. J. (1992). Subnational Units' Paradiplomacy in the Context of European Integration; Keating, M. (1999). Regions and International Affairs: Motives, Opportunities and Strategies. *Regional & Federal Studies*, 9(1), pp.1-16.

[67] Cornago, N. (2010). On the Normalization of Sub-State Diplomacy. *The Hague Journal of Diplomacy*. 5, pp.11-36.

[68] Lecours, A. (2002). Paradiplomacy: Reflections On the Foreign Policy and International Relations of Regions. *International Negotiation*, 7(1), p.103.

[69] Keating, M. (1999). Regions and International Affairs: Motives, Opportunities and Strategies. *Regional & Federal Studies*, 9(1), pp.1-16.

China, although there is no supra-national organization like the EU, numerous cooperation frameworks between China and foreign states, especially neighbouring states, have provided important opportunities for border provinces to take an international presence.

2.2.2.3 The Determinants of National Structure

Another set of structural factors that have attracted scholarly attention manifested at the national level. International relations and foreign policy were traditionally regarded as the reserved domain of national jurisdictions and thus the external activities of SNGs per se reflected complex central-local interactions. The international presence of SNGs would inevitably redefine the central-local relations in foreign affairs. The scholarship of paradiplomacy originated from federalism study which emphasized the domestic transformation in federalism and intergovernmental relations in driving the external activities of state governments. Federalism study has occupied the most prevalent place in paradiplomacy studies, which examines the complex interaction between paradiplomacy and federalism. Not only can the domestic transformations of federal states lead to the appearance of paradiplomacy, but in return the participation of SNGs in foreign affairs would influence federalism. For example, Soldatos developed the concept of segmentation of foreign policy to describe the impact of the reconfiguration of power division between federal and state governments brought about by paradiplomacy.[70] According to federalism study, the paradiplomacy of SNGs was primarily regarded as a continuation of domestic politics beyond national borders as a result of their complex interdependence.[71] It is reasonable for scholars to draw this conclusion given that in federal states, state governments constitutionally own jurisdiction over various issues which exceed national boundaries and thus pull these governments into the international arena to meet local needs.

Systematically, Lecours described four structural determinants of paradiplomacy on the domestic level: constitution framework; intergovernmental relations; representation of

[70] Soldatos, P. (1990). An Explanatory Framework for the Study of Federated States as Foreign-Policy Actors. *Federalism and International Relations: The Role of Subnational Units*, pp.34-53.
[71] Kuznetsov, A. S. (2014). *Theory and Practice of Paradiplomacy: Subnational Governments in International Affairs*. Routledge, p.36.

regional government in federal states; and the national foreign agenda.[72] The first related to the constitutional recognition of regional governments in international affairs in some countries and the constitutional jurisdiction division of power in the federal system, either of which is possible to favour the external activities of SNGs. The second factor is related to intergovernmental relations. There are different patterns of intergovernmental relations, conflictual or cooperative. Lecours argued that the competition and conflicts in intergovernmental relations over jurisdiction area can be extended to foreign affairs.[73] Thus, SNGs can seek international ways of achieving domestic aims which cannot be offered by the central government. This is particularly the case when considering those regional governments whose purpose is to build identity, protect culture distinctiveness or seek more autonomy, which will be explored in the next section as the nationalism of SNGs.[74] Thirdly, Lecours asserted that SNGs are able to develop their own paradiplomacy if they have no paths to influence foreign policy domestically.[75] Finally, SNGs are more likely to be involved in the foreign affairs of 'low politics' as a result of the expanding foreign agenda. These issues are often closely linked with local development, which SNGs have both capacity and willingness to become involved in. SNGs that go beyond national boundaries may be motivated by various local needs.

2.2.2.4 The Multiple Motivations of SNGs

Changes at different levels of structure pull SNGs to conduct international activities and enable them to achieve benefits through international means. In reality, SNGs possess various motivations to become international actors. Scholars have already pointed out the multiple motivations of SNGs and have conducted case studies of specific SNGs to have a better understanding of this issue. Structural Changes have offered opportunities for SNGs to conduct international activates, but the motivations at an actor level are equally important to understand the international activism of SNGs. In federal states or decentralized unitary states, SNGs have obtained certain autonomy

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[72] Lecours, A. (2002). Paradiplomacy: Reflections On the Foreign Policy and International Relations of Regions. *International Negotiation*, 7(1), pp.91-114.
[73] Ibid.
[74] Lecours, A (2008). Political Issues of Paradiplomacy: Lessons from the Developed World. The Hague: Netherlands Institute of International Relations, Clingendael, pp.1-22.
[75] Lecours, A. (2002). Paradiplomacy: Reflections On the Foreign Policy and International Relations of Regions. *International Negotiation*, 7(1), pp.91-114.

in their jurisdiction. It is often in these issue areas under their jurisdiction that SNGs would like to "assert an international competence, such as trade promotion, foreign investment, employment and rights of foreign workers, environment and energy issues, and tourism."[76] Keating systematically explored three sets of motivations of SNGs in the international arena: economic, political and cultural, which conform with three dimensions of globalization.[77] Andre Lecours shared the idea that not all regional governments have the same aims when conducting paradiplomacy and that there are three layers of paradiplomacy at the broadest level, including economic issues, cooperation (cultural, education, technical, technological and others) as well as political consideration.[78] There are diverse reasons for SNGs to enter into international arenas and the same is true in China. I argue that promoting economic interests is the most important motivation for China's SNGs in the reform period, but they also try to achieve other local interests, for example, to improve their position in central policy through international interaction with certain states as shown in the Yunnan case study explored in Chapter 5. The following part of this section reviews the primary motivations of SNGs explored by scholars.

Firstly, the international involvements of SNGs in economic affairs have occupied a significant position in the study of paradiplomacy. With the development of economic globalization, it is possible and necessary for SNGs to seek international investment and markets for products and technology for local economic modernization. Economic development is under the jurisdiction of SNGs and is important for the sustainable local development and also crucial for electoral state governors, which induces SNGs to participate in international economic activities. A group of scholars has paid attention to the economic aspect of paradiplomacy. Andre Lecours argued that "virtually all paradiplomacies in advanced industrialized countries feature an economic component."[79] Keating regarded economic motivation as one dimension of regional paradiplomacy.[80] Economically, SNGs develop international activities for the purpose

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[76] Duchacek, I. D. (1984). The International Dimension of Subnational Self-Government. *Publius: The Journal of Federalism*, 14(4), pp.5.
[77] Keating, M. (1999). Regions and International Affairs: Motives, Opportunities and Strategies. *Regional & Federal Studies*, 9(1), pp.1-16.
[78] Lecours, A. (2008). Political Issues of Paradiplomacy: Lessons from the Developed World. *The Hague: Netherlands Institute of International Relations Clingendael*, pp.1-22.
[79] Ibid, p.4.
[80] Keating, M. (1999). Regions and International Affairs: Motives, Opportunities and Strategies. *Regional &*

of seeking investment and targeting new markets to benefit local development. As a result of economic globalization, local development has become increasingly internationalized and thus it is important for SNGs to be better involved in the global economy. Earl Fry studied the states and local governments of the US and argued that they have actively participated in the international arena in order to protect local interests in a globalized economy, in response to cutbacks in federal grant payments, and to search for new revenue sources.[81] Economic aims are clearly one category of the most important incentives for the majority of SNGs to enter the international arena. In the context of China, the international interaction of SNGs obtained a high economic profile in the reform period as a result of the opening up policy, which pushed SNGs to go out with the purpose of promoting domestic economic modernization.

Secondly, some SNGs are also motivated by political considerations to enter the international arena. For example, Duchacek developed the idea of protodiplomacy, which describes the phenomenon that SNGs send a separatist message when developing links with foreign nations, such as Quebec's relation with France.[82] Existing literature shows that nationalism has attracted the most scholarly attention as the political motivation of SNGs' international involvements. For example, Keating argued that nationalism is one of the key political motivations for regions to take part in international activities.[83] The most representative work exploring the nationalism incentive of SNGs was conducted by Lecours and Morena. It is easy to see that an overwhelmingly majority of cases examined from this perspective relate to: Quebec, Flanders, Wallonia, Catalonia, and the Basque Country. Accordingly, Lecours and Morena argued that "these five regional governments which have been the most active internationally share one common feature of nationalism."[84] In this regard, they believed that federalism – regarded by some scholars as the cause of paradiplomacy – could not explain fully why some regions choose to act internationally while some

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Federal Studies, 9(1), pp.1-16.

[81] Fry, E. H. (1990). State and Local Governments in the International Arena. *The Annals of the American Academy of Political and Social Science*, 509(1), pp.118-127.

[82] Duchacek, I.D. (1986). *The Territorial Dimension of Politics: within, among, and across Nations*. Westview Press, p.290.

[83] Keating, M. (1999). Regions and International Affairs: Motives, Opportunities and Strategies. *Regional & Federal Studies*, 9(1), pp.1-16.

[84] Lecours, A., & Moreno, L. (2003). Paradiplomacy: A Nation-Building Strategy? A Reference to the Basque Country. Concordia University and Spanish National Research Council Working Paper.

others in federal states do not. Instead, the two scholars stated that "nationalism logically leads regional governments to seek international agency" and as a result, paradiplomacy "needs to be re-conceptualized through theoretical linkage with sub-state or stateless nationalism."[85]

They further explained that nationalism can be logically related to paradiplomacy through three processes: identity construction; definition and articulation of regional interests; and political-territorial mobilization.[86] SNGs motivated by nationalism are primarily those with multicultural and multilingual societies. Through these three processes, SNGs desire to build identity, protect culture distinctiveness and obtain more autonomy from central (federal) government. Therefore, paradiplomacy in nationalism reflects the internal politics of federal states because of the regions' desire to enter the international scene to gain more benefits for their countries' domestic affairs.[87] Nationalism has complicated the motivations underpinning the international activities of SNGs. In some cases, SNGs have conducted paradiplomacy in terms of economic or environment issues but with a nationalist consideration. For example, Hubert Quimet argued that nationalism is the driving force in the commercial paradiplomacy of Scotland and Quebec.[88] Scholars have also examined green paradiplomacy in environmental issues in the Basque Country and argued that the Basque government's active role in international environment cooperation is driven by identity politics and nationalism.[89] SNGs in China rarely pursue nationalist goals through their international involvements, although in some cases they have been promoted by political aims, which aim at obtaining more benefits from the central government.

Third aspect of the subnational initiative of international activities lies in the environment issue, which has found its reflection in paradiplomacy scholarship, which

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[85] Lecours, A., & Moreno, L. (2003). Paradiplomacy: A nation-building strategy? A reference to the Basque Country. Concordia University and Spanish National Research Council Working Paper.
[86] Ibid.
[87] Kuznetsov, A. S. (2014). *Theory and Practice of Paradiplomacy: Subnational Governments in International Affairs*. Routledge, p.36.
[88] Rioux Ouimet, H. (2015). From Sub-State Nationalism to Subnational Competition States: The Development and Institutionalization of Commercial Paradiplomacy in Scotland and Quebec. *Regional & Federal Studies*, 25(2), pp.109-128.
[89] Happaerts, S., Van den Brande, K., & Bruyninckx, H. (2010). Governance for Sustainable Development at the Inter-Subnational Level: The Case of the Network of Regional Governments for Sustainable Development (nrg4SD). *Regional & Federal Studies*, 20(1), pp.127-149.

is known as green paradiplomacy. Studies on green paradiplomacy are often conducted through case studies, like the survey on the transborder network of environmental protection cooperation between Canada and US SNGs. The Canadian researchers, Annie Chaloux and Stephane Paquin, conducted a study of a trans-boundary organization called *Conference of New England Governor and Eastern Canadian Premier (NEG-ECP)*—a transborder cooperation organization between the Eastern Canadian Provinces and the North Eastern US states for dealing with climate change. It was argued in the research that environmental paradiplomacy in North America was induced by Canada's weak leadership and the US's refusal to ratify the Kyoto Protocol.[90] In this regard, the international environment initiatives of SNGs were a result of central government failing to demonstrate the political will and leadership to deal with environmental issues. Another survey conducted by Thomas Eatmon, studying the role of American states in global climate change, shared a similar conclusion. The research explored how US governors took actions when the US federal government refused to sign the Kyoto Protocol.[91] Green paradiplomacy does not only manifest in climate change, but also in various aspects such as water resource management, air pollution, and tackling acid rain. For example, Chaloux and Paquin conducted research which discussed the water resource management through the case study of the Great Lakes-St. Lawrence River Basin.[92] The activism of SNGs in international environmental issues to some extent implies the inability and unwillingness of central governments to deal with emerging challenges. With the growth of global interdependence, environmental issues have become a key concern for various actors, including SNGs, as environment protection is a component of sustainable development and a big concern for citizens. SNGs in China also participate in international environmental issues, for example, through sister-city relations.

In relation to the motivations of SNGs when they conduct paradiplomacy and the primary aspects of paradiplomacy which have attracted scholarly attention, some basic observations can be concluded. Firstly, diversity is the most evident characteristic of

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[90] Chaloux, A., & Paquin, S. (2012). Green Paradiplomacy in North America: Successes and Limits of the NEG-ECP. In *Sustainable Development and Subnational Governments*. Palgrave Macmillan, London, pp.127-236.
[91] Eatmon, T. D. (2009). Paradiplomacy and Climate Change: American States as Actors in Global Climate Governance. *Journal of Natural Resources Policy Research*, 1(2), pp.153-165.
[92] Chaloux, A., & Paquin, S. (2013). Green Paradiplomacy and Water Resource Management in North America: The Case of the Great Lakes-St. Lawrence River Basin. *Canadian Foreign Policy Journal*, 19(3), pp.308-322.

SNGs' motivations, which implies that SNGs in different states or even in the same states, during different time periods, are often motivated by different aims to conduct paradiplomacy. Second, it is important to consider the underlying motivations of certain types of paradiplomatic activities. It is possible that SNGs conduct economic activity but with political aims, especially in consideration of nationalism in some SNGs. For example, Quebec has developed economic relations with foreign states for the purposes of nationalism, while other Canadian states, like Ontario, do so for local economic development. This is worth remembering when conducting case studies of China's SNGs, which suggests that provinces in China may have diverse concerns when they develop economic cooperation with foreign actors. For example, Yunnan province as discussed in Chapter 5, tried to reposition itself in China's national strategy through promoting relations with Southeast Asia states.

2.2.3 Conclusion About the Paradiplomacy Approach

The 1970s witnessed the inception of study into the external activities of SNGs – scholarly exploration at that time was conducted predominantly through case studies of federal states in North America as well as Australia. The theoretical exploration of the phenomenon came to light in the 1980s through work conducted by Duchacek, Soldatos, and others. Paradiplomacy is the dominant approach for understanding the international involvement of SNGs. The conception of paradiplomacy dramatically inspired and laid solid foundations for later work on this phenomenon. From its inception in the 1980s, the study of paradiplomacy has spread from North America to Europe and now includes the exploration of more cases worldwide.[93] Previous work by scholars from a paradiplomacy approach has greatly inspired my research on the international involvements of China's SNGs, especially in terms of constructing the explanatory framework.

Literatures of paradiplomacy inspires me to consider two crucial sets of factors leading to SNGs' involvements. First, it is important to consider transformations from a structural perspective. SNGs are not naturally international actors, but the

[93] Examples such as: Jenkins, R. (2003). India's States and the Making of Foreign Economic Policy: The Limits of the Constituent Diplomacy Paradigm. *Publius: The Journal of Federalism*, 33(4), pp.63-82; Loh Francis Kok Wah (2009). Federation of Malaysia in Michelmann, H. eds. *Foreign Relations in Federal Countries (Vol. 5)*. McGill-Queen's Press-MQUP.

transformations of national, regional, and global structures not only enable them but push them to become international actors. In the context of China, I argue that the transformations that induced SNGs' international involvements mainly coming from the national level. Secondly, SNGs per se have their own concerns and motivations to enter the international arena. These two aspects to some extent are also applicable in the case of China. The international involvement of China's SNGs was also induced by its structural transformation, which induced changes in central-local relations and thus led to the international involvements of SNGs. Meanwhile, SNGs have motivations and can pursue their own local interests through international means. The combinations of changes on structural perspective and the concerns of actors together can help in creating a theoretical framework to understand the international involvement of China's SNGs. However, structural transformation in the federal states explored in the paradiplomacy approach does not totally fit with the Chinese case. The motivations and interests of China's SNGs were not the same as their counterparts in those countries mentioned by the paradiplomacy, for example, the incentive of nationalism.

The paradiplomacy approach emphasizes the force of globalization, which has weakened the capacity of national governments in terms of "territorial management."[94] Globalization has promoted sub-states to became international players and compete internationally with the aim of recouping some of the influence they have lost as a result of globalization.[95] I do not deny the force of globalization in promoting the international involvements of SNGs, even in the case of China. However, I argue that the idea of paradiplomacy mainly originated from "the experiences of post-modern federal states, in which subnational units actively engaged in foreign relations."[96] Constitutional division of power between federal-state governments legally offered SNGs more autonomy to act internationally and leeway to bargain with the national government. But the situation in China is significantly different from that in federal states and democratic decentralized countries. As a unitary authoritarian state, there is

[94] Keating, M. (1999). Regions and International Affairs: Motives, Opportunities and Strategies. *Regional & Federal Studies*, 9(1), pp.1-16.

[95] Criekemans, D., & Duran, M. (2016). Small State Diplomacy Compared to Sub-State Diplomacy: More of the Same or Different? In Steinmetz, R eds. *Small states in Europe: Challenges and Opportunities*. Routledge, pp.31-46; Cornago, N. (2010). On the Normalization of Sub-State Diplomacy. *The Hague Journal of Diplomacy*, 5, pp.11-36.

[96] Tubilewicz, C. (2017). Paradiplomacy as A Provincial State-Building Project: The Case of Yunnan's Relations with the Greater Mekong Subregion. *Foreign Policy Analysis,* 13(4), pp.935.

no constitutional power division between central government and SNGs. Instead, SNGs in China obtained autonomy in local issues as a result of inter-governmental decentralization after the establishment of reform and opening up policy at the end of the 1970s, which was aimed at motivating SNGs to promote local development. Moreover, economic globalization and increasing interdependence, emphasized by paradiplomacy, would not have acted on Chinese SNGs without the domestic transformation induced by national policy of reform and opening up. This suggests that the decentralization and internationalization in China is a state-led process in which national government has played a leading role. It was the domestic reform inducing the changing central-local relations that enabled and motivated SNGs to act internationally. Therefore, the theoretical framework in my research will concentrate on the transformations that originated at the national level, which I argue are the dominant causes of SNGs' international involvements in China.

2.3 Multi-layered Diplomacy Approach

2.3.1 Main Concepts of Multi-layered Diplomacy

Paradiplomacy, as the dominant approach for understanding the international presence of SNGs, has inspired subsequent scholars but has also faced challenges by these later researchers. Brian Hocking, in *Localizing Foreign Policy: Non-Central Governments and Multi-layered Diplomacy* (1993) and other articles, developed an alternative approach of multi-layered diplomacy (MLD) to explore the international activism of SNGs. He disagreed with the paradiplomacy approach, which tended to highlight the conflicts and competition between federal and state governments. Instead, he emphasized the cooperation and links between different levels of actors. Also, Hocking did not agree with the terms coined to describe the international activities of SNGs, such as paradiplomacy, for they imply a "second-order set of activities, pale imitation of 'real diplomacy'" which remained the preserve of national government.[97] He denied the previous assumption which understood the international activism of SNGs, focusing on the "uniqueness of SNGs as international actors and their separation from the traditional foreign policy and diplomacy."[98] It is the changes of diplomacy and foreign

[97] Hocking, B. (1999). Patrolling the 'Frontier': Globalization, Localization and the 'Actorness' of Non-Central Governments. *Regional & Federal Studies*, 9(1), p.21.
[98] Hocking, B. (1993). *Localizing Foreign Policy*. New York: St. Martin's Press, p.3.

policy that have induced the international presence of SNGs, rather than SNGs creating a specific type of diplomacy. In the contemporary world, SNGs must interact with different types of actors, from national to international and even private actors, to face emerging challenges and opportunities. Therefore, in Hocking's view, "contemporary diplomacy conducted within the framework of complex 'multi-level' political structure and process embracing all levels of activities from local, through the national to the international."[99] Thus, the international participation of SNGs is not a separate activity but an important component in the changing process of diplomacy.

The growing interests of non-central governments to participate in international affairs are caused by forces at both international and local levels. On the one hand, the environment in which public policy is conducted has changed as a result of economic interdependence, technological change, and advanced communication.[100] In other words, the world is shrinking because of increasing globalization. This change has led to ambiguity between domestic and foreign policy as well as the expansion of foreign policy agendas.[101] What was once regarded as a domestic issue might have international effects and vice versa. SNGs, previously acting as organs for local administration, find it necessary to go beyond national boundaries to pursue local interests. Simultaneously, national government, responsible for diplomacy, finds it imperative to cooperate with local governments, even in foreign affairs. Both levels of government are to some extent unable to "manage the political system over which they preside and to satisfy the demands generated within them."[102] SNGs feel less confident in central government to manage foreign affairs which involve local interests as central government cannot fully understand local needs. Central government has to balance various needs among local governments, during which it is possible for central government to ignore the interests of some localities. Therefore, the changing environment has created opportunities, desire and need for localities to adopt an international presence and for central government to encourage the controlled involvement of regions in specific areas of external relations.[103]

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[99] Hocking, B. (1993). *Localizing Foreign Policy*. New York: St. Martin's Press, p.11.

[100] Ibid, p.12.
[101] Ibid, p.13.
[102] Ibid, p.13.
[103] Ibid, p.2.

The international activism of non-central governments is not only caused by the changing public policy environment and its influences on national and subnational level. The underlying force for foreign policy localization also comes from individuals who are increasingly able to operate internationally. The social groups who find their interests affected internationally also endeavour to influence policy both domestically and internationally. Herein, SNGs who are easy to access and are closer to local society become the target for these groups to achieve their own interests: "local political units are often the channel for social activism, being both the instruments and the target of local groups with international policy objective."[104] It is not that SNGs per se have the desire to enter the international arena, but forces from both above and below have pushed SNGs to take international activities. As a result, all such actors interact with each other in the modern globalized world. SNGs are fitting into this changing pattern of politics instead of engaging in a new form of diplomacy. Such diplomacy is "not a segmented process presided over by undisputed gatekeeper but as a web of interactions with a changing cast of players that operate in a multi-level political environment."[105]

However, the international involvements of different non-central governments vary significantly. They are not a homogenous category of international actors, rather their precise pattern of international involvements in a multi-layered environment will depend on a combination of factors which determine SNGs' positions in domestic and international settings.[106] Hocking clarified the differences of SNGs' international involvements in the following aspects, including motivation, extent and direction of involvement, structure and resources, levels of participation as well as strategies.[107] These were developed by Hocking as the criteria of the "actorness" of SNGs, which reflected the qualities inherent in SNGs in becoming international actors. I agree with Hocking's idea of the differences existed in SNGs' international involvements and those differences can be manifested in different aspects as a result of the diverse local variables that affected the choices of SNGs. Diversity is a key element of SNGs'

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[104] Hocking, B. (1993). *Localizing Foreign Policy*. New York: St. Martin's Press, p.17.
[105] Ibid, p.36.
[106] Ibid, p.46.
[107] Hocking, B. (1993). *Localizing Foreign Policy*. New York: St. Martin's Press; Hocking, B. (1999). Patrolling the 'Frontier': Globalization, Localization and the 'Actorness' of Non-Central Governments. *Regional & Federal Studies*, 9(1), pp.17-39.

international presence, which not only exists among SNGs in different sovereign states but also among different SNGs in the same country. It is important to pay attention to the diversity of SNGs' international involvement, which is also clearly shown in the context of China. Thus, my research conducts case study of two provinces to develop a better understanding of the variety of SNGs' international involvements. Hocking further explored the five determinants that induced the different patterns of SNGs' participation in multi-layered diplomacy, including the character of federalism, central-local linkages, geographic location, international linkages, as well as available resources.[108] Both his general idea of diversity and his exploration of the specific factors leading to the diverse pattern of SNGs' international involvements sheds light on my research.

2.3.2 Conclusion on Multi-layered Diplomacy

Hocking offered an alternative perspective for understanding the international presence of SNGs, which emphasized the changing process of diplomacy and foreign policy, incorporating actors from different levels. Like paradiplomacy approaches, multi-layered diplomacy was also attentive to the relations between changing global environment – growing globalization and interdependence – and the international presence of SNGs. However, instead of viewing SNGs as an independent type of actors, Hocking regarded them as one category of actors involved in the multi-level diplomacy process and interacting with various actors from national, international levels. MLD also drew appreciation from and was applied by other scholars. For example, Pluijm and Melissen, researching city diplomacy, positioned city actors in the changing pattern of international politics based on the idea of MLD.[109] Chen, a Chinese scholar investigating SNGs, agreed with the idea of MLD and applied it to understand the international activities of Chinese provinces.[110] In my view, the international involvements of China's SNGs are much closer to multi-layered diplomacy as SNGs in China are pushed and pulled by national and international forces and thus involved in the complex interaction with national government. National policy is the primary

[108] Hocking, B. (1993). *Localizing Foreign Policy*. New York: St. Martin's Press, pp.47-57.
[109] Pluijm, R., & Melissen, J. (2007). City diplomacy: The Expanding Role of Cities in International Politics. *Clingendael Diplomacy Papers*, 10, 1-43.
[110] Chen, Z.M, Jian, J.B., & Chen, D.Y. (2010). The Provinces and China's Multi-Layered Diplomacy: The Cases of GMS and Africa. *The Hague Journal of Diplomacy*, 5(4), pp.331-356.

determinant in provinces' international activism. SNGs' international presence not only meets the needs for local development but also serves China's national development strategy and international relations.

Hocking's study inspired me to pay attention to the variety of patterns of SNGs' international involvements, which is the most outstanding characteristic of Chinese SNGs' international involvements. It is inappropriate to view SNGs as homogeneous actors. Instead, the international presence of SNGs varies considerably in many aspects, such as motivations, strategy, and agendas. This does not deny that the similarity exists in SNGs' international involvements. But it is necessary to discover the specific local situations of SNGs through recourse to case studies. In this regard, conducting comparative case studies is justified due to the diversity of SNGs. Furthermore, Hocking discussed the factors leading to the diverse patterns of SNGs' international involvements, some of which are not only suitable for federal states but also for China. For example, the differences in location and resources can influence the different types of international involvements, which are also manifested in the cases of Zhejiang and Yunnan, naturally located in different parts of China.

However, Hocking's research, like others in the field of paradiplomacy, was primarily based on the observation of federal states, where non-central governments are much more powerful and autonomous than those in China. Again, diversity is the key factor for SNGs' international involvements and thus it is crucial to fill in the general ideas developed by Hocking with the concrete conditions in China, especially in consideration of the transformation of central-local relations in China under the reform and opening up policy. The processes of decentralization and internationalization which have enabled provinces in China to become involved in international affairs are largely a result of national government policy, which in return shapes the central-local relations in the international arena. This is quite different from the situation in federal states. More importantly, the specific local conditions of different SNGs in China has also been exploited by both central government and SNGs, inducing the different positions of SNGs in national policy on the one hand, and different local responses to the policy on the other hand. This interaction between central and local government induced the diversity of the international involvement patterns of SNGs in China.

2.4 Multi-level Governance Approach

2.4.1 Main Ideas of MLG

Multi-level governance (MLG) is another theoretical approach that pays attention to the phenomenon of SNGs acting beyond national boundaries. However, it is quite different from the aforementioned approaches, paradiplomacy and multi-layered diplomacy, which explore global transformation and how it influences the international presence of SNGs. MLG was developed to understand how the progress of Europeanization has affected the mobilization of regions in member states at the EU level. In other words, MLG emerged within the context of the EU as an alternative model to the state-centric and supranational model of European integration. The establishment of MLG is related to several important changes in the EU from the late 1980s and early 1990s, which provided channels and incentives for regions of member states to reach the European arena. MLG was originally developed to explain the structural and cohesion policy of EU after the reform of structure policy in 1988.[111] This reform required the partnership among the EU Commission, national authorities, regional and local authorities as well as social works to promote cohesive policy.

Later, under the Maastricht Treaty, member states could send regional ministers to the Council of Ministers under Article 146, thus those regional ministers were able to participate in the decision-making process, although in practice only Belgian regions and German Lander were accessible to the council.[112] Further important progress related to the Treaty was the establishment of the Committee of Regions (CoR) in 1994. The CoR is an EU advisory body composed of locally and regionally elected representatives of member states, which gives regions and cities a formal institutional channel in EU law making on matters concerning local and regional governments, such as health, education, employment, social policy, economic and social cohesion, transport, energy and climate change.[113] Besides, the preliminary completion of the Single European Market in 1993 led to a significant competency transformation from member states to EU level, covering various policy areas closely related to regional and

[111] Marks, G. (1993). 'Structural Policy and Multilevel Governance in the European Community' in Alan W. Cafruny and Glenda G. Rosenthal (eds). *The State of the European Community II: The Maastricht Debates and Beyond*, pp.390-422.
[112] Hooghe, L. (1995). Subnational Mobilization in the European Union. *West European Politics*, 18(3), 175-198.
[113] Official Website of the EU, https://europa.eu/european-union/about-eu/institutions-bodies/european-committee-regions_en

local interests, which also motivated SNGs in EU member states to become involved in EU policies.[114] Scholars in EU study have also observed the phenomenon that regional governments in member states established offices in Brussels, which served as 'informal' embassies and lobbying agencies for regions to provide their viewpoints to the EU.[115] All of these developments in the EU caused some scholars to rethink the pattern of EU policy making and thus proposed an MLG model to understand subnational mobilization and day-to-day policy making in EU.

Scholars who investigated European integration using the MLG model argued that the territorial relations in the EU have been transformed as a result of the multiple extra-national channels for subnational authorities to engage in EU policy and that national states are losing control over areas of decision-making.[116] MLG does not fully reject the role of states or regards state as unimportant in EU policy making. Instead, scholars of MLG have denied the monopolizing role of national states. According to MLG, decision-making competencies are shared by actors at different levels, including supranational level, national level governments and subnational authorities.[117] There is no need for SNGs to engage in the European arena through national governments and local interests are not only represented by national government at the EU level. Rather, subnational actors, according to MLG, operate in both national and supranational arenas, creating transnational associations in the process.[118] Like multi-layered diplomacy, the MLG model attaches great importance to the interactions between different levels of governments. SNGs have become important components in the decision-making of EU policy. It is possible for SNGs to make different choices to promote interests at the EU level, indirectly through national governments or directly through various channels at the EU level. In the EU context, though state executives remain relevant in decision-making, power has started to shift both upward to supranational bodies and downward to regions. In this regard, mobilization of SNGs at the EU level "does not erode, but

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[114] Bauer, M. W., & Börzel, T. A. (2010). Regions and the European Union. *Handbook on Multi-Level Governance*, Cheltham: Edward Elgar, pp.253-267.
[115] Hooghe, L. (1995). Subnational Mobilization in the European Union. *West European Politics*, 18(3), pp.175-198.
[116] Hooghe, L., & Marks, G. (1996). "Europe with the regions": Channels of Regional Representation in the European Union. *Publius: The Journal of Federalism*, 26(1), pp.73-92.
[117] Marks, G., Hooghe, L., & Blank, K. (1996). European Integration from the 1980s: State-Centric VS. Multi-Level Governance. *Journal of Common Market Studies*, 34(3), pp.341-378.
[118] Ibid.

complements the aggregating role of member states."[119]

However, scholars tend to believe that the regions from member states are not equally involved in EU policies, which means variety exists in different regions. It is true that there is common trend of changes in the EU but with persistent variation among SNGs.[120] Regions in the EU are different in the level of organization, financial resources, political autonomy, and political influences.[121] These differences push them to make different choices in relation to EU policy and also induce different capacity to affect the policy making. There is an institutionalized channel at the EU level for SNGs, but in practice there is a highly uneven pattern of subnational engagement. Those regions with strong entrenchment, like German Lander and Belgian Regions, are more likely to take advantage of the available opportunities.[122] This diversity has resulted in the comparative study on subnational mobilization in the EU. For example, an investigation on the organizational form of territorial representation in the EU showed that SNGs with rich resources, benefiting from a high level of self-rule or harbouring regionalist parties are more active in establishing offices in Brussel and have a more dominant position in trans-regional associations.[123] After comparing the case of federal Germany and decentralized unitary France, Benz and Eberlein asserted that national institutional setting can lead to different results in terms of structuring multi-level governance.[124] Diversity is inherent in the international engagement as SNGs themselves are quite different in various aspects. Even though there are general channels at the EU level, the capacity or strategies to use these channels depends on the specific condition of each SNG.

Another issue related to MLG is its application, which implies that MLG exists in different issue areas. The MLG model was originally constructed to understand the partnerships in the EU's structural policy, but it later spread to other issues and even

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[119] Hooghe, L. (1995). Subnational Mobilization in the European Union. *West European Politics*, 18(3), p.178.
[120] Hooghe, L., & Marks, G. (1996). "Europe with the regions": Channels of Regional Representation in the European Union. *Publius: The Journal of Federalism*, 26(1), pp.73-92.
[121] Ibid.
[122] Hooghe, L. (1995). Subnational Mobilization in the European Union. *West European Politics*, 18(3), pp.175-198.
[123] Donas, T., & Beyers, J. (2013). How Regions Assemble in Brussels: The Organizational Form of Territorial Representation in the European Union. *Publius: The Journal of Federalism*, 43(4), pp.527-550
[124] Benz, A., & Eberlein, B. (1999). The Europeanization of Regional Policies: Patterns of Multi-Level Governance. *Journal of European public policy*, 6(2), pp.329-348.

other geographic areas beyond the EU. MLG has become an increasingly generalized phenomenon and the MLG model has been applied more widely. The scholarly understanding of MLG has evolved, which not only focuses on the power dispersion between different levels. Marks and Hooghe, the earliest scholars developing the idea of MLG, further improved their idea of MLG by endeavouring to discover how governance should be organized and thus developed the idea of "two types of multi-level governance."[125] Accordingly, the first type "conceives of dispersion of authority to general-purpose, nonintersecting and durable jurisdictions."[126] In this regard, power is shared between different levels of government, which is close to the original understanding of MLG concentrating on the shared competency between supranational, national and regional governments. The second type of MLG "conceives of tasks-specific, intersecting and flexible jurisdictions."[127] This kind of MLG is developed to react to the changing functional requirements in different issue areas which need the partnership and coordination of different actors, both public and private. The themes of these two distinguished types of MLG are multilevel and governance, reflecting trends towards the "de-nationalization of territorial statehood and de-statization of the political system," which redefines the relationship between national governments with local, supranational and societal forces.[128] Multilevel governance changes the political game and leads to "relaxation of regulatory framework opening up for more strategic and autonomous behaviour among the actors."[129]

It is true that multi-level governance originated in the context of the EU, especially from the EU's structural policy, but its application can be widened. For example, Smith examined the EU's common foreign and security policy and stated that there was significant progress towards the multi-level governance of the EU's foreign policy compared with limited coordination in the 1970s and the 1980s.[130] Another important

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[125] Hooghe, L., & Marks, G. (2003). Unravelling the Central State, But How? Types of Multi-Level Governance. *American Political Science Review*, 97(2), pp.233-243.
[126] Ibid, p.233.
[127] Hooghe, L., & Marks, G. (2003). Unravelling the Central State, But How? Types of Multi-Level Governance. *American Political Science Review*, 97(2), pp.233.
[128] Jessop, B. (2004). „Multi-Level Governance and Multi-Level Meta-Governance", in I. Bache & M. Flinders (eds.), *Multi-level Governance*. Oxford University Press, p.64.
[129] Ibid, p.81.
[130] Smith, M. (2004). Toward A Theory of EU Foreign Policy-Making: Multi-Level Governance, Domestic Politics, and National Adaptation to Europe's Common Foreign and Security Policy. *Journal of European Public Policy*, 11(4), pp.740-758.

issue area that has attracted scholarly attention lies in environmental policy. A group of researchers have applied the MLG model to understand the governance of climate change, both inside and outside the EU. For example, Kern and Bulkeley show how transnational municipal networks deal with climate change in the context of European multi-level governance.[131] Gupta also focused on the issue of climate change, but conducted comparative research in France, the Netherlands and China to discover how policy responsibilities are shared among national, provincial and local actors.[132] MLG has been increasingly useful for understanding the partnership between actors involved in various agendas which cannot be solved by national governments or any other actors alone but which need vertical and horizontal cooperation between different actors.

2.4.2 Conclusion on MLG

MLG, rooted in the study of European integration, is an approach for investigating SNGs in the context of the EU. Scholars of MLG have paid attention to the dispersion of power among supranational, national, and regional authorities. However, the origination of MLG was closely linked to the specific background of European integration. The mobilization of SNGs at the EU level was a result of the development of European integration and the related institutional and informal channels of the integration process. In other words, the changes at the supranational level in the EU have pushed the decentralization of power in member states. This is unique in the case of the EU as no other parts of the world have a supranational framework and the level of integration that the EU does. As argued in the studies conducted by scholars of paradiplomacy who also explored the continental determinants to the international presence of SNGs, the continental development of EU has offered a more favourable environment for SNGs than in North America.[133] In the context of China, there are no supranational institutions like the EU that have promoted the decentralization of power from national government both upward and downward. The decentralization process in China is primarily promoted by national government to facilitate domestic economic development. Therefore, there is significant difference between SNGs in China and the

[131] Kern, K., & Bulkeley, H. (2009). Cities, Europeanization and Multi-Level Governance: Governing Climate Change through Transnational Municipal Networks. *JCMS: Journal of Common Market Studies*, 47(2), 309-332.
[132] Gupta, J. (2007). The Multi-Level Governance Challenge of Climate Change. *Environmental Sciences,* 4(3), pp.131-137
[133] Cornago, N. (2010). On the Normalization of sub-State Diplomacy. *The Hague Journal of Diplomacy*. 5, pp.11- 36.

regional government in the EU.

However, the difference does not mean that MLG is not useful for research on China's SNGs. The idea of MLG highlights the interaction between different levels of government and power devolution, which has some relevance to China. Although there is no supranational institution above China, the macro-regional and subregional cooperation framework in Asia also offers channels and incentives for SNGs to act internationally, such as GMS to Yunnan province (explored in Chapter 5). Moreover, although MLG was first developed to study subnational mobilization in the EU, it has greatly evolved since its inception in the 1990s. MLG not only concentrates on the power sharing between different levels of authority, but also focuses on the coordination and partnership between different actors to respond to different challenges, which can also explain the emerging international role of SNGs. Those challenges both inside and outside China make it increasingly difficult for the national government alone to tackle them independently and thus coordination and cooperation between central and subnational governments is needed, as the idea developed in the second type of MLG mentioned above. Therefore, in some issue areas, national governments and SNGs can develop a pattern of MLG even in China. Thus, the idea of multi-level governance can help to explain – although not fully – the international presence of SNGs in China.

2.5 Research into China's SNGs

So far, this chapter has critically reviewed different research approaches to the international involvements of SNGs. Such approaches have been established primarily based on the experiences of federal or democratic decentralized states. The existing scholarly exploration is insightful and helpful for studying Chinese SNGs, especially considering the establishment of the theoretical framework. But it should be recognized that China, which was regarded as a unitary Westphalian state, has been practically ignored in studies using the aforementioned approaches. Only a few of these studies have touched on the international involvements of Chinese SNGs with little detailed discussion. For example, Cornago talked about China when discussing regionalization as a way of normalizing sub-state diplomacy. He recognized the peculiarities of Chinese case and noted that the "international projection of Chinese provinces promoted for

strictly economic purpose."[134] Kuznetsov understood the international activism of Chinese coastal provinces from a realist perspective and argued that the paradiplomacy of these provinces is "a sign of Beijing to look for differentiation in foreign policy."[135] These ideas partly explain the issue of Chinese SNGs' international involvements but are far from the whole complex story.

While the basic ideas from the previous approaches can shed light on the theoretical framework construction, it is important to build the general framework with consideration of the reality in China. It should be recognized that transformations that have happened on both domestic and international levels have manifested differently in China. Thus, it is useful to refer to existing literature that has specifically explored the international involvements of China's SNGs. There are two major sections of literature which have paid attention to the international role of SNGs in China. On the one hand, there is research examining the transformation of China's foreign policy making and implementation, in which SNGs are considered to be one category of emerging actors. On the other hand, international activities conducted or participated in by SNGs have attracted scholarly attention and research has been conducted on the direct international involvements of China's SNGs. These two sections of research are reviewed below to determine their main ideas in relation to Chinese SNGs.

2.5.1 Transformation of China's Foreign Policy and the Role of SNGs

It has commonly been acknowledged that foreign policy making and international relations in China are highly centralized and dominated by several top leaders, ignoring other domestic actors who could possibly go beyond national boundaries and participate in foreign affairs. However, this traditional understanding has faced challenges. Some scholars in China's foreign policy and international relations have recognized the transformation in China and paid attention to the proliferation of emerging actors. It has been argued that China has become an increasingly diverse and dynamic society in which many players compete for influence, rather than being monolithically controlled by the communist party.[136] Various domestic political and societal forces – including

[134] Cornago, N. (2010). On the Normalization of Sub-State Diplomacy. *The Hague Journal of Diplomacy*. 5, p.24.
[135] Kuznetsov, A. S. (2014). *Theory and Practice of Paradiplomacy: Subnational Governments in International Affairs*. Routledge, p.74.
[136] Zhu, Z. (2011). Chinese Foreign Policy: External and Internal Factors. *China: An International Journal*, 9(2),

bureaucratic organizations, think tanks, media, public opinion as well as local governments – have attracted scholarly attention inside and outside China.[137] An important contribution from previous scholarly investigations related to the international presence of China's SNGs is fitting SNGs into the general picture of China's foreign policy and regarding this phenomenon as a transformational component of China's foreign policy.

For example, Lampton observed that the number of actors is increasing, though they are still comparatively small, and while individuals, organizations and localities are not formally involved in foreign policy, they have more space to act internationally.[138] The involvement of local governments follows a process of decentralization of China's foreign policy making. Cheung and Tang noted the role of China's provinces in external relations, asserting that "China's provinces are becoming increasingly active in foreign relations and the interactions of China's provinces have added new dimensions to its foreign relations in the reform era."[139] Some analysts have further identified the role of actors participating in China's foreign policy based on the extent of their influence. According to these ideas, although the SNGs are not primary actors in foreign policy making, they have ways to influence such policy. For example, Jakobson and Knox argued that authority over foreign policy has become fractured as a result of a growing number of actors being involving in China's international activities and classified local governments as margined actors in China's foreign policy, along with the media, think tanks and business actors.[140] Similarly, Wang regarded provincial governments in China as semi-periphery actors who have close relations with central government and can sometimes directly participate in foreign policy.[141]

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pp.185-194.

[137] Examples see: Abb, P. (2015). China's Foreign Policy Think Tanks: Institutional Evolution and Changing Roles. *Journal of contemporary China*, 24(93), pp.531-553; Glaser, B. S., & Saunders, P. C. (2002). Chinese Civilian Foreign Policy Research Institutes: Evolving Roles and Increasing Influence. *The China Quarterly*, 171, pp.597-616; Jiang, C.J & Shen, Y. (2007). The Mass Media and Foreign Policy Making in China[大众传媒与中国外交决策]. *International Review* (1), pp.43-50; Lai, H., & Kang, S. J. (2014). Domestic Bureaucratic Politics and Chinese Foreign Policy. *Journal of Contemporary China*, 23(86), pp.294-313; Wang, J., & Wang, X. (2014). Media and Chinese Foreign Policy. *Journal of Contemporary China*, 23(86), pp.216-235.

[138] Lampton, D. M. (2001). *The Making of Chinese Foreign and Security Policy in the Era of Reform, 1978-2000*. Stanford University Press, p.119.

[139] CHEUNG, T. Y. P., & Tang, J. T. (2001). The External Relations of China's Provinces. In *The Making of Chinese Foreign and Security policy in the Era of Reform, 1978-2000*. Stanford University Press, pp.91-120.

[140] Jakobson, L., & Knox, D. (2010). New Foreign Policy Actors in China. Stockholm International Peace Research Institute.

[141] Wang C.G. (2012). The Contemporary Chinese Foreign Policy: Who makes? Who Influences? From the Perspective of Domestic Actors[当今中国的外交政策：谁在制定？谁在影响？——基于国内行为体的视角].

According to the aforementioned studies, some basic observations can be made. Scholars in the field of Chinese foreign policy tend to agree on the dominant role of central leaders in foreign policy making but some of them suggested that it is possible for other domestic forces to influence foreign affairs. SNGs are one category of emerging actors who have endeavoured to influence foreign policy making, especially when those policies have affected the local in some ways. Thus, SNGs can play a role in China's foreign affairs through indirect means, described as a "mediating actor" by multi-layered diplomacy.[142] However, my research will not focus on this aspect of SNGs' role in foreign relations, rather I explore the direct interactions of SNGs beyond national boundaries. But it should be recognized that direct and indirect participation in foreign affairs are strongly linked. Chinese SNGs' growing involvement in international affairs in return gives them further incentives to influence foreign policy making. Nevertheless, my research primarily focuses on the direct international involvements of SNGs and explores the underpinning causes of the phenomenon. I argue that the causes of SNGs' direct international engagement would also contribute to their participation in foreign policy making, as reflected in the different strategic choices of SNGs. Therefore, the next section reviews the research that directly focuses on the international presence of China's SNGs.

2.5.2 Studies on the International Involvements of China's SNGs

Scholarly inquiry into SNGs' international involvement began in China at the beginning of the 2000s, much later than such studies in foreign countries. Studies on the international activities of Chinese SNGs conducted by scholars with both foreign and Chinese backgrounds also started later at the beginning of the 2000s. One of the most representative works is Chen's *Subnational Governments and Foreign Affairs* (2001), the first systematic study of SNGs' international activities conducted by a Chinese scholar.[143] Though the cases explored in his book were not SNGs in China, the main ideas explored therein are useful for reflecting on the perceptions of scholars who are rooted in China and for its influence on the work of Chinese experts that followed in this field. Chen systematically analysed the issues relating to the foreign affairs of SNGs,

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Foreign Affairs Review, (2), pp.1-18.

[142] Hocking, B. (1993). *Localizing Foreign Policy*. New York: St. Martin's Press.

[143] Chen, Z.M. (2001). *Subnational Governments and Foreign Affairs* [次国家政府与对外事务]. Changzheng Press.

such as the driving forces behind SNGs' international affairs, central-local relations in foreign affairs, and agendas participated in by SNGs.

Chen argued that the international activities of SNGs take place in a state-centric international system and are restricted by the regularities and norms of sovereign states and their activities are supervised and controlled by central government.[144] Most Chinese scholars who have conducted research into SNGs' international presence shared the similar idea that central government still holds the principle power in foreign affairs and highlight the cooperation between central government and SNGs, especially considering the role played by Chinese national policy to push the international activities of SNGs. I argue Chen's ideas are helpful not only because of the general idea of central-local interaction in terms of foreign affairs, but also because of his systematic exploration of the driving forces underpinning the phenomenon. Chen explored the driving forces behind SNGs' international activities on different levels, including international, national and local, and argued that SNGs' international involvement results from push and pull forces from both international and domestic structures.[145] This research explored the agendas that SNGs care most about and discussed the international activities conducted by SNGs in detail. From these two aspects, Chen lays solid foundations for case studies on China's provinces and the development of an associated theoretical framework.

With a more specific focus on China's SNGs, scholars have already conducted some investigations and developed specific ideas to define the international role of China's SNGs. They tend to confirm that SNGs have a role to play internationally, but with constraints from the central government. For example, Zhang regarded SNGs in China as a "limited participator" in international affairs because local governments received "limited authorization" from the central government to take part in foreign affairs and the central government could withdraw "limited authorization" if it wished.[146] Limited participation of local governments in international affairs could serve to maximize the

[144] Chen, Z.M. (2001) *Subnational Governments and Foreign Affairs* [次国家政府与对外事务]. Changzheng Press.
[145] Ibid.
[146] Zhang, P. (2013). On Local Governments as "Limited Participation Actor" in the External Affairs of China [论地方部门作为对外关系"有限参与行为体"]. *World Economics and Politics*, (8), pp.139-160.

win-win effects of central-local cooperation. Li, examining the international participation of Yunnan and Guangxi provinces in Sino-ASEAN relations, developed the idea of "local liberalism" to describe the role of SNGs. He argued that "local governments, within possible national foreign policy parameters, striving to push for transnational collaboration and cooperation in the economic, social, cultural and non-traditional security arenas."[147] Ren, from the perspective of diplomacy study, made a distinction between the phenomenon of local governments' participation in foreign affairs and sub-state diplomacy. He preferred to use sub-state diplomacy to understand the transborder cooperation participated in by SNGs, which highlighted that SNGs to some extent develop relatively independent aims and policy making processes in transborder cooperation and bring about noticeable effects on national diplomacy.[148] Accordingly, central government in China still holds dominant power in foreign affairs, but the international role of SNGs should not be ignored. SNGs in China also have incentives to pursue international interests and can also be good partners for central government.

Domestic transformation, reflected as reform and opening up policy, was regarded by scholars as the main cause for the international involvements of SNGs. Chen, the earliest scholar studying the international activities of local governments in China, argued that the twin process of decentralization and internationalization caused by reform and opening up policy led SNGs in China to become international actors, especially in foreign economic affairs.[149] Most Chinese scholars shared a similar idea and affirmed the dominant role of national policy in pushing SNGs into international affairs. The reform and opening up policy launched in the late 1970s was viewed as the beginning of SNGs' international involvement. Su explored the motivations of SNGs to participate in sub-regional cooperation and argued that institutional and policy decentralization in China motivated and guaranteed local governments' participation in

[147] Li, M. (2014). Local Liberalism: China's Provincial Approaches to Relations with Southeast Asia. *Journal of Contemporary China*, 23(86), pp.276.
[148] Ren, Y.Z. (2017). Sub-State Diplomacy and Its Practice in China' s Trans-boundary Cooperation[次国家政府外交的发展及其在中国跨境区域合作中的实践]. *International Review*, (3), pp.1-15.
[149] Chen, Z.M. (2005). Coastal Provinces and China's Foreign Policy-Making'. *China's Foreign Policy Making: Societal Forces and Chinese American Policy*, pp.187-207; Chen, Z.M., Jin, J.B & Chen, D. Y. (2010). The Provinces and China's Multi-Layered Diplomacy: The Cases of GMS and Africa. *The Hague Journal of Diplomacy*, 5(4), pp.331-356.

international cooperation.[150] Ren, conducting research on transborder cooperation of SNGs, stated that reform and opening up not only decentralized economic authority from central to local and increased the incentives of local government, but also offered an institutional guarantee for local government to participate in foreign affairs.[151] I agree with these scholars that the reform and opening up policy that began in the 1970s is a primary factor leading to the international activism of SNGs in China. On the one hand, it changed the international isolation of China and pushed it to re-enter international society with the purpose of promoting domestic development. On the other hand, SNGs were motivated by domestic decentralization and obtained certain autonomy to participate in international economic cooperation. Thus, the international involvement of SNGs in China reflects a strong state-led characteristic, which is quite different from that found in federal states.

Moreover, scholars tend to believe that SNGs are primarily interested in low politics, leaving high politics to central government. Chen stated that the international agendas of SNGs are mainly manifested in low politics, though some SNGs have endeavoured to become involved in high politics occasionally.[152] Ren, exploring transborder cooperation between China and Myanmar, argued that low politics manifested in non-traditional security issues is the main concern and most active area in Sino-Myanmar sub-state diplomacy.[153] It is reasonable to argue that SNGs mainly involved in low politic for these issues are most relevant for sustainable local development, especially economic issues. However, it is also important to note that the distinction between low/high politics and the definition of security per se is experiencing transformation.[154] The transborder cooperation of SNGs has also attracted scholarly attention. For example, Li examined the transborder relations between Yunnan, Guangxi in China and

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[150] Su, C.H. (2010). Bring Chinese Local Governments Back in Sub-Regionalization [中国地方政府与此区域合作：动力,行为及机制]. *World Economics and Politics*, (5), pp.4-24.

[151] Ren, Y.Z. (2017). Sub-State Diplomacy and Its Practice in China' s Trans-Boundary Cooperation [次国家政府外交的发展及其在中国跨境区域合作中的实践]. *International Review*, 3, pp.1-15.

[152] Chen, Z.M. (2001). *Subnational Governments and Foreign Affairs* [次国家政府与对外事务]. Changzheng Press.

[153] Ren, Y.Z. (2017). Sub-State Diplomacy and Its Practice in China' s Trans-boundary Cooperation[次国家政府外交的发展及其在中国跨境区域合作中的实践]. *International Review*, (3), pp.1-15.

[154] Hocking, B. (1999). Patrolling the 'frontier': Globalization, Localization and The 'Actorness' of Non-Central Governments. Regional & Federal Studies, 9(1), pp.17-39; Kuznetsov, A. S. (2014). *Theory and Practice of Paradiplomacy: Subnational Governments in International Affairs*. Routledge.

states in Southeast Asia.[155] Ren conducted a case study of transborder cooperation between Yunnan's local government and Myanmar.[156] Transborder cooperation involving border provinces in China has become an essential part of SNGs' international involvement and deserves to further exploration, as seen in the case study of Yunnan province in Chapter 5.

2.5.3 Conclusion on Research into China's SNGs

A group of scholars has made great efforts to overcome the idea that China's national government is the sole representative of the country internationally and that its leaders fully manipulate foreign policy in China. Scholar's attention shifted to types of emerging actors that appeared in China's foreign affairs, one of which is SNG. The international involvement of Chinese SNGs has attracted some scholarly attention. Scholars who have conducting research on SNGs tend to highlight the cooperative relations between Chinese central government and SNGs. They agree on the international activism of SNGs but with limitations and also assert the role of national policy in promoting the international engagements of SNGs. Such ideas are suitable for describing the reality of SNGs' international involvement in the context of China. However, scholarly investigation of Chinese SNGs' international involvement is far from sufficient, both theoretically and empirically. Compared with the work on foreign SNGs mentioned in the previous sections, the study on China's SNGs started much later and more work remains to be done.

The first shortcoming of the existing research on Chinese SNGs' international involvement is a lack of systematic analysis. Most of the work has highlighted the important role of national policy, reflected in reform and opening up, in SNGs' international activities. It is true that the process of opening up and domestic reform transformed central-local relations and to a large extent induced international involvement of SNGs. However, I argue that the domestic reform and opening up alone does not tell the full story of central-subnational interactions which have caused and shaped the international involvements of China's SNGs. This thesis also focuses on the

[155] Li, M. (2014). Local Liberalism: China's Provincial Approaches to Relations with Southeast Asia. *Journal of Contemporary China*, 23(86), pp.275-293.
[156] Ren, Y.Z. (2017). Sub-State Diplomacy and Its Practice in China' s Trans-boundary Cooperation [次国家政府外交的发展及其在中国跨境区域合作中的实践]. *International Review*, (3), pp.1-15.

changing diplomatic relations and foreign policy concerns as well as the evolving security perception at the central level. Moreover, SNGs also have local motivations and interests in the process of opening up, which complicates central-subnational interactions. Therefore, I intend to address this issue by developing a systematic analysis of the underpinning causes of SNGs' participation in international affairs. More importantly, I will focus on the issue of how these causes have differently influenced interactions between Chinese central government and specific SNGs and thus led to different patterns of international involvement among Chinese SNGs.

Secondly, existing case studies have also proven to be highly unbalanced. Scholars have paid more attention to the transborder networks of bordering provinces and some of the most internationalized cities. Many provinces and cities in China have been underexplored. For example, there is little study on the case of Zhejiang province, discussed in my research. Moreover, while a few studies have mentioned the variety of SNGs, there have been no detailed case studies to explore the issue of diversity. I believe that diversity is the most outstanding characteristic of Chinese SNGs' international involvements and thus comparative case analysis is necessary to reflect this issue. Therefore, I address this matter by conducting research from two main aspects: first, the research will offer a systematic framework to understand the international involvements of China's SNGs; second, it will further explore how the general factors put forward in the theoretical framework are reflected differently in different SNGs and have thus induced different patterns of involvement through comparative case study of two provinces.

2.6 Theoretical Framework Building

Existing theoretical approaches which have been attentive to the international role of SNGs have provided useful theoretical insights for my own research. However, they originate mainly from the experiences of federal states and democratic decentralized states from North America and the EU, which differ greatly from China in central-subnational relations. Therefore, they cannot be immediately applied to the task of understanding the international involvements of China's SNGs as my research intends to do. The structural transformation emphasized in previous approaches – for example, the tendency of globalization and growing interdependence underlined in

paradiplomacy and MLD as well as the supranational structure of the EU highlighted in MLG – cannot be easily transferred to the case of China. I agree with the idea that structural transformation has caused SNGs, with a "lack of both external legitimacy and the domestic formal-legal capacity, to act beyond national borders and became international agents."[157] However, in the context of China, I argue that the most important structural transformation originated from the national level, which induced and significantly affected SNGs' international involvement.

I do not deny the possibility that global forces have influenced SNGs and affected their choices in international involvements. Moreover, the force from the global level became hard to contain by the central government and SNGs with their increasing involvement in the global arena, even in the context of China. However, I argue that the force of economic globalization and international interdependence would not have had an impact on China's SNGs in the reform period without the changes coming from the central level. State governments in federal countries have obtained constitutional divisions of power from the federal government and thus have naturally found incentives to go beyond national borders to meet local needs. SNGs in China did not have enough incentives and autonomy to promote international involvement before the late 1970s. In other words, SNGs in China might have continued to act primarily in a domestic and relatively isolated environment without the decision from the central government to engage in reform and opening up. Without the fiscal decentralization from the central government, SNGs in China might have no enough incentives to go out to promote local development. Therefore, I argue that the international involvements of China's SNGs showed a top-down and state-led model, which is quite different from those federal or democratic decentralized states. Simultaneously, there is a hierarchal structure between different levels of governments in China, thus central government can influence and even control the activities of SNGs. With these considerations, my theoretical framework concentrates on the exploration of transformations at the national level, which are the most important inducements for international involvements at the subnational level in China.

[157] Lecours, A. (2002). Paradiplomacy: Reflections On the Foreign Policy and International Relations of Regions. *International Negotiation*, 7(1), pp.91-114.

The baseline of the theoretical framework is that both internal and external transformations at the national level have changed the central-subnational interactions and thus caused and affected the international involvements of SNGs. Against this basic idea, the theoretical framework in the thesis explores three aspects of changes at the national level and how these changes have led to corresponding effects on SNGs' international involvements. The transformations at the national level in China have provided a structure of opportunity offered by global and supranational transformations elsewhere emphasized in the previous approaches. The incorporation of these transformations into the theoretical framework has provided the autonomy and capacity for SNGs in China to act internationally. Existing approaches reviewed in this chapter highlighted inter-governmental power division as an important element in causing SNGs' international involvements. Although there is no constitutional power division between central-subnational governments that existed in the federal states explored by the previous approaches, the transformations that originated at the national level have caused inter-governmental decentralization in China, which has offered Chinese SNGs a certain degree of autonomy and capacity to become involved internationally. Moreover, both paradiplomacy and MLD approaches have emphasized the motivations at the actor level, which are also crucial for promoting SNGs' international involvements. I argue that SNGs in China have developed local motivations in international involvements, rather than passively acting as required by the central government. To some extent, the transformation that originated from the central level led to the incentives at the subnational level to become internationally involved, especially in the economic sphere. Therefore, the theoretical framework will explore three changes at the central level that are considered to be influential to the international involvements at the subnational level.

Firstly, MLG underlined how institutions at the EU level, such as the CoR, offered regional governments in the member states the chance to act beyond the national level. I agree with the importance of these institutional arrangements in promoting the international involvements of SNGs. However, I argue that existing institutional arrangements promoting the international involvements of China's SNGs derived from the diplomatic and foreign policy concerns at the central level. Therefore, the first elements incorporated in the theoretical framework are the changing diplomatic

relations and the foreign policy concerns at the central level, which have affected the international involvements of SNGs in the following ways. Improved diplomatic relations with several foreign states, especially with industrialized developed states, have provided a good international environment to open up and become involved in the international economy – the most important part of SNGs' international involvements. Also, the diplomatic interaction and foreign policy concerns at the central level have provided institutional platforms for SNGs, which in return serve both diplomatic aims and local concerns. Chapter 3 will explore the platforms that originated from the diplomatic and foreign policy concerns at the central level, mainly including sister-city relationships originating from Sino-Japanese bilateral relations and transborder cooperation projects.[158] With decades of development, these have become important platforms for SNGs in different areas of China to develop international involvements, with an obvious aim to serve local interests beyond the original central consideration.

Secondly, the power division between central government and SNGs has been highlighted in the existing approaches. The paradiplomacy approach has highlighted the constitutional power division in the federal states, which has caused SNGs to naturally obtain the autonomy and motivation to act internationally. MLG also emphasizes the power dispersion among subnational, national and supranational authorities. Power division is an important element in promoting SNGs' international involvements. However, in the context of China, the power division between central-subnational governments originated from the deliberate arrangement at the central level, mainly reflected as the reform and opening up policy established in the 1970s.[159] This transformation at the national level has significantly changed central-subnational interactions in China and immediately pushed SNGs to act beyond national borders. On the one hand, through the inter-governmental decentralization in the reform period, SNGs in China obtained both autonomy, resources and motivations to go out and promote international involvements. I agree with the previous research on the international involvement of China's SNGs which thinks highly of the reform and opening up policy in promoting the international involvements of China's SNGs, as

[158] See Chapter 3, section 3.2.2 and section 3.2.3 for the detailed discussion of sister-city relationship and subregional cooperation projects.
[159] Chapter 3, section 3.3 discussed how the reform and opening up policy affected SNGs' international involvements in detail.

discussed in section 2.5. The fiscal decentralization in the reform period greatly motivated SNGs in promoting their local economies, which became the most important incentive for their international involvements. Moreover, inter-governmental decentralization also enabled SNGs to obtain the authority to supervise and manage the international economic activities of local enterprises.

On the other hand, the opening up policy, which aimed at becoming involved in the global economy to promote domestic modernization, made SNGs important actors in China's involvement in the global economy. In other words, the opening up policy led to the high economic profile of SNGs' international involvements. It not only made the economy an important component in China's diplomacy at the central level, but also in the concerns of local foreign affairs.[160] Meanwhile, the opening up policy laid a solid political foundation from the central level for SNGs to go beyond national borders to seek development opportunities. Therefore, I argue that policy change in the reform period played a predominant role in promoting the international involvements of SNGs in China.[161] However, it should be noted that the different policy arrangements in the reform period also induced positive and diverse responses from SNGs, which further complicated the central-subnational interactions and induced the diverse pattern of their international involvements. It is argued that the inherent local conditions have been incorporated into the consideration of policy changes at the national level and the responsive measurements from the SNGs. Therefore, the discussions in the following chapters not only explore how the national policy has led to the changing central-subnational relations, but also focuses on its different influences on different SNGs.

The third important theoretical factor learned from the previous approaches is their attention to the expanding foreign policy agendas and resultant growing interdependence among actors on different levels. Hocking emphasized the cooperation and linkage among multi-layered actors in dealing with emerging issues that are difficult for a single type of actor to handle. The second type of MLG put forward by

[160] For relations between diplomacy and economy in China, see Chapter 1, section 1.3.3.
[161] Here the policy changes in the reform period refer not only to the policy developed at the end of the 1970s, but also a series of related policies developed by the central government to become involved in the global economy. The following chapters incorporate the "going global" policy, "developing the west" or OBOR initiative. All these policies are components of the reform and opening up policy of previous decades.

Marks and Hooghe also highlighted the partnership and coordination between different actors to tackle specific issues. I argue that the international involvements of China's SNGs to some extent reflects the necessary cooperation and coordination required to deal with expanding foreign policy agendas. Therefore, the third factor included in the theoretical framework is the changing perception of security at the central level, mainly originating in the 1990s. The expanded concept of security from military and political security to non-traditional security concerns led to the expanding agendas of foreign policy, which provided the leeway for SNGs to become involved. I argue that not all SNGs in China are equally influenced and participate in such international security cooperation, which reflected another aspect of diversity in their international involvements.

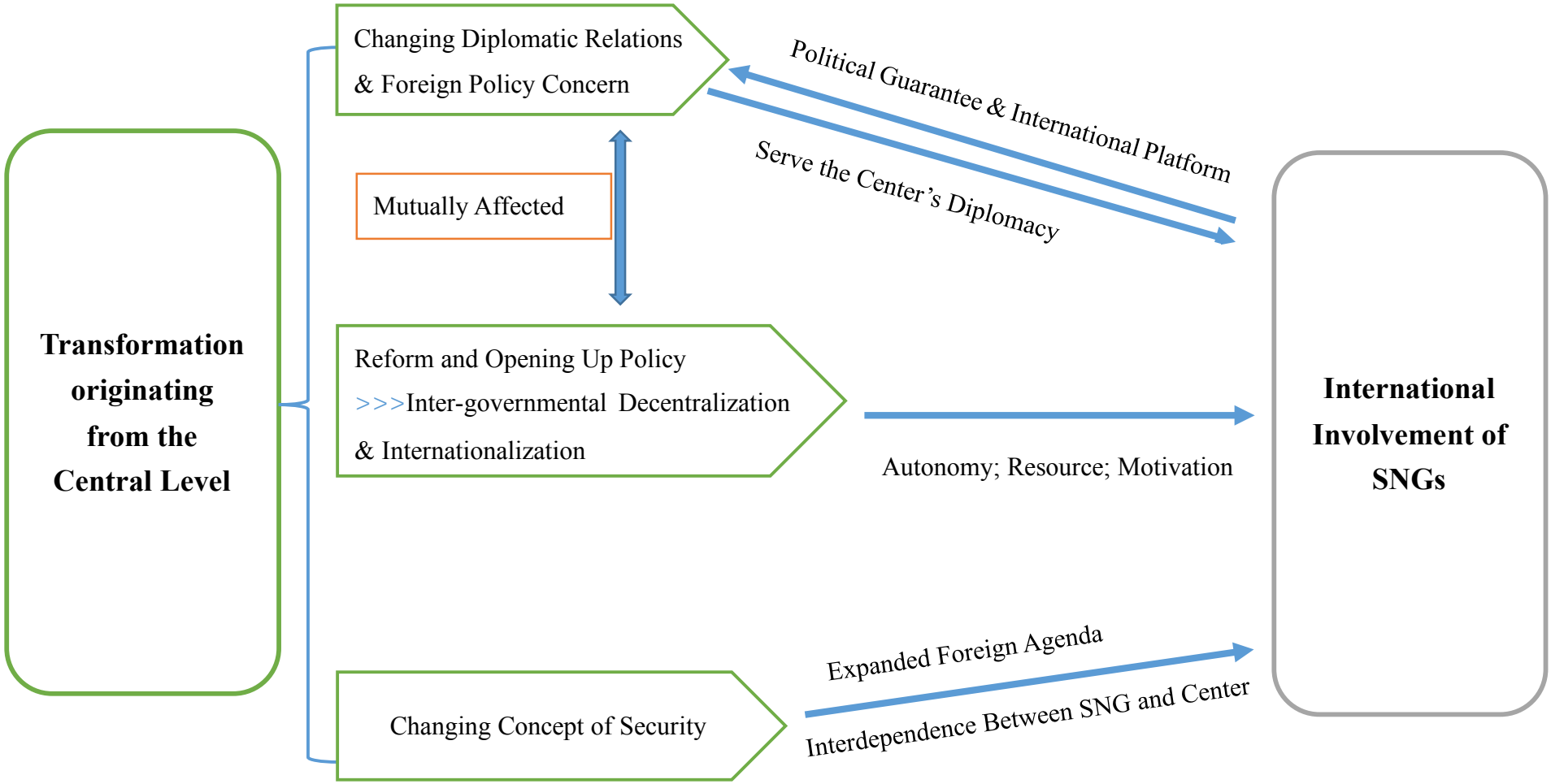
These three factors make up the theoretical framework (Figure 2-1) in my research. However, it should be clarified that the three factors can interact with each other in reality. As explored in Chapter 1 (section 1.3.3), central diplomacy in the reform period significantly served to promote China's involvement in the global economy. The division between the three factors in the thesis mainly serves analytical convenience, rather than ignoring the possible links between them. More importantly, the thesis argues that these transformations coming from the central level has not act on Chinese SNGs in the same way as SNGs varied in many aspects. SNGs' diversity in several local variables can affected both sides of central-subnational interactions caused by the transformations at the central level and thus induce the diverse patterns of SNGs' international involvements. These variables–geographic location, international linkage as well as those variables related to the economic development model–have consequences for SNGs in their positions in central policy, both domestically and internationally.[162] Moreover, SNGs in China have also considered these local variables to respond to the national policy and to develop international interactions. Therefore, the thesis not only explores how the transformations at the central level changed central-subnational relations, but also traces how these variables filling into the central-subnational interactions and thus induce diversity of SNGs' international involvements.

[162] See Chapter 1, section 1.4 for more detailed arguments of these variables.

2.7 Conclusion

This chapter examined the existing theoretical approaches developed by scholars based on the experiences of federal states, which inspired my research into the international involvements of China's SNGs. Moreover, previous literature on China's SNGs reviewed in this chapter has proven helpful for a better understanding of the characteristics that exist in the Chinese context. The theoretical approaches that originated from federal states and decentralized democratic states cannot fully explain the story of SNGs' international involvements in China. Thus, a theoretical framework is developed that concentrates on the transformations at the central level in China, which have led to changing central-subnational interactions and thus resulted in and influenced SNGs' international involvements. Following the theoretical framework put forward in this chapter, the next chapter will offer a contextualization for this research, which provides a broad and general overview of the transformations in China. According to the idea put forward in the theoretical framework in this chapter, Chapter 3 will explore the transformations in three perspectives across China as a whole: changing diplomatic relations; the development of reform and opening up policies; and the changing security concept at the central level. It will illustrate how these changes at the central level have caused the changing interaction between central and subnational governments in China, thus leading to SNGs' international involvements.

Figure 2-1: Theoretical Framework of the Research



Source: the figure is made by the author based on the ideas from section 2.6.

Chapter 3:
Expanding the Theoretical Framework:
Overview of International Involvements of SNGs in China

3.1 Introduction

Based on the theoretical framework, the international involvement of SNGs in China was caused and affected by the complicated national-subnational interactions that resulted from transformations originating at the central level. This chapter expands the theoretical framework by exploring three perspectives of changes in detail to discover how they contributed to central-subnational interaction, which resulted in the increasing international involvement of China's SNGs in recent decades. Transformations at the national level are the leading causes of SNGs' international involvements, which act as a bridge connecting the forces of globalization and responses from the subnational level. Firstly, diplomatic relations at the central governmental level and changing foreign policy concerns have affected the international involvement of SNGs. In most cases, China's improved diplomatic relations with different states (or with a regional organization like ASEAN) would offer a positive political foundation for international interactions at the subnational level. This is particularly evident in the case of Yunnan (discussed in Chapter 5) where China's improved diplomatic relations with every single Southeast Asian states and ASEAN created a good environment for Yunnan to open up and to promote interactions with neighbouring states.[163] Moreover, the diplomatic concerns at the central level provided important platforms for SNGs to become internationally involved. Meanwhile, international interactions at the subnational level served the grand diplomacy of the central government in China.

Secondly, the most important inducement on the national level leading to SNGs' international activism lies in China's domestic economic transformation, mainly manifested as the opening and reform policy launched at the end of the 1970s. The process of domestic decentralization and internationalization significantly changed central-subnational relations in international affairs, particularly in the economic sphere.

[163] See Chapter 5, section 5.2.1 for more information.

On the one hand, the devolution of power from the central government enabled SNGs in China to obtain autonomy in various issue areas related to local development, particularly from an economic dimension. On the other hand, the opening up policy pushed SNGs into the international arena with the purpose of finding opportunities for local development. Chinese central government chose to reengage in the global economy to promote domestic development through opening up. During this process, SNGs were attached great importance and obtained autonomy through the process of decentralization. As a result, SNGs became the direct agents and implementers in international economic cooperation. Meanwhile, SNGs in China did not passively follow the national policy during the process of internationalization. They were able to develop local initiatives or strategies under the framework of national policy to serve local development. The proactive role of SNGs in the reform period also complicated central-subnational interaction. Finally, a changing concept of security at the central government level to some extent provided Chinese SNGs a role to play beyond the economic area, expanding to international non-traditional security cooperation. In the Yunnan case, it saw the cooperation between Yunnan and neighbouring states in non-traditional issues like drug prohibition.[164]

More importantly, structural factors leading to the international activities of Chinese SNGs have not acted equally on each SNG and this has resulted in a diversity of their international involvements. Variety in variables–geographic locations, international linkage of SNGs, natural and required elements related to the economic development–significantly affected central-subnational interactions. On the one hand, variety in these variables shaped different advantages or limitations of SNGs and thus was positioned differently by the central government in domestic and foreign policy. On the other hand, SNGs also responded differently to the policies according to different local variables. More importantly, variety in local variables can also affected the strategy or motivations of SNGs in terms of their international involvements. As a result, these variables filling into the central-subnational interactions caused by the transformations at the central level, which induced the diverse pattern of SNGs' international involvement. Therefore, this chapter will not only pay attention to how the transformations put forward in the

[164] See Chapter 5, section 5.5 for more information.

theoretical framework affected SNGs' international involvements, but also will be attentive to the issue of how these factors have manifested in different SNGs because of the variety of SNGs in many aspects. Bearing this in mind, the following section of this chapter firstly examines the development of China's diplomatic relations and foreign policy to discover how these factors influenced SNGs' international interactions. Second section discusses the transformation caused by reform and opening up policy and how it influenced the international involvements at the subnational level. The third section reviews the the issue of China's involvement into the global economy, which is regarded as the most important component of SNG' international involvement in the reform period. Finally, the chapter considers the issue of how the changing security concept at the central level has provided chances for SNGs to participate in international cooperation.

3.2 Central Diplomatic Relations and SNGs' International Involvements

China's diplomatic relations with foreign states has influenced the international involvements of SNGs. In most cases, good diplomatic relations at the central level can lay solid political foundations for international interactions at the subnational level. Firstly, China's diplomatic relations have influenced international economic cooperation, in which SNGs are deeply involved. Secondly, the diplomatic strategy or concerns at the central level have provided SNGs platforms to become involved in international affairs. In return, interaction on the subnational level can serve the maintenance of diplomatic relations at the central level. The establishment of sister-city relations and transborder cooperation mechanisms, could illustrate this interaction between central diplomacy and SNGs' international involvements. However, the international involvements of SNGs has not always positively served central diplomatic relations. SNGs' international interactions can have negative impacts on China's diplomatic relations. More importantly, diplomatic relations at the central level could have different effects on the different SNGs. For example, chapter 5 illustrates how the Sino-ASEAN relationship – relations between China and Southeast Asia – have greatly influenced Yunnan's international involvements.[165] In Zhejiang province this

[165] See Chapter 5, section 5.2.1 for more information.

relationship might also have some influence, but not as significant as that for Yunnan. Moreover, the platforms created are not of the same importance to different SNGs in China, which implied that SNGs can attach importance to different platforms according to the local reality. Case study of Zhejiang (Chapter 4) and Yunnan (Chapter 5) can clearly showed the difference in this aspect. This part will explore in detail how central diplomatic relations have influenced the international involvements of SNGs.

3.2.1 Diplomatic Relations and Economic Cooperation

China's diplomatic relations with foreign states is an important factor at the national level that influences the international involvement of SNGs. One of the effects is on economic affairs. Development of China's diplomatic relations with foreign states since the establishment of the PRC has greatly influenced China's international economic cooperation. In this regard, the diplomatic relations at the central level would finally affect the international involvements of SNGs given that SNGs in China have become deeply involved in international economic affairs. China's international economic activities were not only promoted by the changes in economic policy, but also related to China's foreign relations with other states. Changes in China's foreign relations may bring positive or negative impacts to the international economic cooperation of China's SNGs. In some cases, SNGs have even endeavoured to influence diplomatic relations at the national level with the aim to promote economic cooperation with specific states.

Considering the diplomatic history of China after 1949, international economic activities – foreign trade and investment – were influenced by diplomatic relations at the national level. Immediately after the founding of the PRC in the 1950s, China mainly conducted foreign trade with and attracted foreign investment from the Soviet Union and other socialist states, which could be seen from both Zhejiang and Yunnan's foreign trade development. In the 1960s, when China engaged with ideological disagreement and political confrontation with the Soviet Union, their economic ties were also hindered.[166] After the détente of Sino-US relations in 1972, when President Nixon visited China, foreign trade between the United States and China started to develop as a result of eased political relations. Sino-US foreign trade in 1971 was only

[166] Wang, J. (2008). The Evolution of China's International Trade Policy: Development through Protection and Liberalization, In Lee, YS eds. *Economic Development through World Trade*, pp.191-213.

USD 5 million, which rose to USD 800 million in 1973.[167] In most cases, the improvement of China's diplomatic relations at the national level offered political guarantee for both SNGs and enterprises to promote international economic interactions at the subnational level.

The complicated relations between economic development and diplomacy have influenced the international involvements of SNGs. The first chapter illustrated the idea of economic diplomacy, which to some extent can reflect this relationship, which sees the economy as both the means and goals of diplomacy.[168] On the one hand, as economic development became the major concern of China after the launching of reform and opening up, diplomacy was required to serve economic development. On the other hand, central government also emphasized the economic statecraft, which implied that Chinese government made use of economic resource to achieve political and strategic aims.[169] This complicated interaction between economics and diplomacy would have various effects on China's SNGs. Firstly, central diplomacy serves economic development, which implies that good diplomatic relations bring opportunities for international economic cooperation for the subnational level, at least offering a political guarantee and confidence for the subnational level to participate in international economic affairs, which is the most important component of SNGs' international involvement. Secondly, considering the increasing importance of subnational economic development, it is possible that SNGs struggle to influence diplomatic relations. For example, Shandong province lobbied the central government to normalize diplomatic relations with South Korea with the aim of promoting trade and investment.[170] In this regard, SNGs were not always the agent of central government; instead they were able to develop local interests to try and influence central diplomacy. Therefore, more attention deserves to be paid to the case study of whether international economic interaction between provinces brings negative impacts to China's diplomacy.

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[167] Wang, J. (2008). The Evolution of China's International Trade Policy: Development through Protection and Liberalization, In Lee, YS eds *Economic Development through World Trade*, pp.191-213.
[168] See Chapter 1, section 1.3.3 for more information of China's economic diplomacy.
[169] Norris, W. J. (2016). *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control.* Cornell University Press.
[170] Qi, H.G. (2010), The Influence of Local Governments on the Establishment of Sino-South Korea Diplomatic Relation: Case Study of Shandong Province [中国地方政府对中韩建交的影响——以山东省的作用为例], *Contemporary Korea*, Winter, pp.65-78.

3.2.2 Sino-Japan Relations and the Origin of Sister-City Relations

The sister-city (called 'friendship city' in China) is the most common and institutionalized way for SNGs in China to interact with their counterparts in foreign states. The origin of sister-city relationships reflects the mutual influence of foreign relations developed at subnational and central levels. The development of sister-city relationships in China was closely related to the normalization of Sino-Japan relations. In 1972, the two countries signed the *Sino-Japan Joint Statement* and recovered diplomatic relations, which marked a new age of bilateral relations. In 1973, Governor of Kobe Miyazaki led a group of teenagers visiting China and communicated with Prime Minister Zhou Enlai to establish sister-city relations between Kobe and Shanghai or Tianjin.[171] With promotion and support from Zhou, Kobe and Tianjin established sister-city relations in 1973, which marked the beginning of sister-city relationships in China. The sister-city relationship between two cities rooted in Sino-Japan relations served to strengthen bilateral relations.[172] The development of sister-city relations between two cities could not have been achieved without the improvement of Sino-Japan diplomatic relations and support from the central government, particularly the work of Prime Minister Zhou. In return, the sister-city relations promote culture and personal exchange between the two cities and improve mutual understanding between their inhabitants, thus maintaining Sino-Japan bilateral relations from the bottom-up way.

The work of sister-city relations developed slowly in China before the launch of the opening up policy. Between 1973 and 1978, only six pairs of relations developed and all were between Chinese and Japanese SNGs.[173] This kind of relationship has developed rapidly and spread nationwide in China since the 1980s, but the sister-city relations with Japanese SNGs occupied the most important part of this process. For both Zhejiang and Yunnan provinces, the first sister-city relationship was developed

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[171] Cheng, Y, M. (2012). The Interaction and its Function of Sino-Japan Sister-City Relationship: Case Study of Tianjin-Kobe Sister-City Relations [中日友好城市的交往及其作用——以天津与神户的友好交流为例], *Japan Study*, 3, pp.111-115.

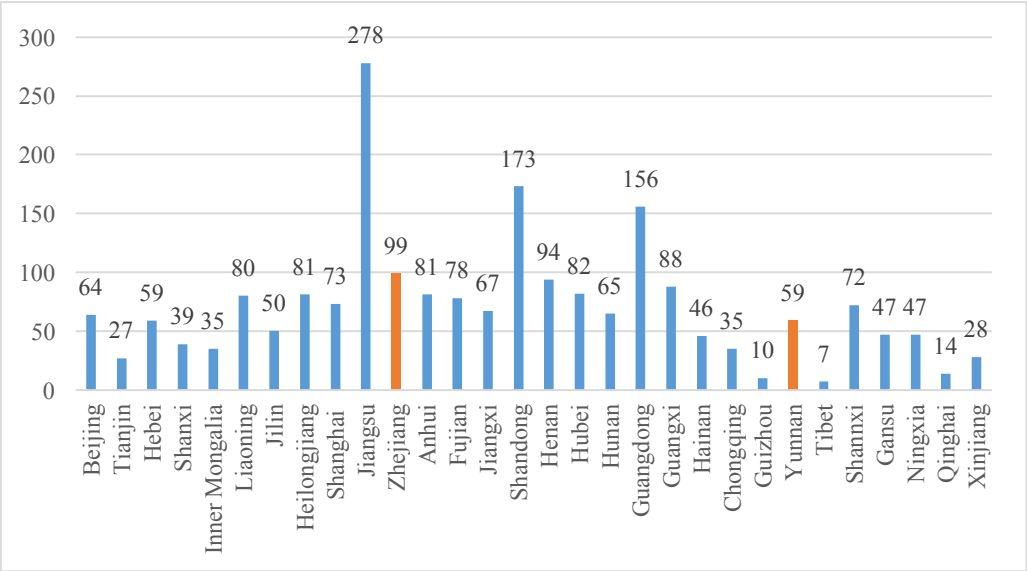
[172] Ibid.

[173] Jia, L. (2011). On the Development and Prospect of Sino-Arabian Sister-Cities [中阿友好城市发展的现状及前景分析]. *Arab World Studies*, 6, pp.45-52.

with Japanese SNGs, with establishment of sister-city relations between Hangzhou and Cifu in 1979, followed by Kunming (capital city of Yunnan province) and Fujisawa in 1981.[174] SNGs in China have developed sister-city relations with foreign SNGs worldwide. 31 provinces and numerous cities in mainland China have developed sister-city relationships with their counterparts in 136 foreign countries, totalling 2,571 pairs of sister-cities by the 2018.[175] In 1992, the Chinese International Friendship Cities Association was established to promote and support the work of sister-cities. The sister-city situation varies in different provinces. Figure 3-1 shows the number of relationships developed in each province. Jiangsu, Shandong and Guangdong stand out in the volume of sister-city relations in these provinces. In addition to quantity, SNGs also vary in the target states as a result of local concentration of international interaction. For example, Yunnan developed the most sister-city relations with SNGs from Southeast Asian states.[176] The sister-city relationships in certain province accord with the overall arrangement of foreign affairs, which deserves discussion through case studies.

[174] Hangzhou News Centre, https://hznews.hangzhou.com.cn/chengshi/content/2016-11/29/content_6403943.htm; Yunnan Provincial Government Research Office, *Yunnan Almanac 2017*, Yunnan Almanac Press.
[175] Xinhua Net (2018). Five New Sister Cities Established in China and the Total Number Increased to 2571 Pairs [我国新增 5 对友好城市（省州）总数增至 2571 对], http://www.xinhuanet.com/fortune/2018-11/16/c_1123726237.htm
[176] See Chapter 5, section 5.2.3.

Figure 3-1: Sister-City Relationships Developed by Each Province (1973-2015)



Source: Li X.L. eds (2016). *A Special Report on China Urban Competitiveness (1973-2015)* [中国城市竞争力专题报告（1973-2015）]. China Social Science Press, pp. 326-414.

3.2.2.1 More Pragmatic Aims of Sister-City Relations

The development of sister-city relations between Chinese and foreign SNGs is not only manifested in the growth of quantity but is also reflected in the functions of these linkages, which go beyond merely promoting mutual understanding to facilitating pragmatic aims on both sides. SNGs in both countries make use of sister-city relations to promote bilateral cooperation in various issues related to local development, such as economy, education, environment, and personal training. The sister-city relationships between China and Japan illustrate the multiple aims of this platform. Although cultural exchange and confidence building at the grassroots level are the primary motivations for sister-city relations, commercial opportunity is the other major motivation for Sino-Japan sister-city relations.[177] For example, Kobe and Tianjin engaged in sister-city relations to promote economic cooperation. In 1985, Kobe established the International Cooperation and Communication Centre – Tianjin Representative Office to offer assistance to Japanese enterprises that invested in Tianjin and Tianjin developed the Economic and Foreign Trade Office in Kobe in 1995.[178] Jiangsu, which developed the

[177] Jain, P. (2004). Japan's Subnational Governments in China: Emerging Bilateral Relations. *Global Change, Peace & Security*, 16(1), pp.19-30.
[178] Kobe International Cooperation and Communication Centre Tianjin Representative Office, http://www.tj-kobe.org/zh/about-office/

largest number of sister-city relations, also took advantage of this relationship to promote economic cooperation. For example, a group led by Vice Governors of Jiangsu Province held a commodity fair in Fukuyama when celebrating the 25th anniversary of the sister-city relationship.[179] It is reasonable that economic cooperation became an important and even dominant component for some sister-city relations given that the major concern of SNGs in China is local economic development. Therefore, SNGs in China have worked hard to promote international economic cooperation for the local in various ways. The next chapter, which studies the case of Zhejiang province, also finds that sister-city relations have become an important platform for international economic cooperation.[180] Zhejiang province engaged in sister-city relations with counterparts in Japan, Europe and the USA as important platforms to conduct economic activities, such as investment introduction fairs or commodities fairs.

Besides the economic issue, cooperation in other local-related agendas can be seen. SNGs in China and foreign states communicate and cooperate with each other to share information and measurements dealing with issues related to local sustainable development and city construction. For example, environmental issues have gained increasing attention from both subnational and national governments and have become important agenda items in sister-city relations. One of the best-known examples of environmental protection between sister cities in China was the project between Dalian and Kitakyushu. From 1996 to 2000, Kitakyushu helped Dalian to tackle environmental pollution through training and technology transfer, which finally enabled Dalian to obtain the UNDP Global 500 award in 2001.[181] Economic and environmental issues are only two examples of cooperating agendas among sister-cities. According to a survey by the Council of Local Authorities for IR in Japan, the major issues of concern by Japanese SNGs and their partners in foreign states including education, culture, sports, local administration, the economy, and social welfare. For sister-city projects with China in 2018, local administration (including environment), education and cultural events occupied the majority, with the percentage of 39.2%, 29.2% and 10.4%

[179] Foreign Affairs Office of Jiangsu Provincial People's Government, Jiangsu-Fukuyama 25th Anniversary Activities, http://wb.jiangsu.gov.cn/art/2017/7/25/art_326_4456575.html
[180] See Chapter 4, section 4.2 for more information.
[181] Shin, S. (2007). East Asia Environmental Cooperation: Central Pessimism, Local Optimism. *Pacific Affairs*, 80(1), pp.9-26.

respectively.[182] The sister-city relationship became a useful platform to achieve pragmatic cooperation between SNGs to solve issues related to local development. However, this platform is not equally developed in and important to each province. Comparing Zhejiang and Yunnan provinces, the sister-city relationship was much more developed and frequently used by Zhejiang provincial government to promote local cooperation with their counterparts in foreign states. Also, not all sister-cities are of equal importance to individual provinces. It is possible that some sister-cities in foreign states have already developed close and substantial cooperation with Chinese SNGs, but some only have symbolic linkage. Thus, it is necessary to explore cases to discover detailed information about sister-city relationships.

3.2.3 Neighbouring Policy and the Transborder Cooperation Mechanism

China's changing diplomatic strategy to its neighbouring states was also influential for the international involvement of SNGs, particularly in border provinces which are geographically and ethnically proximate to neighbouring states. For example, Yunnan's international involvements were significantly influenced by China's neighbouring policy and its bilateral and multi-lateral relations with Southeast Asian states, as discussed further in Chapter 5.[183] The improvement of diplomatic relations with neighbouring states and the importance attached by the central government to neighbouring relations have offered a political foundation for SNGs to engage with neighbour states. During the Cold War, relations between China and its neighbours were affected by the bipolar international system.[184] The relationship between China and the two super powers greatly influenced China's neighbouring relations. In the 1980s China began to devise an integrated periphery policy, which could "help China to create a regional environment conducive to its economic modernization and national security."[185] The 1989 incident in Tiananmen Square and the resultant economic sanctions by Western countries made it more necessary for China to improve relations with neighbouring states. China normalized diplomatic relations with Indonesia and

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[182] Council of Local Authorities for International Relations, see http://www.clair.or.jp/j/exchange/docs/shimai-gaiyo_H30.pdf

[183] See Chapter 5, section 5.2 for detailed information.

[184] Zhang X.M. (2006). The Historical Evolution of the Relationship Between China and Neighbouring States [中国与周边国家关系的历史演变：模式与过程] *The Journal of International Studies*, (1), pp. 57-71.

[185] Zhao, S. (1999). China's Periphery Policy and Its Asian Neighbours. *Security Dialogue*, 30(3), pp.336.

Singapore in 1990, Brunei and Vietnam in 1991, and also developed diplomatic relations with South Korea in 1992. Moreover, the collapse of the Soviet Union produced more neighbouring states for China. In 1992, China developed diplomatic relations with central Asian states, including Uzbekistan, Kazakhstan, Tajikistan, Kyrgyzstan and Turkmenistan. The improved relations with neighbouring states created a better surrounding for China to further open up the border area in 1992.

The normalization and establishment of diplomatic relations represented the beginning of China's good neighbour policy. China also actively participated in and promoted its participation in regional multilateral institutions. China's participation in ASEAN-related institutions is an example in this respect. Before the 1990s, China primarily promoted relations with Southeast Asia through bilateral means.[186] The situation started to change in 1991 when the Chinese prime minister was invited to attend the 24th ASEAN Foreign Minister meeting, marking the beginning of multilateral diplomacy between China and ASEAN. To date, China has developed multilateral diplomatic system with ASEAN centred on the 10+1 structure and involving full-coverage cooperation on various issues.[187] China also developed a free trade zone with ASEAN in 2010. The cooperation between China and ASEAN provided opportunities for SNGs to become involved in, such as economic cooperation or non-traditional security cooperation. Another well-known example of China's active role in regional institutions was the initiation of the Shanghai Five Mechanism, which later became the Shanghai Cooperation Organization in 2001. China re-oriented its foreign policy priority through its activities in neighbouring areas, which rendered neighbouring states' relationships with China of similar importance to China's bilateral relations with big powers, like the USA.[188] But with the rising power of China, neighbouring states also became concerned about China's intentions and the 'China Threat Theory' gained ground in China's neighbourhood. Therefore, it is important for China to raise mutual trust and reduce negative perceptions in neighbouring states. Chinese central government highlighted the need to establish a peaceful environment for China's

[186] Wang, G.Z. & Zhang, X.M. (2011). Multilateral Diplomacy and Sino-ASEAN Relations [多边外交与中国——东盟关系]. *Around Southeast Asia*, 12, pp.3-9.
[187] Ibid.
[188] Chung, C. P. (2009). The "Good Neighbour Policy" in the Context of China's Foreign Relations. *China: An International Journal*, 7(1), pp.107-123.

development and promoted a 'good neighbour policy' which pursues amicable, peaceful and prosperous neighbours (*muslin, anlin, youlin*). The emphasis on neighbouring relations from the central government offered ideal opportunities for SNGs, especially those border provinces and cities which frequently interact with neighbouring states, to further engage with and promote relations with neighbouring states.

China's overall neighbouring policy and its relations with neighbour states have influenced the international activities of the SNGs. Firstly, China's neighbouring policy involved establishing friendly relations with neighbouring states and thus promoting a peaceful environment for domestic modernization.[189] Therefore, the improved relations with neighbouring states could provide a good border surrounding for the opening up of SNGs, especially for border provinces, which started to further open up in the early 1990s. It enabled border provinces to further promote economic cooperation with neighbouring states, and this is especially important for the border provinces which lagged behind the coastal areas in opening up. For example, in the Yunnan case, foreign trade between neighbour states occupied a dominant proportion.[190] Secondly, China's attention to neighbour states also allows border province to reposition themselves in the central strategy and thus obtain more resources from the central level. As discussed in Chapter 5, the Yunnan provincial government endeavoured to reposition Yunnan as the gateway between China and ASEAN and South Asian states.[191] Moreover, the regional institutions participated or promoted by China's central government also provided opportunity for SNGs to participate in international cooperation in various areas. Those regional cooperation platforms were developed to promote and coordinate communication and cooperation in political, economic and security areas, with some issues closely related to local matters. As a result, SNGs also became involved in regional cooperation. The best examples in this regard were the numerous subregional cooperation mechanisms developed between China and its neighbouring states.

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[189] Cheng, J. Y. (1999). China's ASEAN Policy in the 1990s: Pushing for Regional Multipolarity. *Contemporary Southeast Asia*, 176-204.
[190] See Chapter 5, section 4 for detailed information.
[191] See Chapter 5, section 3.2 for detailed information.

3.2.3.1 Subregional Cooperation Mechanism

China has developed or participated in several subregional cooperation mechanisms along its border. Although most of these mechanisms were developed through an inter-state framework, in reality SNGs located in the subregion were the actors directly involved. One of the best known transborder subregional cooperation mechanisms is the Great Mekong Subregional Economic Cooperation Project (GMS), which offered an important platform for Yunnan province to interact with neighbouring states in the subregion.[192] The Asian Development Bank (ADB) also played an important role in promoting regional and subregional cooperation in Asia. Regional cooperation and integration is central to the work of the ADB, which promotes national economies becoming more interconnected regionally to serve the growth of the region and to narrow development gaps among member states.[193] For this aim, the ADB promoted the establishment of several subregional projects to develop high-quality cross-border infrastructure, closer trade integration, intraregional supply chains and stronger financial links. "GMS [was] the first and foremost regional cooperation initiative of ADB" developed in 1992, with members including China, Cambodia, Laos, Myanmar, Thailand and Vietnam.[194] As a province located at the subregion, Yunnan proactively participated in the GMS programme from its establishment in 1992. Some scholars argued that Yunnan's previous cooperation with neighbouring states and its strong willingness and desire to develop the GMS programme even promoted the creation of GMS in 1992.[195] Under the GMS programme, Yunnan province interacted and cooperated with involved states in various priority projects developed and supported by the ADB and member states.[196] GMS became an important platform for Yunnan province to open up and to promote international involvement.

The second cooperation programme promoted by the ADB and participated in by China is Central Asia Regional Economic Cooperation (CAREC). CAREC was developed in a partnership of 11 members, including China, Afghanistan, Azerbaijan, Georgia,

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[192] See Chapter 5, section 2.2 for more information.
[193] Asian Development Bank, Regional Cooperation and Integration, see https://www.adb.org/what-we-do/themes/regional-cooperation/overview.
[194] Srivastava, P., & Kumar, U. eds. (2012). *Trade and Trade facilitation in the Greater Mekong Subregion*. Asian Development Bank. p. vii.
[195] Chen, D.Y. (2008). Yunnan and Greater Mekong Subregional Cooperation Mechanism[云南与大湄公河次区域经济合作机制], *International Review*. (6), pp. 16-21.
[196] See Chapter 5, section 5.2 for detailed discussion.

Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Tajikistan, Turkmenistan and Uzbekistan.[197] Like GMS, CAREC was developed to promote development through cooperation in the region, thus leading to accelerated economic growth and reduced poverty. In this regard, members of CAREC and other development partners worked hard to promote the construction of infrastructure and increase the flow of trade and investment. CAREC promoted USD 38.6 billion of investment to help establish the transport network and other projects in the subregion.[198] For China, the province most influenced by and involved in CAREC projects is Xinjiang, located between China and its central Asian neighbours. The projects developed under CAREC were also located in Xinjiang, which made Xinjiang's government an important participant in the CAREC programme. For example, Xinjiang regional road improvement project (Urumqi-Kashgar) was started in 2007 as part of CAREC Corridor 1 and finished in 2014, which significantly improved the movement of goods and passengers between Xinjiang and Central Asia.[199] During the process, the ADB, departments from the central government as well as the Xinjiang government provided financial support to cover the cost of road construction.[200] As the road construction project was developed inside Xinjiang, it is reasonable to say that the provincial government was the main implementer of the process.

Another important mechanism located in Northeast Asia, knowns as the Tumen River Area Development Programme (TRADP), was launched in 1991 with the support of UNDP as a platform to promote economic cooperation in North East Asia and later rebranded as the Greater Tumen initiative (GTI). GTI is an intergovernmental mechanism developed between China, Mongolia, Russia, South Korea, North Korea and Japan. The project was initiated by UNDP with the aim to promote multilateral cooperation in Northeast Asia and thus accelerate regional development and revitalization.[201] In China, the main provinces involved in the TRADP are three provinces located in the northeast: Jilin, Liaoning and Heilongjiang. The GTI Northeast

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[197] CAREC programme, see https://www.carecprogram.org/?page_id=31.
[198] Ibid.
[199] CAREC, Xinjiang Regional Road Improvement Project, see https://www.carecprogram.org/?feature=xinjiang-regional-road-improvement-project-korla-kuqa-section.
[200] Ibid.
[201] UNDP, Northeast Asia Regional Cooperation Programme, https://www.cn.undp.org/content/china/en/home/operations/projects/poverty_reduction/northeast-asia-regional-cooperation-programme.html

Asia Local Cooperation Mechanism was approved in 2011 as a platform to promote local government initiatives in regional economic cooperation.[202] Although the mechanisms mentioned above were developed alongside central government, only some parts of China were geographically closely involved in such cooperation and thus SNGs were direct participant in the projects promoted by the subregional mechanisms.

These subregional mechanisms offered institutionalized platforms for China's border provinces to participate in transborder cooperation, mainly for but not limited to economic cooperation. For example, GMS has become a dominant platform for Yunnan to promote international cooperation with involved neighbouring states in various areas, such as transborder trade, infrastructure construction, environmental protection, energy, and tourism. However, these mechanisms along China's border were not equally successful and efficient for SNGs to be involved in regional economic cooperation. For example, TRADP remained under-achieving in regional economic integration and failed to bring political and security stability through economic cooperation as there was a mismatch between the interests of central and subnational governments in participating countries.[203] The political mistrust among central governments in the area impeded the economic integration in Northeast Asia although SNGs wished to be involved in transborder economic cooperation. The development of subregional cooperation mechanisms involves complex interactions between central government, specific SNGs and international organization, which could lead to different results for regional or subregional cooperation.

3.3 China's Reform and Opening Policy and Its Influences on SNGs' International Involvements

The reform and opening up policy played a dominant role in promoting SNGs' international involvement in China. Numerous scholars attentive to the international activities of China's SNGs have emphasized the important role of the reform and

[202] UNDP, Northeast Asia Regional Cooperation Programme, https://www.cn.undp.org/content/china/en/home/operations/projects/poverty_reduction/northeast-asia-regional-cooperation-programme.html.

[203] Hughes, C. W. (2002). Tumen River Area Development Programme (TRADP): Frustrated Microregionalism as A Microcosm of Political Rivalries. In *Microregionalism and World Order*. Palgrave Macmillan (London), pp.115-143.

opening up policy.[204] To serve the aim of domestic modernization and economic development, the central government in China launched the reform and opening up policy in 1978, which involved two important aspects of transformation: domestic decentralization and outward internationalization. "This twin forces of decentralization and internationalization not only further upgraded the salient of [SNG] within China, but also turned them into some sort of international actors, particularly in economic sphere."[205] The reform and opening up policy greatly changed central-subnational relations in China and offered SNGs both autonomy and incentives to become involved in international affairs. Moreover, the uneven process of opening up in different areas in China to some extent led to the diversity of SNGs' international involvements. The following section illustrates how national policy led to SNGs' international engagement, paying particular attention to the unequal position of different SNGs in China's national policy.

3.3.1 Decentralization and Effects on SNGs' International Involvement

Domestic decentralization is an important element of China's reform and opening up. This section explores the inter-governmental decentralization in the reform period, especially fiscal decentralization in China, which offered SNGs both capacity and motivations to become involved internationally. Indeed, neither opening up nor domestic decentralization alone led to the international involvement of SNGs. It is these two related factors together – decentralization and internationalization through opening up – that changed central-subnational relations in China.[206] The changing relations were not only reflected in the domestic administration, but also showed in international affairs. On the one hand, domestic decentralization of authority from central government offered SNGs both autonomy and resources to handle local issues.[207] Meanwhile, opening up pushed SNGs into international arena, originally with the purpose of promoting foreign trade and attracting foreign investment. But with further developments in internationalization, local issues under SNGs' responsibilities would

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[204] See Chapter 2, section 3.2 for more information.

[205] Chen, Z.M. (2005). Coastal Provinces and China's Foreign Policy, in Hao, Y.F. and Liu, S. eds, *China's Foreign Policy-Making: Societal Force and Chinese American Policy*, Ashgate Publishing, p.188.

[206] Zheng, Y.N. (2006). Explaining the Sources of De Facto Federalism in Reform China: Intergovernmental Decentralization, Globalization, and Central-Local Relations. *Japanese Journal of Political Science*, 7(2), p.101.

[207] Decentralization occurred between the central and provincial governments – central governments devolved power to the provincial level and then provincial governments further devolved authority of certain issues to the lower levels in the province.

increasingly develop their international profile and thus in return make SNGs further open up. Therefore, this section considers the role of decentralization and how it influences SNGs' international involvements.

Constitutionally, China is a unitary state with SNGs subordinated to the central government. Unlike federal states, there is no constitutional power distribution between the central government and SNGs in China. However, 40 years of domestic reform have changed central-subnational relations in China. Decentralization of economic and administrative authority from the central to subnational governments was an important theme during the process of reform and opening up. This process of decentralization to a large extent enabled SNGs in China to obtain both resources and autonomy in some issue areas, especially in the local economy. In practice, China has to some extent developed 'de facto federalism' and power is divided between central government and SNGs at a practical and behavioural level.[208] Indeed, decentralization of power to provinces was not a unique phenomenon for the reform period. China's central government did devolve power to SNGs during the period of 1957-1958 and in the 1970s.[209] However, decentralization during the pre-reform period under the planned system was unable to offer proper incentives to local governments. Decentralization could not bring positive effects as perceived by the government, instead it sometimes caused disorder. China found itself trapped in decentralization-centralization cycles in the pre-reform period.[210]

Decentralization since the late 1970s was significantly different from that in the pre-reform period as it was a market-oriented reform, which changed the planned system and introduced the market system to China. Therefore, decentralization in this period efficiently motivated SNGs in China to promote economy development. Moreover, decentralization was accompanied by a process of internationalization due to the opening up policy rather than power devolution in a relatively isolated situation as in

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[208] Zheng, Y.N. (2007). China's De Facto Federalism. In He, B, G. Galligan, B & Inoguchi, T eds *Federalism in Asia*. Edward Elgar Publishing Limited, pp.213-241.
[209] Li, L. C. (2010). Central-Local Relations in the People's Republic of China: Trends, Processes and Impacts for Policy Implementation. *Public Administration and Development*, 30(3), 177-190; Xu, Y.C (2017). *Fiscal Decentralization, Transfer Payments and Local Government's Behaviours*, Social Science Academic Press (China).
[210] Zhu, X. F. (2019). Central-Local Relations in China. In Yu, J., & Guo, S. (eds. *The Palgrave Handbook of Local Governance in Contemporary China*. Palgrave Macmillan.

the pre-reform period. Herein, it dramatically changed central-subnational relations in both domestic and foreign affairs. Scholars have divided decentralization into two forms, including political or administration decentralization from central to local government and economic decentralization from government to enterprises.[211] The latter was regarded as a major way of promoting economic efficiency. However, during the market reform in China, the inter-government political decentralization was crucial to the economic decentralization.[212] It was impossible for the governments at all levels to fully withdraw from economy suddenly during the process of marketization after a long time of planned economy in China. As a result, through inter-governmental decentralization, SNGs in China replaced the central government to intervene in the economic reforms and become the major actors in controlling local economic activities.[213] The SNGs' authority in local foreign trade, investment and overseas investment discussed in the next section to some extent shows the devolution of economic power to the local level. Decentralization of fiscal power from the central to subnational level also significantly influenced the international involvement of SNGs. On the one hand, decentralization of revenue motivated SNGs to develop their local economy, which became an inducement for SNGs' international involvements. Also, revenue decentralization provided SNGs with resources to conduct international activities. On the other hand, division of expenditure between central and local governments made the SNGs responsible for various local issues. It is possible that SNGs seek international cooperation to deal with local issues.

3.3.1.1 The Relationship between SOE and SNGs in the Reform Period

The reform of SOE has been an important part of China's economic reform, the ultimate aim of which is privatization. However, the gradualist approach of China's reform rejected the sudden and widespread privatization of SOEs in the past few decades.[214] Therefore, SOEs have retained a crucial position in China's economic development at

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[211] Schurmann F. 1968. *Ideology and Organization in Communist China* (2nd edition). University of California Press: Berkeley; Li, L. C. (2010). Central-Local Relations in the People's Republic of China: Trends, Processes and Impacts for Policy Implementation. *Public Administration and Development,* 30(3), pp.177-190; Qian, Y., & Weingast, B. R. (1996). China's Transition to Markets: Market-Preserving Federalism, Chinese Style. *The Journal of Policy Reform*, 1(2), pp.149-185.

[212] China's Transition to Markets: Market-Preserving Federalism, Chinese Style. *The Journal of Policy Reform*, 1(2), pp.149-185.

[213] Zheng, Y.N. (2006). Explaining the Sources of De Facto Federalism in Reform China: Intergovernmental Decentralization, Globalization, and Central-Local Relations. *Japanese Journal of Political Science*, 7(2), p.101.

[214] Naughton, B. J. (2006). *The Chinese Economy: Transitions and Growth*. MIT Press.

both the central and subnational levels. This section illustrates the close relationship between SOEs and SNGs, which has enabled SNGs to become involved in the international economy through the commercial activities of SOEs at the subnational level. The most evident relationship between SOEs and SNGs in China is reflected in the ownership of SOEs. SOEs are business entities established by central government or subnational governments through use of state capital. Although these SOEs are theoretically owned by the people of China, in reality they are managed and supervised by the central or subnational governments to which they are subordinate.[215] In 2003, the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council was established as a specific bureau of the central government to supervise central SOEs. Correspondingly, SASACs at the provincial, prefectural and county levels were developed to administer the local SOEs at each level. More importantly, SASACs were given authority in the top manager selection of SOEs at the level to which they were subordinated. However, the authority of SASACs also face the competition from other government bureaus and are under the shadow of the party system, which to some extent displays a complex linkage between SOEs and governments.[216] This linkage has differentiated SOEs at the subnational level from other enterprises. It is reasonable to argue that the activities of local SOEs are more likely to be influenced by the concerns of SNGs, although the reform of SOEs has divided the ownership power from daily management of SOEs. In some cases, SOEs can be agents of SNGs in their international economic activities.

The relationship between SOEs and SNGs has not remained unchanged since the establishment of the PRC. Inter-governmental decentralization has transformed the relationship between SOEs and SNGs. Firstly, the inter-governmental decentralization of the authority of SOEs did not start in the reform period. Rather, central government adopted the idea of local self-reliance and required SNGs to develop independent industrial systems.[217] As a result, there were two waves of devolution in 1958 and in

[215] Hu, F. Z. (2005). Deconstructing State-Owned Enterprises in Socialist China under Reform: A Scalar Examination. *Environment and Planning A*, 37(4), pp.703-722.
[216] Lin, L. W. (2017). A Network Anatomy of Chinese State-Owned Enterprises. *World Trade Review*,16, pp.583-600.
[217] Wong C.P.W. (1985). "Material Allocation and Decentralization: Impact of the Local Sector on Industrial Reform". in Perry, E.J & Wong, C eds. *The Political Economy of Reform in Post-Mao China*. Harvard University Press, pp.253-278.

the 1970s, during which around 8,100 and 10,000 SOEs were devolved to the management of SNGs.[218] The decentralization continued in the reform period and more importantly added new dimensions. SNGs in the pre-reform period lacked the incentives to promote the economic performance of SOEs as a result of the highly centralized fiscal arrangement. Therefore, the fiscal decentralization in the reform period, discussed in the next section, further intensified the relationship between SOEs and SNGs given that SNGs could retain a certain amount of profits from local SOEs.[219] In return, SNGs have been motivated to support and manage the activities of local SOEs both domestically and internationally. SOEs have played an important role in becoming involved in the global economy at the subnational level, although their proportion in foreign trade and overseas investment has decreased in the last few decades. The important role of SOEs in international economic activity showed one of the important aspects of SNGs' international involvements provided the close relationship between SNGs and SOEs. However, it should be noted that the development of SOEs and their roles in international economic activities did not occur equally in each province, which can be clearly seen in the case study of two provinces – Zhejiang and Yunnan – in Chapters 4 and 5.

3.3.1.2 Fiscal Decentralization in the Reform Period

1) Fiscal Decentralization on the Revenue Side

Fiscal decentralization is one of the major themes during the process of domestic reform. Fiscal arrangements in China have experienced transformation several times since the establishment of the People's Republic of China (PRC). Immediately after 1949, China adopted a highly centralized fiscal system under which central government held the dominant power in both fiscal revenue and expenditure. This centralized fiscal system lacked incentives for SNGs as well as enterprises and thus led to low economic efficiency and growth.[220] More importantly, the system was not suitable for the market-oriented transformation in the reform period and it was thus urgent for the central government to change the fiscal system for the purpose of motivating local

[218] Hu, F. Z. (2005). Deconstructing State-Owned Enterprises in Socialist China under Reform: A Scalar Examination. *Environment and Planning A*, 37(4), p.714.
[219] Ibid, p.716.
[220] Shen, C., Jin, J., & Zou, H. F. (2012). Fiscal Decentralization in China: History, Impact, Challenges and Next Steps. *Annuals of Economics and Finance*, 13(1), pp.1-51.

governments and promoting economic transformation. In this regard, the central government decided to decentralize fiscal power to provincial governments in both fiscal revenue and expenditure. From 1977 to 1979, several experiments of fiscal decentralization were conducted in some provinces. For example, a four-year fixed revenue sharing scheme with 42% local retention rate was introduced in Jiangsu province.[221] After conducting a series of experiments, the highly centralized fiscal system was replaced by a fiscal revenue-sharing system in 1980. From then on, central and local governments in China began to 'eat in separate kitchens'.

After 1980, the fiscal system experienced several adjustments, which can be seen in Table 3-1. From 1980 to 1993, the contracted fiscal sharing system was applied, with adjustments in 1985 and 1988 respectively. Under this system, central government and provincial governments contracted with each other to meet certain targets in revenues and expenditure. SNGs were able to retain the revenue if it exceeded expenditure after handing in a proportion to the central government based on the contracting system. The division of revenue motivated SNGs to promote local economic development, which become one of the local motivations in their international involvements. However, the fiscal arrangements in the 1980s had clear drawbacks. Firstly, several adjustments in the fiscal system reflected the uncertainty in central-local fiscal relations. Though the fiscal system should last for five years if settled, constant changes occurred in fiscal arrangements during the 1980s. Secondly, the sharing-rates and expenditure ranges were decided through negotiation between the central government and each province, which on the one hand showed the great autonomy of provincial governments in the fiscal arrangement, while on the other hand it enlarged fiscal disparities among different provinces for the rich provinces were able to bargain with the central government to obtain more advantageous contracts.[222] Furthermore, local governments chose to hide revenues by shifting budget revenue to extra-budgetary revenue, which significantly weakened the fiscal power of the central government.[223] Two ratios – the budget

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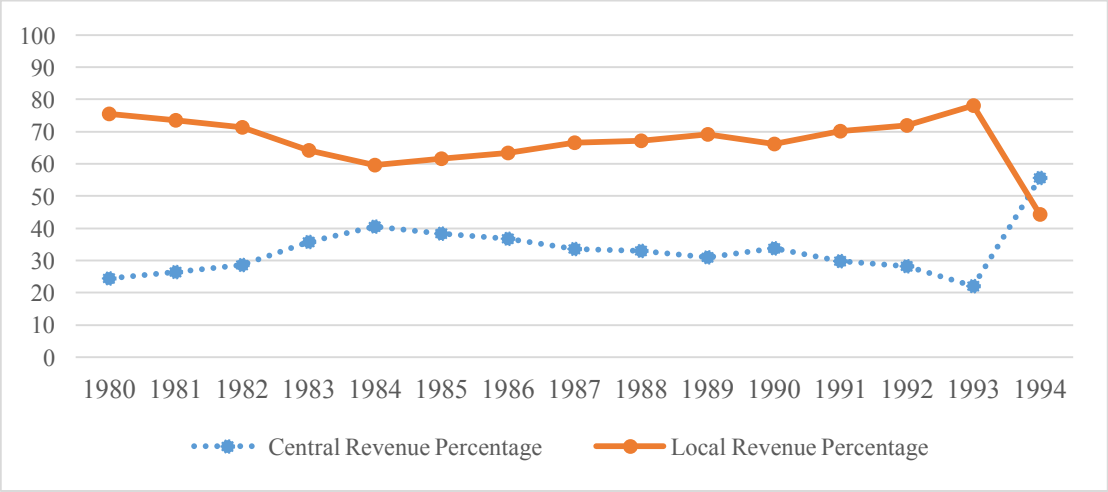
[221] Jiang, C. Q. (2018). Fiscal Responsibility System Promoting the Process of Reform and Opening Up [财税包干制推动改革开放进程]. see http://news.cssn.cn/zx/bwyc/201812/t20181212_4791808.shtml

[222] Shen, C., Jin, J., & Zou, H. F. (2012). Fiscal Decentralization in China: History, Impact, Challenges and Next Steps. *Annuals of Economics and Finance*, 13(1), pp.1-51.

[223] Wong, C. P. (1991). Central-Local Relations in an Era of Fiscal Decline: The Paradox of Fiscal Decentralization in Post-Mao China. *China Quarterly*. pp.691-715.

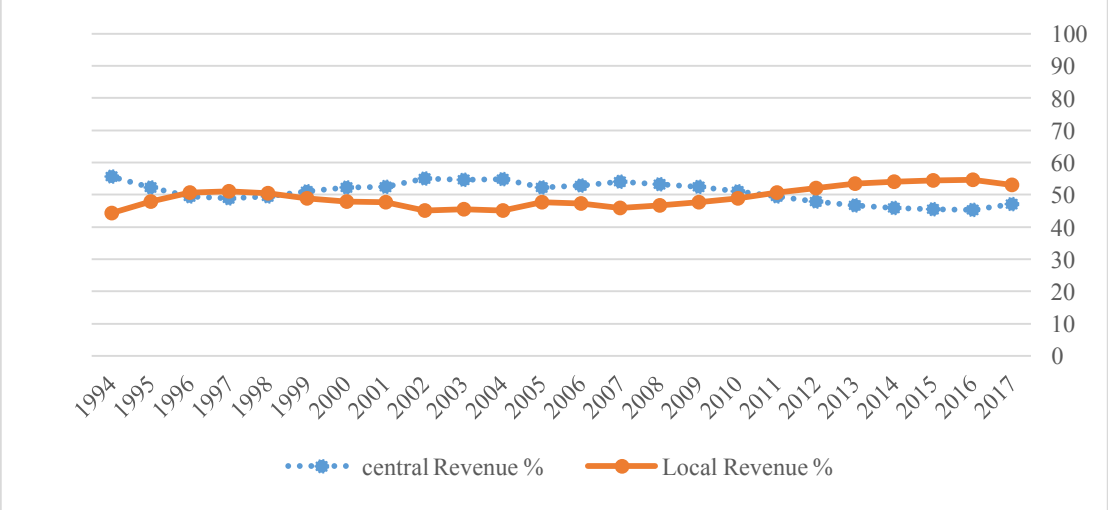
revenue to GDP and central revenue to total revenue –greatly declined in China.[224] According to Figure 3-2, the revenue of the central government was much less than the that of local governments. As a result, central government lacked the necessary fiscal resources to control macroeconomics. Therefore, it was necessary for the central government to re-arrange the fiscal system to improve central fiscal power, which led to the establishment of the tax-sharing system in 1994.

Figure 3-2: Central-Local Revenue Distribution 1980-1994



Source: National Bureau Statistic of China, Annual Data, https://data.stats.gov.cn/easyquery.htm?cn=C01

Figure 3-3: Central-Local Revenue Distribution 1994-2017



Source: National Bureau Statistic of China, Annual Data, https://data.stats.gov.cn/easyquery.htm?cn=C01

[224] Shen, C., Jin, J., & Zou, H. F. (2012). Fiscal Decentralization in China: History, Impact, Challenges and Next Steps. *Annuals of Economics and Finance*, 13(1), pp.1-51.

In 1994, the tax-sharing system was developed to replace the previous fiscal-contracting system. The tax-sharing system greatly improved the transparency of the revenue and expenditure division between the central and local governments. Although there have been adjustments in the rates of tax-sharing and in the typology of taxes in the years that followed, the overall structure of the tax-sharing system has continued to date. It was an attempt by the central government to recentralize fiscal power and increase central revenues. Figure 3-3 shows the fiscal revenue division between the central and local governments after 1994, showing that it has become much more balanced than that before 1994. Central government also developed its own tax collection bureau, rather than relying on local governments, to collect central fixed and most of the shared revenue. The fiscal capacity of the central government significantly improved after the adoption of the tax-sharing system. Moreover, this system offered proper incentives to local governments. For example, local governments were less motivated to over-develop enterprises with higher tax returns, such as distilleries and tobacco companies as excise taxes were assigned to central while business taxes were the purview of local government.[225] This system generally succeeded in not only motivating the local governments, but also offering the central government sufficient fiscal power.

Several observations about the development in China's fiscal system deserve mention. Firstly, since the end of the 1970s, the fiscal system in China experienced a process of decentralization-recentralization through different fiscal arrangements in the 1980s and 1990s. Fiscal power was devolved to local governments through the fiscal-contracting system in the 1980s but partly recentralized through the tax-sharing system to handle dysfunctions and the decreasing central fiscal power. However, it was impossible and ineffective for the central government to completely recentralize fiscal power. Adoption of the tax-assignment system was a way to satisfy both the central and local governments because direct centralization would be costly and threaten the political foundations of economic reform.[226] Even with part centralization, the central

[225] Shen, C., Jin, J., & Zou, H. F. (2012). Fiscal Decentralization in China: History, Impact, Challenges and Next Steps. *Annuals of Economics and Finance*, 13(1), pp.1-51.
[226] Montinola, G., Qian, Y., & Weingast, B. R. (1995). Federalism, Chinese Style: The Political Basis for Economic Success in China. *World politics*, pp.50-81.

government still struggled to bargain with provincial governments to promote the tax-sharing system. A team led by then-Vice Prime Minister Zhu Rongji spent several months travelling to provinces to persuade local government leaders to establish the tax-sharing system.[227] It was especially crucial for the centre to obtain support from the rich provinces, such as Guangdong, which originally opposed this new fiscal system.[228] Fiscal decentralization enabled local governments to obtained plenty of fiscal resources and autonomy, which in return made it costly and nearly impossible for the central government to retrench its power. Instead, the central government had to balance central-local benefits during the process.

Secondly, fiscal decentralization did not equally apply to each province. Central government applied several types of fiscal arrangements to different provinces as shown in Table 3-1. Indeed, the fiscal decentralization was also coherent with the opening up policy, which deliberately favoured some provinces, especially at the beginning of the reform. Guangdong and Fujian provinces obtained greater fiscal autonomy in the 1980 fiscal system than other provinces, which enabled Guangdong to remit a fixed amount within five years and Fujian to receive a grant from the centre.[229] Guangdong and Fujian were two pioneers in the process of opening up, which received many preferential policies from the central government. Greater autonomy in fiscal policy reflected the special position of these two provinces in China's reform and opening up strategy. The different policy arrangements, including but not limited to fiscal arrangements, were developed by the central government and applied to provinces. This variety in policy was partly responsible for the gap in economic development of provinces in different areas of China. More importantly, it affected the international involvements of China's SNGs. The uneven process of China's reform and opening up process followed by the diverse local response based on the local facts shaped the diverse patterns of SNGs' international involvements.

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[227] HeXun News (2008) The Replay of Decision-Making Historical Background of Tax-Sharing System, see http://news.hexun.com/2008-08-04/107889818_1.html
[228] Ibid.
[229] Wei, Y. (1996). Fiscal Systems and Uneven Regional Development in China, 1978–1991. *Geoforum*, 27(3), pp.329-344.

Table 3-1: Major Developments in Fiscal Decentralization in the Reform Period

1977-1979	**Fiscal Experiments** 1. In 1977, Jiangsu (four-year fixed revenue sharing with a local retention rate of 42%) and Sichuan (dividing revenues into central, provincial and shared categories) initiated fiscal reform experiments. 2. In 1978, ten provinces conducted experimental system in which the provinces and the centre shared revenue. These provinces developed fixed three-year retention rate with the centre, including Shaanxi (75%), Zhejiang (55%), Hunan (55%), Gansu (70%), Jiangxi (70%), Fujian (75%), Shandong (40%), Jilin (70%), Heilongjiang (45%), and Beijing (40%). 3. In 1979, fiscal experiments carried out in Fujian and Guangdong that devolved more autonomy to two provinces.
1980	**Dividing Revenues and Expenditures, Multilevel Contracting System** (*huafen shouzhi fenji baogan*) 1. Central and provincial governments began to eat in separate kitchens (*fenzhao chifan*). 2. Four types of revenues: central fixed, local fixed, sharing revenue (20% to local and 80% to centre), and adjustment revenue (Industrial and Commercial Tax). 3. If local revenue exceeded expenditure, the excess was handed to central government with a certain rate; if expenditure exceeded revenue, local government could take it back from Industrial and Commercial Tax; if still not enough, central government would provide quotas for subsidies. 4. Fixed five-year sharing rates (or quota). 5. Variations between different provinces and five central-provincial fiscal systems. a. Fujian and Guangdong enjoyed greatest fiscal autonomy, Guangdong remitted RMB one billion and Fujian received RMB 0.15 billion from centre for 5 years.

	b. Jiangsu continued 4-year fixed sharing scheme. c. 15 provinces shared specific revenues with the central government. d. Eight minority and border provinces received transfer from the centre. e. Three centrally administration municipalities (Beijing, Tianjin and Shanghai) shared total revenues with the centre and were tightly controlled by the central government.
1985	**Dividing Tax Categories, Checking Revenues and Expenditures, Multilevel Contracting** (*huafen shuizhong, heding shouzhi, fenji baogan*) Three types of revenues under this system: central fixed, local fixed and sharing. Three types of central-local fiscal schemes: a. Contracting System for Guangdong and Fujian. b. Provinces with large minority could retained all revenue collected and received a fixed percentage of subsidy from the centre. c. Specific sharing scheme for other provinces. This system was not well implemented.
1988	**Fiscal Contracting System: Six-Part Central-Provincial Fiscal System Developed** a. Contracted sharing rate with fixed yearly growth rate of revenue (including Beijing, Hebei, Liaoning (except Dalian), Harbin, Jiangsu, Zhejiang, Henan and Chongqing). b. Fixed local shared rate in total revenue (Tianjin, Anhui and Shanxi). c. Contracted remittance with fixed annual growth rate, including Guangdong and Hunan province. d. Fixed-sum transfer to the centre with no annual adjustments in Shanghai, Shandong and Heilongjiang.

	e. Budget-deficit provinces received fixed subsidies from the centre (16 provinces). f. Fixed local shared rate in total revenue plus incremental fixed share rates (Dalian, Qingdao & Wuhan).
Since 1994	**Tax assignment system** 1. State Council issued Decision on Implementing the Tax-Sharing Financial Management System in 1993. 2. In 1994, tax-assignment system implemented in all provinces, autonomous regions and municipalities. 3. Tax-Assignment System classified central tax, local tax and sharing tax. 4. Central tax includes those important to national safeguarding and implementing macroeconomic regulations; local tax includes those suitable for local collection and management; sharing taxes are immediately related to economic development and shared proportionally by central and provincial governments. 5. Central government established the National Tax Service (NTS) to collect central tax and most sharing tax instead of collecting all revenues depending on the local governments as they did previously.

Source: Data compiled by author from Shen, C., Jin, J., & Zou, H. F. (2012). Fiscal Decentralization in China: History, Impact, Challenges and Next Steps. *Annuals of Economics and Finance*, 13(1), pp.1-51; Wei, Y. (1996). Fiscal Systems and Uneven Regional Development in China, 1978–1991. *Geoforum*, 27(3), pp.329-344; State Council (1980). The State Council Temporary Provision on Implementing "Dividing Revenue and Expenditure, Fiscal Responsibility System" [国务院关于实行"划分收支、分级包干"财政管理体制的暂行规定], see http://www.reformdata.org/1980/0201/6138.shtml; State Council (1988), State Council's Decision on Local Implementing Fiscal Responsibility System [国务院关于地方实施财政包干方法的决定], see http://www.gov.cn/zhengce/content/2011-10/10/content_1806.htm

2) Fiscal Decentralization on the Expenditure Side

As a unitary state, there is no constitutional division of power between central and SNGs in China. In reality, it is impossible for the central government to manage everything. Instead, China's central government has to rely on SNGs to conduct local administration for various issues. Therefore, in practice, China has developed a 'de facto federalist' system under which power is divided between the central and SNGs.[230] SNGs in China are not only responsible for local economic development, which is closely related to local fiscal revenue, but also take responsibility for managing various local issues. The division of central-local expenditures to some extent reflects the responsibilities of local administration and autonomy of local government in dealing with various local issues. In China, the power of office (*shiquan*) is used to refer to the "administration and public service functions that the government takes."[231] While the "financial power of office" (*caizheng shiquan*) indicates the duties and responsibilities of the primary government for providing basic public expenditure service with financial resources.[232] It is reasonable to infer that SNGs can obtain a certain degree of autonomy if they can make budget on the expenditure items and cover them with local revenue. Therefore, the division of expenditure between central and local governments not only suggests the responsibilities but also the autonomy of local governments in managing local issues with the collected revenue. As a result, SNGs in China are also able to handle local issues through international cooperation, such as sister-city relations.[233]

It is useful to examine the major expenditure items of both central and local governments. On the one hand, these items show the responsibilities of SNGs in local administration, which reflect the agendas local government cares in their international involvements. On the other hand, these items allow for a more international profile during the process of opening up and thus pull SNGs, who are responsible for these issues, into international interactions. The division of fiscal expenditure between central and local governments in China is largely consistent with international practice.

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[230] Zheng, Y.N. (2006). Explaining the Sources of De Facto Federalism in Reform China: Intergovernmental Decentralization, Globalization, and Central-Local Relations. *Japanese Journal of Political Science*, 7(2), p.101.

[231] Zhu, X, F (2019) Central-Local Relations in China. In Yu, J., & Guo, S. eds.. *The Palgrave Handbook of Local Governance in Contemporary China*. Palgrave Macmillan, p.149.

[232] Ibid.

[233] See section 3.2.2.1 for more information.

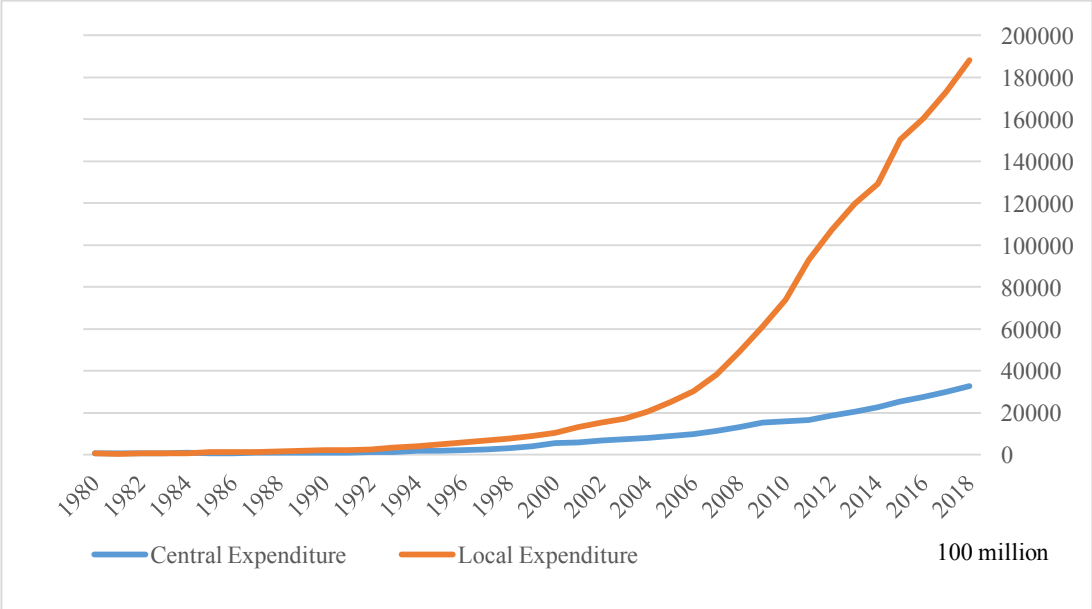
In *Decision on the Implementation of the Financial Management System of the Tax Sharing System* in 1993, the central government accepted responsibility for expenditures relating to national security, diplomacy, operation of state organs, adjustment of national economic structure, coordination of regional development, macroeconomic control and administration under direct central control.[234] While local governments mainly undertook expenditure for the operation of local administrative organs, the local economy and social development. Indeed, all levels of subnational governments, from provincial to township governments, bear much more fiscal expenditure than the central government in China. Figure 3-4 shows the increasing gap between the central and local governments in fiscal expenditure. After the establishment of the tax-sharing system, central government recentralized fiscal power on the revenue side, but the expenditure structure has remained unchanged, which caused a fiscal burden for local governments and has already induced central government to rearrange the division of expenditure in recent years. Figure 3-5 and Figure 3-6 show the major expenditure items of the central and local governments in the recent three years respectively. Central and local governments show significant difference in major items, with central government spending the largest amount on national defence. For local governments, expenditure on education made up the largest part, but several other items – such as social insurance and employment, urban and rural community – also occupied a high proportion of the fiscal expenditure, which to some extent explained the large fiscal expenditure of local governments.

Considering the expenditure of both central and local governments, central government is responsible for nationwide and cross-regional issues, while local governments undertake responsibilities for local economic and social welfare development. Diplomacy is mainly conducted by the central government. However, there is also local expenditure related to foreign affairs, though the amount is slight. More importantly, most issues in the range of local expenditure items showed in Figure 3-6 have obtained an increased international profile with the process of opening up and the growing interdependence, which also encourages the international interaction of SNGs in China.

[234] State Council (1993). Decision on the Implementation of the Financial Management System of the Tax Sharing System [关于实施分税制财政管理体制的决定]
http://shanghai.chinatax.gov.cn/zcfw/zcfgk/swzsgl/200210/t284358.html

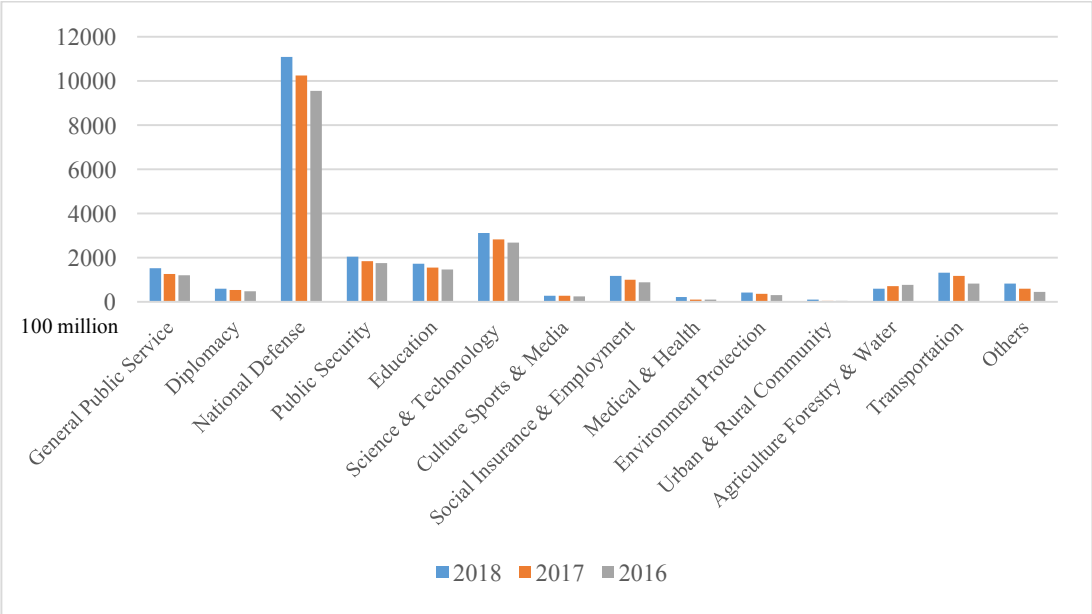
Therefore, fiscal decentralization in both revenue and expenditure perspectives since the 1980s has enabled SNGs to obtain resources and autonomy in dealing with issues related to local development and construction. SNGs in China have developed international interactions to deal with these issues, which have got SNGs increasingly involved in the international arena.

Figure 3-4: Fiscal Expenditure of Central and Local Governments, 1980-2018



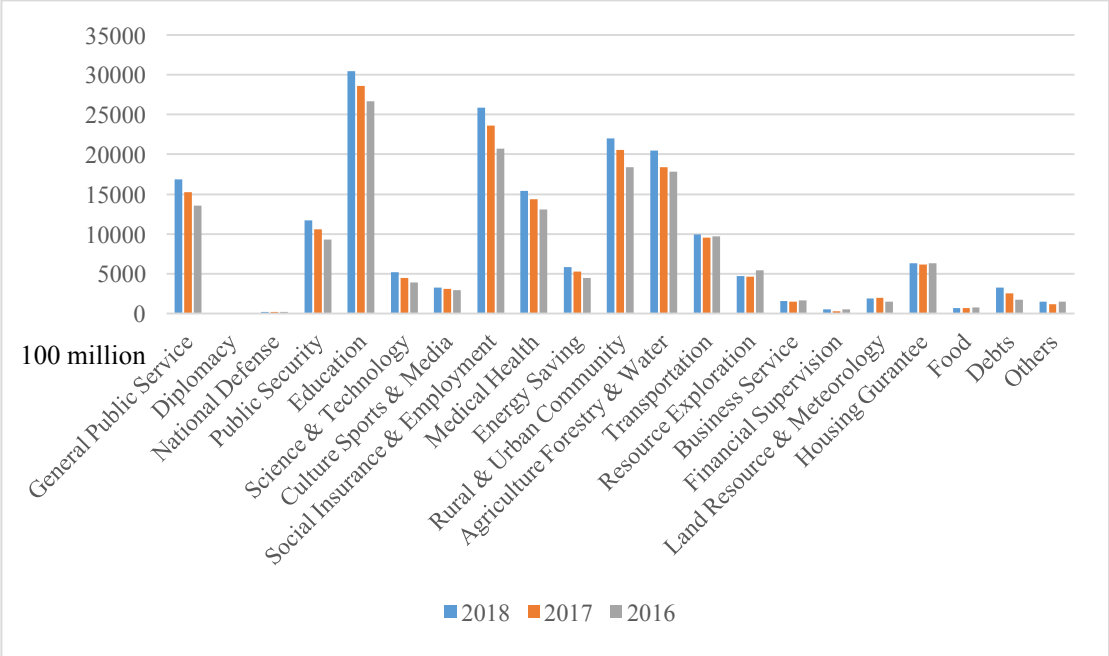
Source: National Bureau Statistic of China, Annual Data, https://data.stats.gov.cn/easyquery.htm?cn=C01

Figure 3-5: Major Expenditure Items of Central Government, 2016-2018



Source: National Bureau Statistic of China, Annual Data, https://data.stats.gov.cn/easyquery.htm?cn=C01

Figure 3-6: Major Expenditure Items of Local Government, 2016-2018



Source: National Bureau Statistic of China, Annual Data, https://data.stats.gov.cn/easyquery.htm?cn=C0.

3.3.2 Opening Up and Effects on SNGs' International Involvement

3.3.2.1 Opening Up Policy

The development of SNGs' international activities has been closely related to the opening up policy established by central government. To serve domestic economic development, Chinese central government established the opening up policy with the aim of becoming involved in the global economy through promoting foreign trade and attracting foreign direct investment (FDI). The initiation of the opening up policy offered the foundation for SNGs to take part in international activities. If China chose to develop an isolationist policy, it would have been impossible for Chinese SNGs to have international involvements. The characteristics of opening up also shaped the specialties of Chinese SNGs' international involvements, firstly by developing an obvious economic profile. The international activities of SNGs strongly serve the aims of promoting international trade, attracting FDI and promoting overseas investment. Some international activities conducted by SNGs were not initially economy-oriented but aimed to find opportunities for international activities. For example, local governmental leaders often utilized the opportunities of official visits to sister-cities to

help enterprises conduct small expos.[235] These examples can be found in the case of both Yunnan and Zhejiang.

Secondly, the uneven and gradual process of opening up also greatly encouraged the variety of SNGs' international involvements. As shown in Table 3-2, China developed the policy of opening up in 1978, implementing it in 1980 with the establishment of four special economic zones (SEZ) in Guangdong and Fujian province. This uneven process of opening up was developed based on the hope that "the rapid growth of the coastal region would function as a powerful engine to propel the national development."[236] Meanwhile the choice of gradualist approach to opening up made by central government was also a way of avoiding the risks associated with sudden reform. During the process of reform and opening up, China followed the principle of 'touching the stone to cross the river' and conducted experiments in some places, with the successful experiences later imitated elsewhere. As a result, "the process of China's re-engagement in the global economy was initially a slow and gradual affair."[237] This gradual process meant that the internationalization of coastal provinces occurred much earlier and was more developed than that of inland and border areas.

Table 3-2 shows that the opening up of border provinces, such as Yunnan province, began in 1992, which was much later than the opening up of coastal provinces at the end of the 1970s.[238] The earlier opening up, together with the preferential policies offered by the central government, finally encouraged provinces in coastal areas to take a pre-emptive chance on international economic cooperation, which can be seen in the unequal distribution of FDI and foreign trade discussed in section 3.4. The great benefit of international foreign trade and FDI to the local development further motivated SNGs to promote international activities to serve the local enterprises. Moreover, this unequal process of opening up partly led to the unequal economic development of different provinces, which in turn made both central and SNGs rethink the policy of opening up

[235] See section 3.2.2.1 for economic aim of sister-city relations and also see section 4.2.2 in Chapter 4 for Zhejiang's international cooperation through sister-city relations.
[236] Wei, Y. D. (2001). Decentralization, Marketization, and Globalization: The Triple Processes Underlying Regional Development in China. *Asian Geographer*. 20(1), pp.7-23.
[237] Breslin, S. (2013). Re-Engagement with the Global Economy. In *China and the Global Political Economy*. Palgrave Macmillan, London, pp.82-105.
[238] Detailed information of Yunnan's opening up see Chapter 5, section 5.3.

and shrink the gap. For example, the strategy of 'development of west regions' was established by the central government in 1999. Also, the inequality of international economic involvements and economic development pushed the SNGs to bargain with the central government for preferential policy. SNGs in China endeavoured to make use of local advantages to develop specific and suitable concrete approaches to become involved in the global economy, for example, Yunnan re-positioned itself as a gateway between China and Southeast Asia.[239] Therefore, the unequal application of opening up policy complicated the central-subnational interactions, which to some extent caused the diversity of SNGs' international involvements.

Table 3-2: Process of China's Opening Up

Time	**Major Events**
1978	Reform and Opening Up policy launched at the Third Plenary Session of the 11th Central Committee of CCP.
1980	Shenzhen, Zhuhai, Shantou (in Guangdong Province) and Xiamen (in Fujian province) established as special economic zones (SEZ), which became the frontier for opening up.
1984	14 coastal port cities opened up, enjoying some preferential policies of SEZs; these cities were allowed to establish Economic Development Zones, which enjoyed similar policies to SEZs.
1985	Development Triangles, including the Yangtze River Delta (YRD), the Pearl River Delta (PRD), Minnan Region, the Liaoning and Shandong Peninsulas and the Bohai Sea Coastal region opened up; 41 cities and 218 counties from these regions opened up.
1988	Hainan Province established as a SEZ; High-Tech Industrial Development Zone established.
1990	Pudong District of Shanghai designated as a development zone.
1992	Opening up policy extended to 13 border cities, 6 cities along the Yangtze river and 18 inland cities; 14 border economic cooperation zones established.
1999	'Development of the West Region' launched.
2000	'Going Global Strategy' officially carried out.

[239] See Chapter 5, section 5.3.3 for more information.

2013	OBOR initiative launched; Shanghai Pilot Free Trade Zone developed.
2015	Three pilot free trade zones established in Guangdong, Fujian, and Tianjin.
2016-2017	Seven pilot free trade zones established in Liaoning, Zhejiang, Hebei, Hunan, Sichuan, Chongqing, and Shanxi.

3.3.2.2 Adjustment of Policy on Specific International Economic Activities

The opening up policy set the general direction for China to become involved in economic globalization. During this process, China's policies in the spheres of foreign trade, FDI and overseas investment also experienced significant adjustments. Decentralization of authority from central government to SNGs was one of the important aspect of changes. The development of these policies promoted the continuing increase of China's foreign trade, FDI and outward investment during the reform period. More importantly, through these policies, SNGs in China obtained a certain degree of autonomy in international economic cooperation, which not only allowed SNGs to become the supervisors of international economic activities but gave them the responsibility to promote international economic cooperation. In this regard, SNGs on the one hand had to make local policy and improve local business environment for international economic activities conducted by the enterprises. On the other hand, it was important for SNGs to develop international relations with foreign actors and thus provide more opportunities for enterprises to conduct business. It should also be noted that the policies in these areas deliberately favoured some provinces, such as Guangdong, over others and thus to some extent encouraged the unequal regional and sector distribution of FDI and foreign trade.

1) Development of the Foreign Trade Regime

This section examines the policy adjustments in foreign trade, FDI and overseas investment in China respectively. The policies in these three areas have shown a clear tendency of decentralization of authority to both SNGs and enterprises. During the process, SNGs obtained autonomy in conducting and regulating these international activities. Before the reform, foreign trade in China was highly centralized, carried out by special foreign trade companies under the control of the Foreign Trade Ministry and

totally planned by the central government.[240] The profits from foreign trade were handed over to and losses were subsidized by the central finance system. Under this system, there were few incentives and opportunities for local governments and enterprises to promote foreign trade. China's foreign trade regime started to change during the period of reform and opening up. SNGs – mainly the provincial ones – were provided with great autonomy in foreign trade through inter-governmental administration decentralization and gradually became para-diplomatic actors in foreign trade.[241] The process of power decentralization in the foreign trade sphere from the central government to SNGs and enterprises is shown in Table 3-3.

Firstly, the right to engage in foreign trade was gradually devolved from the foreign trade enterprises controlled by the central government to local foreign trade enterprises, and later to production-oriented enterprises. Some provinces were allowed to establish foreign trade enterprises in 1979, including Zhejiang province.[242] This change implied that SNGs in China replaced central government to conduct foreign trade at the early stage of reform period. In 1994, the State Council issued the *Decision to Further Deepening Foreign Trade System Reform* and the right to conduct foreign trade further expanded to some state-owned production-oriented enterprises and research institutions.[243] The right to conduct foreign trade was concentrated on the government-owned enterprises and then gradually devolved to other types of enterprises. In 2004, with the revised *China Foreign Trade Law*, the approval system of foreign trade changed to a register and record system, which marked the overall relaxation of foreign trade rights to enterprises.[244] During the process of reform, SNGs in China firstly replaced the role of the central government to directly involve in foreign trade activities by developing foreign trade enterprises before this right further devolved to production-

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[240] See Pan, H. & Chen, G. (2009). On China's Sixty-Year Journal of Foreign Trade System Reform [论中国对外贸易体制改革的 60 年历程] *Journal of Management,* 22(2), 21-24; Meng, Q. (2014). Study on the Path of Foreign Economic System Reform [涉外经济体制改革的路径研究]. *Reform of Economic System*, (3), pp.21-24; Ma, L. & Yang, M. (2020). 70-Year Reform of China's Foreign Trade System and Thinking on the Future Reform [中国对外贸易体制改革 70 年变革与未来改革思路探索] *International Economic Cooperation,* (1). pp.45-55.

[241] Zheng, Y. N. (1994). Perforated Sovereignty: Provincial Dynamism and China's Foreign Trade. *The Pacific Review*, 7(3), pp.309-321.

[242] Ibid.

[243] Ma L. J. & Yang, M. (2020). 70-Year Reform of China's Foreign Trade System and Thinking on the Future Reform [中国对外贸易体制改革 70 年变革与未来改革思路探索] *International Economic Cooperation,* (1).pp. 45-55.

[244] Meng, Q. (2014). Study on the Path of Foreign Economic System Reform [涉外经济体制改革的路径研究]. *Reform of Economic System*, (3), pp.21-24.

oriented enterprises.

Secondly, SNGs and enterprises obtained financial autonomy on foreign trade and could retain certain parts of the profits from foreign trade. In 1988, the foreign trade-contracted system was developed, under which local government and foreign trade enterprises made contracts with the central government in three aspects, including foreign exchange earned, foreign exchange turned in to the central government, and economic effectiveness.[245] Under this system, local governments and enterprises were able to retain certain parts of the foreign exchange, which motivated them to further improve foreign trade. In 1991, the foreign trade contract system was further improved and a unified profit-retention system was developed.[246] Moreover, after the experiments in light, arts and crafts as well as clothing industries, the new system developed in 1991 further made enterprises assume responsibility for profits and losses and the central government cancelled financial subsidies for foreign trade.[247] The devolved financial autonomy greatly motivated SNGs and enterprises to promote foreign trade. Although SNGs gradually retreated from foreign trade operation, they still attached great importance to developing local foreign trade as it would serve economic development and produce financial revenue at the local level.

Table 3-3: Development of the Foreign Trade Regime

Year	**Major Policy/Event**
1979	**Guangdong and Fujian** proposed to central government to obtain decision-making powers over foreign trade; central government approved two provinces to engage in direct foreign trade (export and import); later, central government decided that **provinces with customs** *(Kou An Sheng)* could engage in foreign trade.
1980	Certain provincial governments were granted power over import foreign exchange retention system: Fujian and Guangdong could retain

[245] Meng, Q. (2014). Study on the Path of Foreign Economic System Reform [涉外经济体制改革的路径研究]. *Reform of Economic System*, (3), pp.21-24.
[246] Zheng, Y. N. (1994). Perforated Sovereignty: Provincial Dynamism and China's Foreign Trade. *The Pacific Review*, 7(3), pp.309-321.
[247] Pan, H & Chen, G. (2009). On China's Sixty-Year Journal of Foreign Trade System Reform [论中国对外贸易体制改革的 60 年历程] *Journal of Management,* 22(2), pp.21-24.

	70% of total above state quota foreign exchange earnings from 1980-1985.
1984	Third Plenary Session of the 12th Central Committee issued ***the Decision of CCP Central Committee about Economic System Reform*** putting forward the guidelines for foreign trade reform.
1988	**State Council issued *Regulation on the Several Issues about Accelerating and Deepening Foreign Trade System Reform*** Foreign trade contracted responsibility system was developed; state no longer made plans for the distribution of foreign exchange; provincial governments and enterprises could purchase and sell their retained foreign exchange on the free market.
1991	**State Council issued *Decision about Several Issues of Further Reforming and Improving Foreign Trade System*** Further improved the contracted responsibility system; a unified profit-retention policy was developed instead of the unequal one from 1988; cancellation of subsidies for foreign trade, foreign trade enterprises responsible for own profits and losses.
1994	**Establishment of 'Foreign Trade Law of PRC'**; developing market-based foreign exchange system; central government ended mandatory planning to provincial governments.
2001	Entry into WTO; reform of foreign trade system based on the international rules.
2004	**Amendment of 'Foreign Trade Law'**; examination and approval system of foreign trade rights changed into registration system; all the enterprises and individuals could operate foreign trade according to the law.

Source: Zheng, Y. N. (1994). Perforated Sovereignty: Provincial Dynamism and China's Foreign Trade. *The Pacific Review*. 7(3), pp.309-321; Sheng, B. & Wei, F. (2019). Review of China's Foreign Trade in the Past 70 Years and Its Prospect [新中国对外贸易发展 70 年：回顾与展望], *Finance & Trade Economics*, 40(10); Ma, L. J. & Yang, M. (2020). 70-Year Reform of China's Foreign Trade System and Thinking on the Future Reform [中国对外贸易体制改革 70 年变革与未来改革思路探索] *International Economic Cooperation,* (1), pp.45-55.

2) Development of the Foreign Investment Regime

In the area of FDI, the central government also gradually devolved authority to SNGs. Central government attached great importance to attracting foreign investment in the reform period, which enabled China to make use of foreign capital and learn from their advanced technology and management skills. Foreign investment policies in China

during the reform period experienced different stages.[248] In 1979, the *Law of the People's Republic of China on Joint-Ventures Using Chinese and Foreign investment* was developed, which enabled foreign-invested enterprises to obtain a legal status in China. SEZs were established to attract foreign investment with preferential policies. The period of 1979 to 1992 witnessed the first stage of China's FDI development, during which the Chinese government highly encouraged the inflow of FDI. In 1986, the State Council issued the *Regulations about Encouraging Foreign Investment*, which provided super-national treatment for FDI and especially encouraged export-oriented foreign investment.[249] However, as foreign investment was so prudent, the inflow of FDI was still limited during the period and the foreign investment mainly flowed to China in the form of loans.[250] 1992 became an important turning point as China's central government decided to promote marketization and recognized the non-public economy. From 1992 to 2001, foreign investment into China increased rapidly and China also regulated the inflow of FDI and encouraged foreign capital to invest in high tech industry. In 1995, the Chinese central government issued industry guidelines for FDI, which listed high-tech and advanced technology projects as encouraged categories.[251] The changes implied that the Chinese government not only emphasized the volume of FDI, but also paid attention to its quality. Later, China's entry into the WTO in 2001 provided a further guarantee and confidence for FDI into China. With the policy adjustments during the reform period displayed in Table 3-4, FDI in China developed significantly.[252]

Overall, the restriction on FDI was relaxed and further encouraged projects were put forward by Chinese government during the reform period through policy adjustment.

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[248] Meng, Q. (2014). Study on the Path of Foreign Economic System Reform [涉外经济体制改革的路径研究]. *Reform of Economic System*, (3), 21-24; Li, Z.C, Ma, X. M. & Chen, Y. (2019). Practice, Effect, Experience and Countermeasures of China's Utilization of Foreign Capital Since the Reform and Open up [改革开放以来中国利用外资的时间，成效，经验及对策]. *Foreign Trade*, (12), 58-67; Liu, J. L. (2019). 70 Years of Foreign Investment Utilization in PRC: Process, Effects and Main Experiences [新中国利用外资 70 年：历程，效应与主要经验]. *Management World*, (11), 19-37.

[249] Meng, Q. (2014). Study on the Path of Foreign Economic System Reform [涉外经济体制改革的路径研究]. *Reform of Economic System*. (3), 21-24 & Li, Z. C., Ma, X. M & Chen, Y. (2019). Practice, Effect, Experience and Countermeasures of China's Utilization of Foreign Capital Since the Reform and Open up [改革开放以来中国利用外资的时间，成效，经验及对策]. *Foreign Trade*, (12), 58-67.

[250] Meng, Q. (2014). Study on the Path of Foreign Economic System Reform [涉外经济体制改革的路径研究]. *Reform of Economic System*, (3), 21-24.

[251] Liu, J.L. (2019). 70 Years of Foreign Investment Utilization in PRC: Process, Effects and Main Experiences [新中国利用外资 70 年：历程，效应与主要经验]. *Management World*, (11), 19-37.

[252] Concrete statistic of China's FDI shown in section 3.4.4.1.

For example, China revised the guidelines for FDI projects several times, as shown in Table 3-4, during which the number of encouraged projects increased significantly, from 251 to 351.[253] More importantly, the central government emphasized the simplification of the approval procedure for FDI and devolved the authority of FDI management to subnational level. As a result of policy development in the FDI sphere, SNGs were empowered by the central government to administer the FDI flowing to the local area, which means that SNGs became directly engaged with foreign enterprises. Firstly, central government set the general policy for FDI, making it the responsibility of local government to develop specific policy to attract FDI. Secondly, as shown in Table 3-4, SNGs obtained the authority to approve FDI projects and the financial limits at which these projects can be approved by the local has been gradually relaxed. For example, in 2004, projects under USD 100 million in the 'permitted' and 'encouraged' categories and projects under USD 50 million in the 'restricted' categories were approved by the local development and reform commission.[254] In 2010, the provincial approval authority of the permitted projects rose to USD 100 million.[255] SGNs obtained increasing authority in administering the FDI, which could further promote the incentives of SNGs to attract FDI through international interaction with foreign governmental and private actors.

Table 3-4: Development of China's FDI Policy

Year	Major Policy
1979	***Law of the People's Republic of China on Joint-Ventures using Chinese and Foreign Investment*** granting foreign investment a legal status.
1983	***Regulations for the implementation of the Law of PRC on Joint Venture*** further liberalized the domestic market for FDI.
1986	***Provisions of the State Council of RPC for the Encouragement of Foreign Investment***, providing benefits to foreign joint investment, such as preferential tax treatment. ***Law of the PRC on Enterprises Operated***

[253] Zhang, H. D. (2011). The Change and Development of China's Foreign Investment Policy [我国招商引资政策的演变与发展] *China Economic and Trade Herald Journal*, (8), 34-36.
[254] State Council (2004), *Investment Project Category approved the Government*[政府核准的投资项目目录（2004 年本）] http://www.scio.gov.cn/xwfbh/xwbfbh/wqfbh/2004/0728/Document/327107/327107.htm
[255] State Council (2010) *Several Opinions of the State Council on Further Utilizing Foreign Capital*[国务院关于进一步做好利用外资工作的若干意见] http://www.gov.cn/zwgk/2010-04/13/content_1579732.htm

	Exclusively with Foreign Capital.
1988	***Law on Sino-Foreign Contractual Joint Ventures***.
1990	**Amendments of the 1979 Joint Venture Law.**
1995	***The Interim Provisions for the Guidance of Foreign Businessmen in Their Orientation of Investment; Guiding List of Industries for Investment by Foreign Businessmen*** dividing projects into four categories (Encouraged, Restricted, Prohibited and Permitted) and offering the basis for the assessment and approval of FDI projects. The List was amended several times subsequently, in 1997, 2002, 2004, 2007, 2011, 2015 and 2017.
2002	Amending the ***Regulation on Guiding the Foreign Investment*** to make the guidelines comply with WTO rules and domestic economic reconstruction.
2004	State Council ***Decision about Investment System Reform*** simplifying the approval system; State Council ***Investment Category approved by the Government;*** NDRC issued ***Interim Administrative Measurement of Foreign Investment Project Approval;*** projects under USD100 million in the 'permitted' and 'encouraged' categories and projects under USD 50 million in the 'restricted' category approved by local development and reform commission.
2009	***Circular of MOFCOM on Delegation of the Authority to Examine and Approve the Establishment of Investment Companies by Foreign Investors***; MOFCOM allowed provinces for the first time to examine and approve the establishment of foreign investment (holding) companies up to the then general limit of USD100 million.
2010	***Several Opinions of the State Council on Further Utilizing Foreign Capital***; ***Circular of the Ministry of Commerce on Delegating Approval Authority over Foreign Investment to Local Counterparts*** provincial examination and approval authority over foreign investment projects in the 'permitted' category rising from a total investment of USD 100 million to USD 300 million.
2014	***Administrative Measurements for the Confirmation and Recordation of Foreign-invested Projects***; foreign-invested projects were divided into two types: examination and approval; only needed to be recorded. Projects in the

	'restricted' category and real estate projects under USD 50 million need examination and approval from provincial governments; projects under USD 300 million in the 'encouraged' category approved by local governments.

Source: Fung, K.C, Iizaka, H., & Tong, S.Y. (2004). Foreign Direct Investment in China: Policy, Recent Trend and Impact, *Global Economic Review*, 33(2), pp.99-130; Organization for Economic Co-operation and Development. (2003). *OECD Investment Policy Reviews: China 2003-Progress and Reform Challenges*. OECD Publishing; Davies, K. (2013). *China Investment policy: An Update*, OECD Publishing; MOFCOM, The Commerce of History, Utilization of FDI, http://history.mofcom.gov.cn/?newchinas=3lywz

3) Development of the Overseas Investment Regime

The beginning of outward FDI by Chinese enterprises occurred much later than the inflow of FDI. Table 3-5 displays the major policy developments in China's outward investment. Chinese enterprises were allowed to invest in foreign states for the first time in 1979. But before 1986, these investments were tightly controlled by the government and conducted mainly by SOE and some of the provincial and municipal government-owned companies.[256] Before 1991, China's overseas investments were primarily conducted by window companies, foreign trade companies and a few primary processing industry companies, with the amount of overseas investment less than USD 1 billion annually.[257] In 1991, the State Planning Commission issued the document *Opinions of Strengthening the Management of Overseas Investment Projects*, which argued that Chinese enterprises were not capable of conducting large-scale overseas investment. The document became the guideline for limiting China's foreign investment in the 1990s.[258] Therefore, China's overseas investments experienced slow growth before the establishment of the 'Going Global Strategy'.

It was in the 2000s that China's overseas investment began to increase rapidly.[259] In that decade, Chinese central government developed the 'going global' strategy to encourage domestic enterprises to conduct overseas investment, which shifted attitudes from constraint to encouragement. During the process, central government also devolved authority in overseas investment administration to SNGs. As a result, the approval procedure for overseas investment was simplified and became more rapid,

[256] Salidjanova, N. (2011). *Going Out: An overview of China's Outward Foreign Direct Investment*. Washington, DC: US-China Economic and Security Review Commission.
[257] NDRC (2017). *China Foreign Investment Report*.
[258] Li, F. (2016). A Study on China's Foreign Direct Investment Policy [我国对外直接投资政策研究]. *Globalization*, (10), pp.88-98.
[259] For data relating to China's overseas investment see section 3.4.2.1.

motivating both SNGs and enterprises to promote OFDI. In 2003, provincial governments were allowed to approve overseas investment of less than USD 3 million.[260] As shown in Table 3-5, the approval authority devolved to provincial government further expanded in the following years. In 2014, projects in the restricted category and real estate projects under USD 50 million needed examination and approval from provincial governments and projects under USD 300 million in the encouraged category approved by local governments below provincial level.[261] The devolution of overseas investment authority to the SNGs promotes the increase of local enterprise's foreign investment by simplifying the examining procedure. Meanwhile, SNGs have also taken more responsibilities in promoting overseas foreign trade through their international interactions.

Table 3-5: Development of China's Overseas Investment Policy

Year	Major Policy
1979	In ***Fifteen Measurements of Economic Reform***, establishment of an overseas company was permitted for the first time.
1991	***Opinions of Strengthening the Management of Overseas Investment Projects***; Chinese investment above USD 30 million reported to National Planning Commission for first examination and then to State Council; ***Regulations on Compiling and Approving the Proposal for Overseas Investment Projects and the Feasibility Report***
1997	***Interim Regulations on Establishment of Overseas Foreign Trade Companies and Trade Representative Office***; Chinese Enterprises were allowed to establish overseas companies outside HK and Macao; enterprises that established foreign trade companies in countries without diplomatic relations or sensitive states should be transformed through provincial foreign trade department to Minister of Economics and Foreign Trade for approval.
1999	***Opinions on Encouraging Enterprises to Develop Overseas Processing and Assembly Business***; supporting enterprises to go out through overseas

[260] Minister of Commerce (2003). *Notice about Several Issues of Overseas Investment Approval Pilot Work* [关于做好境外投资审批试点工作有关问题的通知]
http://sg.mofcom.gov.cn/article/maoyi/zhengcwend/200404/20040400207110.shtml
[261] NDRC (2014). *Measures for the Administration of Authorizing and Recording of Overseas Investment Projects* [境外投资项目核准和备案管理办法]
https://www.ndrc.gov.cn/fggz/lywzjw/zcfg/201404/W020190909440616023780.pdf

	processing trade.
2000	**'Going Global Strategy'** officially carried out in the Third Session of the 9th NPC.
2003	***Circular about Implementing the Overseas Investment Approval Reform Pilots***; the authority of approval rose from USD 1 million to USD 3 million in 12 pilot provinces.
2004	***Regulations on Examination and Approval of Establishment of Overseas Enterprises***; supporting and encouraging enterprises with comparative advantages to develop overseas enterprises; ***Decision on Reforming the Investment Management System***; the approval system of overseas investment changed into an authorization and recording system; MOFCOM ***Regulations on Authorizing Initiation of Business Overseas*** NDRC ***Interim Management Method for Overseas Investment Projects***
2007	Report of the 17th Congress of the CCP developed the idea of combining 'bringing in' and 'going global'.
2009	***Management Method for Overseas Investment***; the provincial commercial department responsible for projects up to USD 100 million; mining and energy investment and projects requiring domestic financing.
2012	17th Congress of the CCP, speeding up go global and strengthening the capacity of enterprises.
2013	OBOR initiative developed.
2014	***Measures for the Administration of Authorizing and Recording of Overseas Investment Projects (NDRC); Administrative Measurements of Overseas Investment (Commercial Ministry)***; recording system became the major system for managing overseas investment; Central SOEs and Enterprises invested over USD 0.3 billion were required to record with NDRC, other enterprises record with provincial NDRC.

Sources: Li, F. (2016) A Study on China's Foreign Direct Investment Policy [我国对外直接投资政策研究]. *Globalization*, No.10, pp.88-98.; Huang, W., & Wilkes, A. (2011). Analysis of China's Overseas Investment Policies. *CIFOR Working Paper*, (79); NDRC (2014), Administration Measurement of Enterprises' OFDI.

During the process of opening up, there was a clear decentralization tendency of the authority in foreign trade, FDI and overseas investment from central government to SNGs. As a result, SNGs were greatly motivated by the inter-governmental

decentralization and three types of international economic activities at the subnational level improved dramatically. However, policies in these three areas were not equally applied to each province and the central government deliberately favoured some provinces, especially at the beginning of opening up. Section 3.4 below will further illustrate the unequal regional distribution of China's foreign trade, FDI and OFDI, for which the gradual process of opening up and the resultant uneven policies in these three areas should take responsibility. As shown in Table 3-3, Fujian and Guangdong, where the initial four SEZs were located, obtained advantages in policy at the beginning of opening up. These two provinces were the first permitted to conduct foreign trade and retain the largest proportion of foreign exchange among all the provinces. With the opening up extended to other coastal provinces, preferential policies also became available to these provinces, but the inland and border provinces lagged behind.

The opening up policy and related policies in three areas of international cooperation "largely benefited the coastal areas, particularly the SEZs and coastal cities."[262] As a result, provinces and cities from coastal areas occupied a dominant proportion in the volume of China's foreign trade and FDI, which also offered them more capital to invest in foreign states, as discussed in the next section. Moreover, China's policy in foreign trade and FDI not only favoured some provinces, but also demonstrated a preference for some sectors over others. For example, China's FDI policy encouraged export-oriented FDI flowing into China.[263] This preference in return strengthened the advantages of coastal areas, which have better conditions for exports. Generally speaking, those unequal policies during the process of opening up brought two major effects to SNGs' international involvement. First, the uneven process caused SNGs in coastal areas to become much more internationalized than those in inland areas. The close relationship between local development and foreign trade or FDI pushed coastal provinces to further promote international relations with various foreign actors. Second, the periphery position at the initial stage of opening up made those inland and border provinces lag behind in international economic cooperation, which in return made SNGs rethink their strategy for opening up based on local advantages.

[262] Zheng, Y. N. (1994). Perforated Sovereignty: Provincial Dynamism and China's Foreign Trade. *The Pacific Review*. 7(3), pp.309-321.
[263] Breslin, S. (2013). Re-Engagement with the Global Economy. In *China and the Global Political Economy*. Palgrave Macmillan, London, pp.82-105.

3.3.3 The Role of SNGs in International Economic Affairs

3.3.3.1 Economic Orientation of SNGs' International Involvements

The sections above explored the positive response of Chinese central government to promote international economic involvement by developing the opening up policy. The interaction between the global economy and China's national policy of opening up also encouraged Chinese SNGs to enter into the global arena. Opening up policy at the national level has to a large extent shaped the international involvements of SNGs in China. One of the major effects is that the policy made the international economic affairs become the major concern for SNGs. The primary aim of China's opening up was to take advantage of economic globalization, through improvements in foreign trade, attracting FDI and later promoting overseas investment, to serve domestic modernization. For this aim, SNGs were empowered by the central government to regulate the international economic activities in the local and obtained the fiscal autonomy. As discussed above, SNGs in China were devolved the authority in approving FDI projects and overseas investment under a certain scale. Also, SNGs, at the initial stage of opening up, were allowed to conduct foreign trade by provincial foreign trade companies. These policies during the process of opening up led to close relations between SNGs and international economic affairs. Promoting economic cooperation to serve local development has become the dominant concern for SNGs in China. In this regard, the decentralization and internationalization to some extent have provided the motivation of subnational actors in their international involvements.

Thus, in China SNGs have endeavoured to improve their local infrastructure and create a better policy environment to attract foreign investment, such as the establishment of economic and development zones. They have also conducted various foreign activities and made use of multiple international platforms, such as sister-city relations and transborder cooperation platforms, to offer more opportunities for local enterprises as discussed in section 3.2. For example, Beijing government organized local enterprises to participate in the Sino-Belarus Local Economic Forum and conducted an enterprise forum with the embassies of OBOR states to seek opportunities for overseas investment of local enterprises.[264] Similarly, Shanghai's government supported the Shanghai

[264] Ministry of Commerce, *Report on Development of China's Outward Investment and Economic Cooperation* 2017, p.167.

Public Policy Association with conducting the '*Chinese Enterprises Going to Africa*' forum to provide information and promote the OFDI of Shanghai enterprises.[265] Jiangsu province made use of the sister-city platform to search economic cooperation. For example, a group led by the vice-governor of Jiangsu province visited its sister-city of Fukuyama in Japan to celebrate the 25th anniversary of sister-city relations and conducted the 'Jiangsu Product Fair' in which 60 enterprises from Jiangsu province took part.[266] These are only a few examples of the activities conducted by SNGs to promote international activities.

Among all the activities by SNGs to promote international economic cooperation, Expo diplomacy is the most regular and institutionalized, which deserves further consideration. SNGs, with support from the central government or international organizations, host expos or conduct international conferences regularly in China. These activities bring foreign governmental leaders, enterprises or celebrities to China's cities, which give locals the chance to display themselves, develop a good reputation and most importantly to conduct business. For some provinces and cities, these activities are opportunities to make them known to foreigners given that not all provinces and cities are well-known outside China. Some famous examples of expos conduct by different provinces in China are shown in Table 3-6. These expos provide positive and convenient opportunities for enterprises to communicate and conduct business with foreign enterprises. For example, China International Import Expos, co-organized by the Ministry of Commerce and Shanghai municipal government, attracted 39 business groups of local and central enterprises and 6,200 overseas buyers from 72 states (regions).[267] Also, at the 14th China-ASEAN expo hosted by Guangxi, two cities of Guangxi province, Guilin and Hechi, signed 44 projects to the value of RMB 76.52 billion and 63 projects of RMB 53 billion.[268] Numerous expos and international conferences occur in different provinces and cities in China, which bring many real business opportunities to enterprises. Meanwhile, they also provide a platform for

[265] Ministry of Commerce, *Report on Development of China's Outward Investment and Economic Cooperation* 2017, p.180.
[266] Foreign Affairs Office of Jiangsu Provincial People's Government, Jiangsu-Fukuyama 25th Anniversary Activities, http://wb.jiangsu.gov.cn/art/2017/7/25/art_326_4456575.html
[267] China International Import Expo Enterprise Commercial Expo Report, http://www.mofcom.gov.cn/article/i/jshz/zn/201901/20190102826312.shtml
[268] China-ASEAN Expo, 14th review, http://special.caexpo.org/html/ljhg/hg14th/

Chinese SNGs to develop international interactions which could bring benefits in the future. Broadly speaking, these important expos could also serve central diplomacy, particularly considering the foreign national leaders attending these activities and showcasing China's desire to cooperate with foreign states.

However, it must be recognized that not all SNGs are equally developed and experienced in hosting international conferences and expos. For example, the Hangzhou city government was not as experienced as Shanghai, who hosted various large-scale important international conferences. As a result, Hangzhou had to spend more time and human resources preparing for the G20 conference.[269] The expos listed in Table 3-6 also indicate an evident geographical preference of different provinces in conducting expos. For example, the China-ASEAN expo is located in Guangxi, which is a province proximate to ASEAN states and neighbouring Vietnam. The China-Russia Expo is hosted by Heilongjiang province, which is bordered by Russia and has long history of interacting with Russia. Many other expos share similar characteristics, which reflect the different emphasis of international interactions for different SNGs. For example, Guangxi attached greatest importance to international cooperation with ASEAN states. However, there is sometimes competition between SNGs when they have similar emphasis on expos. Guangxi and Yunnan competed for the right to host the China-ASEAN expo – ultimately Yunnan provincial government failed in this fight and thus shifted focus to the China-South Asia Expo.[270] Therefore, these expos not only show the motivation to promote international economic cooperation of SNGs, they also reflect the different local advantages and foreign strategy of different SNGs.

3.3.3.2 The Positive Role of SNGs

The influence of the national policy on the international involvements of SNGs was discussed above. However, SNGs in China do not passively follow the guidelines of central policy. First, it is common that central government in China often develops general policy for the state, but SNGs – particular provinces – create detailed local policy under the general framework of central policy. During this process, there is

[269] The author experienced the G20 in Hangzhou when studying as a postgraduate student in Zhejiang University and participating in the work of volunteer training.
[270] Interview in Kunming, June 2019.

leeway for SNGs to promote local needs, which may not sometimes be fully consistent with central ideas. Second, it must be recognized that SNGs have better knowledge of the local and thus could develop suitable methods for local development. As a result, SNGs can develop initiatives and then lobby the central government for approval. For example, the initiation of SEZ in Guangdong and Fujian province was promoted by provincial government leaders. In 1979, the then leaders of the Guangdong Party Committee, Xi Zhongxun and Yang Shangkun, proposed to the central government to establish an export processing zone in Shenzhen, Zhuhai and Shantou, which could take advantage of the overseas Chinese, Guangdong's proximity to HK and Macao and its relatively developed commercial economy.[271] Therefore, the idea of SEZs came from the local level and was then proposed to the central government. The initiative role of Yunnan province can also be seen in developing the idea of gateway strategy, which will be discussed in Chapter 5 (section 5.4.3).

Moreover, as mentioned in the previous sections, the opening up and other related policies were not equally applied to all the SNGs, but intentionally favoured some provinces. This caused the dissent from some provinces and argued for favourable policy from the central government during the opening up process. For example, the successful experience of SEZs in Guangdong and Fujian provinces led to lobbying from other provinces, which asked for the same policy, making central government change from opening up five coastal cities to fourteen in 1984.[272] Some provinces also established allies to lobby the central government as a single province was not strong enough to bargain with central government. For example, several provinces from southwestern China, including Guizhou, Yunnan, Sichuan, Tibet and Guangxi, organized an association called the Regional Economic Coordination Association of Southwest China. The association developed several requirements for the central government with the aim to promote foreign trade in the region and finally reached a compromise with central government – document No.387 was issued by the central government after intense bargaining.[273] Therefore, SNGs in China are not passive

[271] MOFCOM, The History of Commerce, The Inception of SEZs, http://history.mofcom.gov.cn/?newchinas=dwmy2
[272] Breslin, S. (2013). Re-Engagement with the Global Economy. In *China and the Global Political Economy*. Palgrave Macmillan, London, 85.
[273] Zheng, Y. N. (1994). Perforated Sovereignty: Provincial Dynamism and China's Foreign Trade. *The Pacific Review*, 7(3), pp.309-321.

followers of central policy, rather they have local concerns and initiatives.

Finally, it is necessary to consider the various endogenous natural conditions of different provinces in China, such as geography, ethnicity, nature resources. These are important inducements of different policy arrangements of both central and local governments during the internationalization process. As mentioned above, the establishment of SEZs in Guangdong province was based on advantages of geographical proximity to HK and Macao, and its large number of overseas Chinese. The priority of coastal provinces to open up could not ignore their advantages in port and transportation, which are attractive to export-oriented FDI and their long history with foreigners. Their superiority in natural conditions enabled coastal provinces to obtain priorities in central policy and thus they became more internationalized. On the other hand, border provinces also endeavoured to made use of their advantages to catch up during the opening up process. SNGs in inland and border areas have struggled to create suitable strategy for international involvements. For example, Ningxia Hui Autonomous Region, which has the highest concentration of Muslims in China, proposed to develop an Interior Special Economic Zone to attract Islamic investment.[274] Guangxi and Yunnan, neighbouring and sharing the same ethnicity with some ASEAN states, attached great importance to engagement and cooperation with Sino-ASEAN. Chapter 5 will discuss how the provincial government of Yunnan struggled to reposition Yunnan in China's strategy and thus shift its position from periphery to connections with Sino-ASEAN states. Therefore, interaction between specific local conditions and the strategic thinking of both central and local governments has led to a variety of SNGs' international involvements.

[274] Zheng, Y. N. (1994). Perforated Sovereignty: Provincial Dynamism and China's Foreign Trade. *The Pacific Review*. 7(3), pp.309-321.

Table 3-6: Examples of Expos Hosted by SNGs

Expo	**Local Organizer**	**Launch Year**
China International Import Expo	Shanghai Municipal	2018
China-Eurasia Expo	Xinjiang Autonomous Region	2011, developed from Urumqi Foreign Trade & Economic Symposium
China-Arad States Expo	Ningxia Autonomous Region	2011, developed from China-Arab Foreign Trade and Economic Forum
China-Russia Expo	Heilongjiang Province	2014, from Harbin-Russia Foreign Trade and Economic Symposium
Western China International Fair	Sichuan Province	2000
China-South Asia Expo	Yunnan Province	2012
China-ASEAN Expo	Guangxi Autonomous Region	2004
Euro-Asia Expo	Shaanxi Province	2005

3.4 China's Involvement in the Global Economy

In the late 1970s, China shifted its domestic focus from class struggle to economic development. For this aim, one of the most important decisions made by the central government was to open up and involve in the global economy. I do not deny the force of global transformation – economic globalization and increasing interdependence – in affecting the decision of the Chinese government. However, this decision of opening up "was a matter of deliberate choice by Chinese elites".[275] In the context of China, "both integration into the global economy and changes in institutions [were] driven by the government policies".[276] The policy changes at the central level and the positive responses from the subnational level discussed in the section 3.3 served to China's re-engagement in the global economy. Of course, the unfolding of opening up policy also made involvement into global economy become important component of SNGs' international involvement as discussed in section 3.3.3.1. As a result, it is important to develop a general picture of China's involvement into global economy in this Chapter. Moreover, the unequal policy arrangement and the related different responses from SNGs in consideration of the local facts induced the diversity of the international involvements in different regions, provinces or cities in China. The process of China's re-engagement in the global economy witnessed the complex interaction at the central and subnational level. This section examines how China became involved in the global economy by exploring the development of China's foreign trade, FDI and overseas investment. It will also pay attention to the diversity of SNGs' involvement in the global economy.

3.4.1 China's Re-engagement in the global economy through Foreign Trade and FDI

3.4.1.1 The Growth of Volume of Foreign Trade and FDI

Since the end of the 1970s, economic development has become the primary concern of both Chinese central and subnational governments. To this end, central government launched the policy of reform and opening up. Domestically, decentralization of power to SNGs and markets was gradually applied. Internationally, China chose to take

[275] Breslin, S. (2013). Re-Engagement with the Global Economy. In China and the Global Political Economy. Palgrave Macmillan, London, p.82.
[276] Hao, R., & Wei, Z. (2010). Fundamental Causes of Inland–Coastal Income Inequality in Post-Reform China. *The Annals of Regional Science*, 45(1), pp.181-206.

advantage of economic globalization and to open up to the outside world. Promoting foreign trade and attracting foreign investment were two major elements of China's opening up policy. This section explores the development of China's foreign trade and FDI. China's foreign trade remained at a low level in the pre-reform period as the Chinese government looked to a self-reliance strategy for their economy. After 1957, only a handful of state-owned foreign trade companies were allowed to conduct trade mainly with HK, Macao, the Soviet Union and some East European Countries as a result of the Cold War.[277] In the 1970s, China's foreign trade increased due to the relaxation and improvement of Sino-US relations, with an average growth rate of 20.48%.[278] However, the total volume of foreign trade in China was still low and China acted as a marginal foreign trade player. From 1950 to 1977, the amount of foreign trade changed from USD 1.13 billion to USD 14.8 billion, with an average annual growth rate of less than 10%.[279] In 1978, the total of foreign trade (export and import) was only USD 20.6 billion, with USD 9.75 billions of exports and USD 10.89 billions of imports.[280] China's foreign trade was insignificant in the world's total. The volume of China's foreign trade, export and import, in 1978 only occupied 0.8%, 0.75% and 0.85% of the world total respectively.[281]

However, the story began to change in 1978 when China's central government chose to re-engage in the global economy through opening up. China's involvements in the global economy was reflected in the growing volume of China's foreign trade. The transformation of foreign trade regime in the reform period illustrated in section 3.3.3.2 significantly promoted the foreign trade growth. In 2018, the total amount of China's foreign trade reached USD 4,622 billion, 224 times of that in 1978.[282] China surpassed

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[277] National Bureau of Statistics. *22nd Report on Economic and Social Achievements of 70 Anniversary of the Founding of PRC* [对外开放开启新征程 全面开放构建新格局—新中国成立 70 周年经济社会发展成就系列报告之二十二]. http://www.stats.gov.cn/tjsj/zxfb/201908/t20190827_1693665.html

[278] Shen, B & Wei, F. (2019). Review of China's Foreign Trade in the Past 70 Years and Its Prospects [新中国对外贸易发展 70 年: 回顾与展望]. *Finance & Trade Economics*, 40(10), pp.34-49.

[279] Ibid.

[280] National Bureau of Statistics (2019). *China Statistical Yearbook 2019* [中国统计年鉴 2019] http://www.stats.gov.cn/tjsj/ndsj/2019/indexeh.htm

[281] Shen, B & Wei, F. (2019). Review of China's Foreign Trade in the Past 70 Years and Its Prospects [新中国对外贸易发展 70 年: 回顾与展望]. *Finance & Trade Economics*, 40(10), pp.34-49.

[282] National Bureau of Statistics (2019) *China Statistical Yearbook 2019* [中国统计年鉴 2019]. http://www.stats.gov.cn/tjsj/ndsj/2019/indexeh.htm

the USA to become the top purveyor of foreign trade in 2012. The percentage of China's foreign trade in goods made up 11.8% of global foreign trade in 2018, with exports occupying 12.8% and imports 10.8%.[283] China's engagement with the global economy did not reach an instant peak but occurred over several different stages of development. China's entrance into the WTO in 2001 saw a dramatic increase in China's foreign trade.

Figure 3-7 shows the development of China's total foreign trade, exports and imports in goods. From 1978 to 2001, the volume of foreign trade rose from USD 20.64 billion to USD 474.3 billion, 23 times the amount it was at the beginning of the reform and opening up period.[284] The continuing growth of foreign trade was closely linked to the constant policy adjustments of the Chinese government, discussed in section 3.3.2. After accession to the WTO, China further liberalized its policies on foreign trade according to the WTO's requirements. Foreign trade boomed following the entrance into WTO, which increased dramatically from USD 510 billion in 2001 to USD 2,176.6 billion in 2007, with an average yearly growth rate reaching 27.4%.[285] In the following year, foreign trade in China kept rising, although with slight fluctuations, such as a decrease in 2009 as a result of the global financial crisis. The evident growth of foreign trade also happened at the subnational level, which can be found in the case of both Zhejiang and Yunnan province in Chapter 4 (section 4.4.1) and Chapter 5 (section 5.4.1). With the inter-governmental decentralization, SNGs in China were highly motivated to promote local foreign trade.

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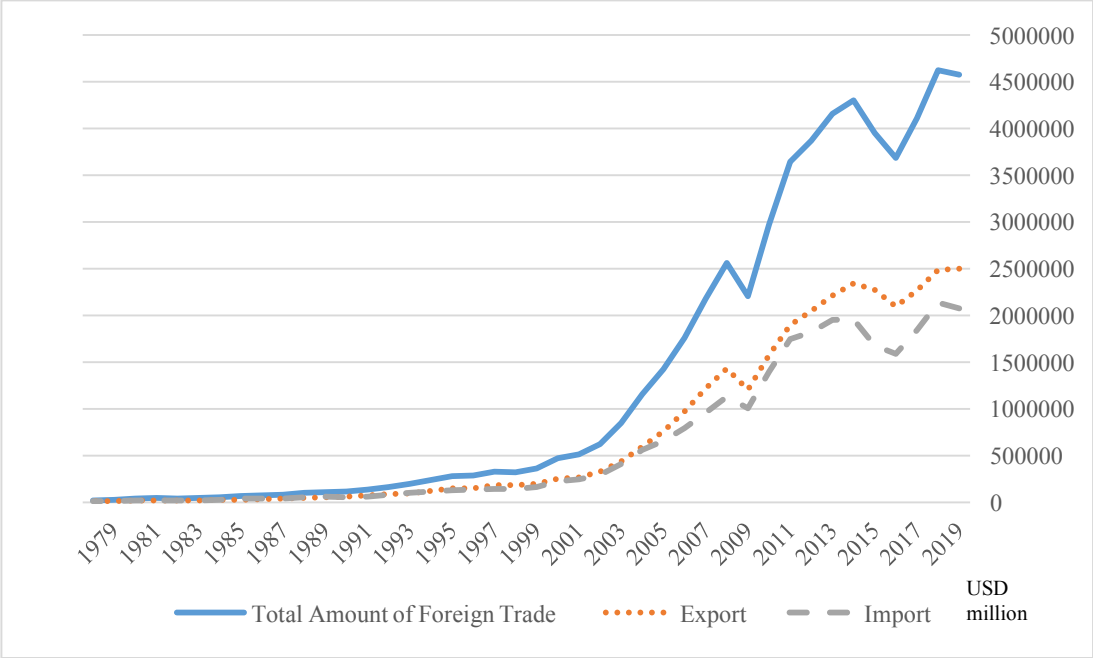
[283] National Bureau of Statistics. *22nd Report on Economic and Social Achievements of 70 Anniversary of the Founding of PRC* [对外开放开启新征程 全面开放构建新格局—新中国成立 70 周年经济社会发展成就系列报告之二十二]. http://www.stats.gov.cn/tjsj/zxfb/201908/t20190827_1693665.html

[284] National Bureau of Statistics (2019). *China Statistical Yearbook 2019* [中国统计年鉴 2019] http://www.stats.gov.cn/tjsj/ndsj/2019/indexeh.htm

[285] Shen, B & Wei, F. (2019). Review of China's Foreign Trade in the Past 70 Years and Its Prospects [新中国对外贸易发展 70 年: 回顾与展望]. *Finance & Trade Economics*, 40(10), pp.34-49.

Figure 3-7: The Development of China's Foreign Trade in Goods



Source: National Bureau of Statistic (2020). *China Statistical Yearbook* [中国统计年鉴 2020]

http://www.stats.gov.cn/tjsj/ndsj/2020/indexch.htm

The FDI inflowing to China also experienced obvious development in the reform period. China's rapid growth in foreign trade was also closely related to the growth of inward FDI and the resultant development of processing trade. Like foreign trade, foreign investment in China mainly came from Soviet Union-led communist states and the volume of FDI remained at a low level after the establishment of PRC.[286] Inward FDI in China began to develop after the launch of the reform and opening up policy as China changed its attitude toward foreign investment and offered preferential policies for inward FDI. The transformation of FDI policy discussed in section 3.3.3.2 and the resultant decentralization of FDI authority from the central to the subnational level greatly promoted the FDI development in the reform period. The establishment of four SEZs in 1980 was a first step for China to attract foreign capital to serve domestic economic development. Since then, Chinese central government and SNGs have endeavoured to adjust FDI policy and to improve the business environment. Like foreign trade, FDI in China experienced different stages of development. As shown in Figure 3-8, the volume of FDI coming into China increased slowly and steadily in the

[286] MOFCOM, The History of Commerce, http://history.mofcom.gov.cn/?newchinas=3lywz

1980s, rising from USD 0.92 billion in 1983 to USD 4.37 billion in 1991.

1992 saw an important moment in China's reform and opening up. In this year, China decided to establish a market economy and to further open up the inland and border area, which gave foreign enterprises more confidence to invest in China. The amount of FDI flowing into China increased much more rapidly than that in the 1980s. 48,764 foreign-invested enterprises were established in 1992, which exceeded the sum of the enterprises developed in the previous 13 years.[287] The amount of FDI grew from USD 11 billion in 1992 to USD 45.3 billion in 1997, with an average annual growth rate of 32.7%.[288] Accession to the WTO in 2001 saw a further development of FDI attracted by China as this event "sent signals to investors that China is committed to integrated its economy with the rest of the world."[289] Though the liberation of foreign trade and FDI regime accelerated in the 1990s, the obligation to further open up for entry into the WTO " likely made China's economy the most open in a large developing state."[290] As a result, FDI was further accelerated after 2001. In 2018, the actual use of FDI in China reached USD 138.3 billion, 151 times of that in 1983, and China became the second largest recipient of foreign investment and the largest among developing countries for 27 continuous years.[291] The growth of FDI can also found at the subnational level, which presented in both case of Zhejiang and Yunnan province.

[287] National Bureau of Statistics. *22nd Report on Economic and Social Achievements of 70 Anniversary of the Founding of PRC* [对外开放开启新征程 全面开放构建新格局—新中国成立 70 周年经济社会发展成就系列报告之二十二] http://www.stats.gov.cn/tjsj/zxfb/201908/t20190827_1693665.html

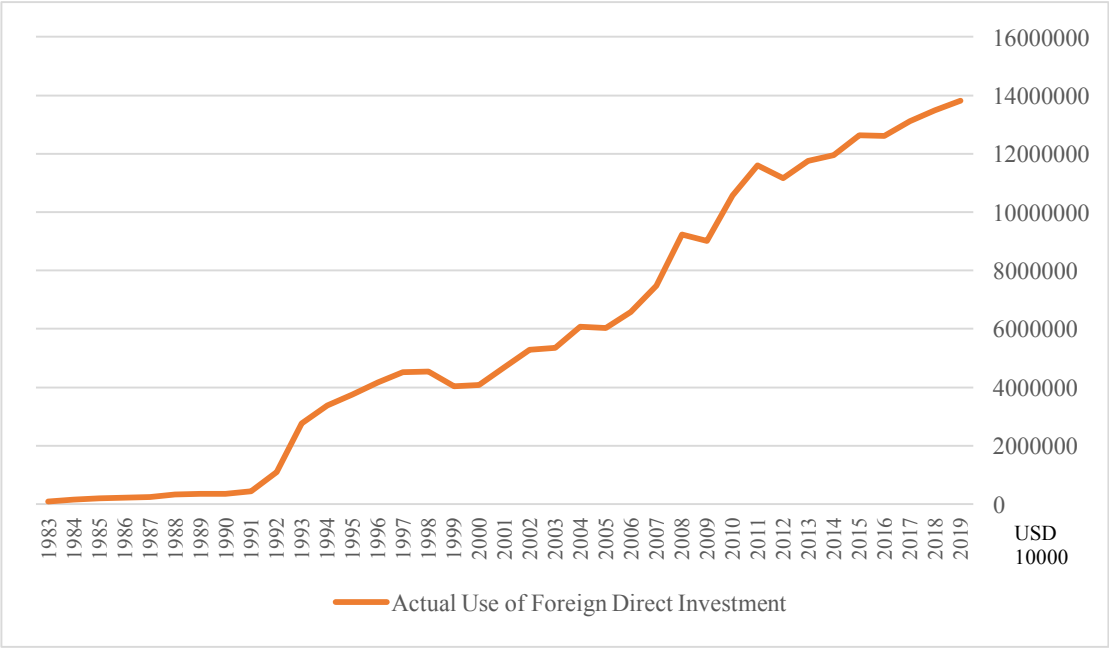
[288] Ibid.

[289] Jiang, N., Liping, W., & Sharma, K. (2013). Trends, Patters and Determinants of Foreign Direct Investment in China. *Global Business Review*, 14(2), 201-210.

[290] Branstetter, L., & Lardy, N. (2006). China's Embrace of Globalization. *National Bureau of Economic Research*, p.633.

[291] National Bureau of Statistics. *22nd Report on Economic and Social Achievements of 70 Anniversary of the Founding of PRC* [对外开放开启新征程 全面开放构建新格局—新中国成立 70 周年经济社会发展成就系列报告之二十二]. http://www.stats.gov.cn/tjsj/zxfb/201908/t20190827_1693665.html

Figure 3-8: Actual Use of FDI in China in the Reform Period



Source: National Bureau of Statistics (2020). *China Statistical Yearbook (2020)* [中国统计年鉴 2020]

http://www.stats.gov.cn/tjsj/ndsj/2020/indexch.htm

3.4.1.2 Mutual Promotion of Foreign Trade and FDI in China

The dramatic increase of foreign trade and FDI meant that China's economic development became increasingly related to the global economy. China thus became a major beneficiary of economic globalization. China's involvement in the global economy was not only reflected in the increasing volume of foreign trade and FDI, but also manifested in the sectors that foreign investment was involved in. One of the major developments that positioned China in the global economy was the development of processing trade, which made the growth of foreign trade and FDI mutually promoted during the process of China's opening up and promoted China to the position of world manufactory. Through processing trade, enterprises imported components into China, assembled in China and then exported again. Foreign investment into China at the early stage was primarily export-oriented, small-scale and labour-intensive, which perfectly combined foreign capital, manufacturing technology and equipment with cheap labour force in China.[292] More importantly, the export-oriented FDI was welcomed and encouraged by the Chinese government through preferential policies. In 1986, "twenty-

[292] Fung, K. C., Iizaka, H., & Tong, S. Y. (2004). Foreign Direct Investment in China: Policy, Recent Trend and Impact. *Global Economic Review*, 33(2), 99-130.

two regulations" established by the Chinese government created a friendlier climate for foreign investors, especially for export-oriented foreign investors and technologically advanced projects, through a series of policies such as lower fees for labour and rent, and tax rebates for exporters.[293] The materials and spare parts imported for the processing trade were exempt from tariffs and VAT. These policies, along with the cheap labour in mainland China, greatly attracted FDI which used China as a base for manufacturing and re-exporting goods.

As a result, both the percentage of processing trade in China and the proportion of FDI related to foreign trade increased significantly from the 1980s. In 1991, the total amount of processing trade made up 42.3% of all foreign trade in China.[294] The total volume of China's foreign trade grew rapidly after 1992. Therefore, although the percentage of processing trade did not improve dramatically, the actual volume of processing trade still increased significantly. The percentage of processing trade on the export side rose from 47% in 1992 to a high of 57% in 1999 and decreased slightly to 53% by 2006, while for imports the proportion of processing trade increased from 39% in 1992 to 49% in 1998 and then fell back to 41% in 2006.[295] As a result of the development of the processing trade, the players in China's foreign trade multiplied, with foreign-invested enterprises becoming increasingly important contributors in China's foreign trade and thus changing the monopoly of SOEs in foreign trade. In 1991, the foreign trade of foreign-invested enterprises (FIEs) already made up 21.34% of China's total foreign trade.[296] In 1998, the volume of FIEs' foreign trade constituted 48.7% of the total in China, surpassing the percentage of SOEs' foreign trade of 48.4%.[297] The growth of FIEs' foreign trade, to a large extent, was a result of its growing share in the processing trade. In 1992, the export of processing trade produced by FIEs occupied 39% of processing exports in China, while imports for the processing trade of FIEs made up

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[293] Branstetter, L., & Lardy, N. (2006). *China's Embrace of Globalization*. National Bureau of Economic Research.

[294] Shen, B & Wei, F. (2019). Review of China's Foreign Trade in the Past 70 Years and Its Prospects [新中国对外贸易发展 70 年: 回顾与展望]. *Finance & Trade Economics*, 40(10), pp.34-49.

[295] Feenstra, R. C., & Wei, S. J. (2010). Introduction to "China's Growing Role in World Trade". In *China's Growing Role in World Trade*. University of Chicago Press, pp.1-31.

[296] Shen, B & Wei, F. (2019). Review of China's Foreign Trade in the Past 70 Years and Its Prospects [新中国对外贸易发展 70 年: 回顾与展望]. *Finance & Trade Economics*, 40(10), pp34-49.

[297] Ibid.

45% of the total.[298] These two figures increased significantly in the following years, reaching 84% and 85% respectively in 2006.[299] The development of the processing trade and the important role played by FIEs since the mid-1980s has not only brought capital, technology and management skills to China. More importantly, this development has made China the manufacturing base for the world and increasingly connected China's economic development to global supply chains. However, it must recognize that the foreign trade and FDI did not equally distributed in different areas in China as a result of both national policy and local situations. Coastal provinces in China showed great advantages in foreign trade development and attraction of FDI.

3.4.1.3 The Unequal Regional Distribution of FDI and Foreign Trade

The development of the processing trade also influenced the location of FDI and partly led to the unequal regional distribution of FDI and foreign trade. Since the beginning of opening up, coastal provinces have attracted the majority of FDI into China. FDI coming to the eastern region of China has occupied the dominant proportion of China's total FDI for a long time. For example, the actual use of FDI by the provinces in the east costal region made up 86.7%, 84.1% and 83.4% of the total FDI in China in 2016, 2017 and 2018 respectively.[300] Various factors would affect the location of FDI, such as a large domestic market, openness, quality of physical infrastructure and low wage rates.[301] China's eastern region became the main destination for FDI to a large extent due to its easy access to the export market, which helps to attract export-oriented FDI into China.[302] Provinces in the east region of China are close to the seas and ports, which offer favourable transportation for exports and thus attract the export-oriented FDI. As a result, foreign trade in coastal provinces is much more developed than in interior provinces. For example, from 1992 to 2000, 40% of foreign trade was concentrated in Guangdong province and other coastal provinces occupied 4% to 10% of foreign trade, while each inland province made up only about 1%.[303] Clear gap

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[298] Feenstra, R. C., & Wei, S. J. (2010). Introduction to "China's Growing Role in World Trade". In *China's Growing Role in World Trade*. University of Chicago Press, pp.1-31.
[299] Ibid.
[300] Ministry of Commerce. *Statistical Bulletin of FDI in China 2017* (for data from 2016); *Statistical Bulletin of FDI in China 2018* (for data from 2017); *Statistical Bulletin of FDI in China 2019* (for data from 2018).
[301] Jiang, N., Liping, W., & Sharma, K. (2013). Trends, Patters and Determinants of Foreign Direct Investment in China. *Global Business Review*, 14(2), pp.201-210.
[302] Ibid.
[303] Shen, B & Wei, F. (2019). Review of China's Foreign Trade in the Past 70 Years and Its Prospects, *Finance & Trade Economics* [新中国对外贸易发展 70 年: 回顾与展望]. 40(10), pp.34-49.

between foreign trade and FDI can be found in the case of Yunnan and Zhejiang province. As a coastal province, the volume of Zhejiang's foreign trade is much higher than that in Yunnan. Chapter 4 and Chapter 5 will explore in detail of the foreign trade and FDI in Zhejiang and Yunnan province, which will definitely show the diversity of two provinces.

Furthermore, China's opening up to FDI was a gradual process, beginning with the SEZs in southeast China and then spreading to other places in coastal areas. As a result, preferential policies to FDI were first offered to SNGs in coastal areas, which developed a favourable business climate in SEZs and then in other coastal cities. Central government deliberately favoured some provinces which further strengthened the local geographic advantages of the coastal province, which made these provinces became more attractive to foreign investment. In other words, the economic reform in China enabled the geographic advantages of the coastal region to be realized.[304] As shown in Table 3-7, HK has been the most dominant source of FDI in mainland China. Therefore, it is reasonable that Guangdong has become the ideal location for HK's FDI as HK is proximate to Guangdong, especially Shenzhen, and two places also shared the same language and culture.[305] With the preferential policies given to SEZs, HK chose to transfer its labour-intensive industry to Guangdong. Therefore, the institutional reform made it possible for Guangdong to better take advantages of its location advantages.[306] The story of Taiwan was similar to that of HK. With more coastal provinces and cities opening up, the location of FDI also shifted north. In this regard, the the mutual enhancement of inherent local conditions and national policy induced large gaps in FDI attracted by different regions and province in China. In return, it made central and subnational governments, especially those in west and central regions, to consider suitable strategies to involve in the global economy, which finally led to the different pattern of international involvements.

[304] Bao, S., Chang, G. H., Sachs, J. D., & Woo, W. T. (2002). Geographic Factors and China's Regional Development under Market Reforms, 1978–1998. *China Economic Review*, 13(1), pp.89-111.
[305] Fung, K. C., Iizaka, H., & Tong, S. Y. (2004). Foreign Direct Investment in China: Policy, Recent Trend and Impact. *Global Economic Review*, 33(2), pp.99-130.
[306] Kanbur, R., & Zhang, X. (2005). Fifty Years of Regional Inequality in China: A Journey through Central Planning, Reform, and Openness. *Review of development Economics*, 9(1), pp.87-106.

Table 3- 7: Percentage of FDI from Major Foreign Countries/Regions

	HK	Taiwan	Japan	Singapore	Korea	USA	EU	ASEAN
1988	64.7	-	16.1	0.9	-	7.4	4.9	1.2
1990	53.9	6.4	14.4	1.5	-	13.1	4.2	1.7
1992	68.2	9.5	6.5	1.1	1.1	4.6	2.2	2.5
1994	58.2	10.0	6.2	3.5	2.1	7.4	4.6	5.6
1996	49.6	8.3	8.8	5.4	3.3	8.3	6.6	7.6
1998	40.7	6.4	7.5	7.5	4.0	8.6	8.8	9.3
2000	38.1	5.6	7.2	5.3	3.7	10.8	11.0	7.0
2002	33.9	7.5	7.9	4.4	5.2	10.3	7.0	6.2
2004	31.3	5.1	9.0	3.3	10.3	6.5	7.0	5.0
2006	29.3	3.1	6.6	3.4	5.5	4.1	7.5	5.0
2008	37.9	1.8	3.4	4.1	2.9	2.7	4.7	5.0
2010	52.8	2.2	3.6	4.7	2.4	2.6	4.9	5.5
2012	54.2	2.4	6.1	5.2	2.5	2.2	4.4	5.8
2014	63.2	1.6	3.4	4.5	3.1	1.8	4.9	4.9
2016	60.9	1.5	2.3	4.5	3.6	1.8	6.6	4.9
2018	65.0	1.0	2.7	3.8	3.4	1.9	7.5	4.1

Source: Ministry of Commerce, *Statistical Bulletin of FDI in China 2019*

3.4.2 China's Involvement in the Global Economy through Overseas Investment

3.4.2.1 The Growth of China's Overseas Investment

Another important way for China to engage with the global economy is through the development of its overseas investment. Outward FDI in China developed much later than inward FDI. It was at the beginning of the 2000s, with the official establishment of the 'go global' strategy, that overseas investment in China started to improve. Figure 3-9 shows that outward FDI of China developed slowly before 2000. The outward FDI in 1982 was only USD 44 million, rising to USD 916 million in 2000.[307] The small

[307] UNCTAD Statistic (https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx).

scale of China's outward FDI, on the one hand, was caused by the lack of foreign exchange, especially before the 1990s when foreign trade and inward FDI remained at a low level. On the other hand, China's central government set restrictions on outward FDI before the 2000s as discussed in section 3.3.3.2 of the overseas investment policy changes in China. Central government issued *Opinions on Strengthening the Management of Overseas Investment Projects*, which became the guideline for constraining the overseas investment during the 1990s. China further liberalized its economy to prepare for WTO accession, together with the development in foreign trade and FDI, which largely increased foreign exchange and induced the central government to rethink and to adjust its policy on outward FDI from restriction to encouragement.

The 'going global' strategy was officially developed in 2000, which encouraged Chinese enterprises to go out and participate in international cooperation and competition. With the transformation of overseas investment policy, overseas investment of Chinese enterprises grew rapidly in the 2000s according to Figure 3-9. China's outward investment rose from USD 2518 million in 2002 to USD 196,149 million in 2016, falling to USD 143040 million in 2018.[308] The annual average growth rate of China's FDI between 2002 to 2016 reached 35.8% and thus the share of China's overseas investment in the global total amount increased significantly, from 0.5% in 2002 to 13.5% in 2016, which made China the second largest provider of overseas investment globally.[309] In 2017 and 2018, although the amount of outward FDI decreased compared to 2016, China still ranked the third and second largest outward FDI provider, respectively. Both Yunnan and Zhejiang province showed the similar tendency of overseas investment growth, which will be discussed in Chapter 4 (section 4.4.3) and Chapter 5 (5.4.3) respectively.

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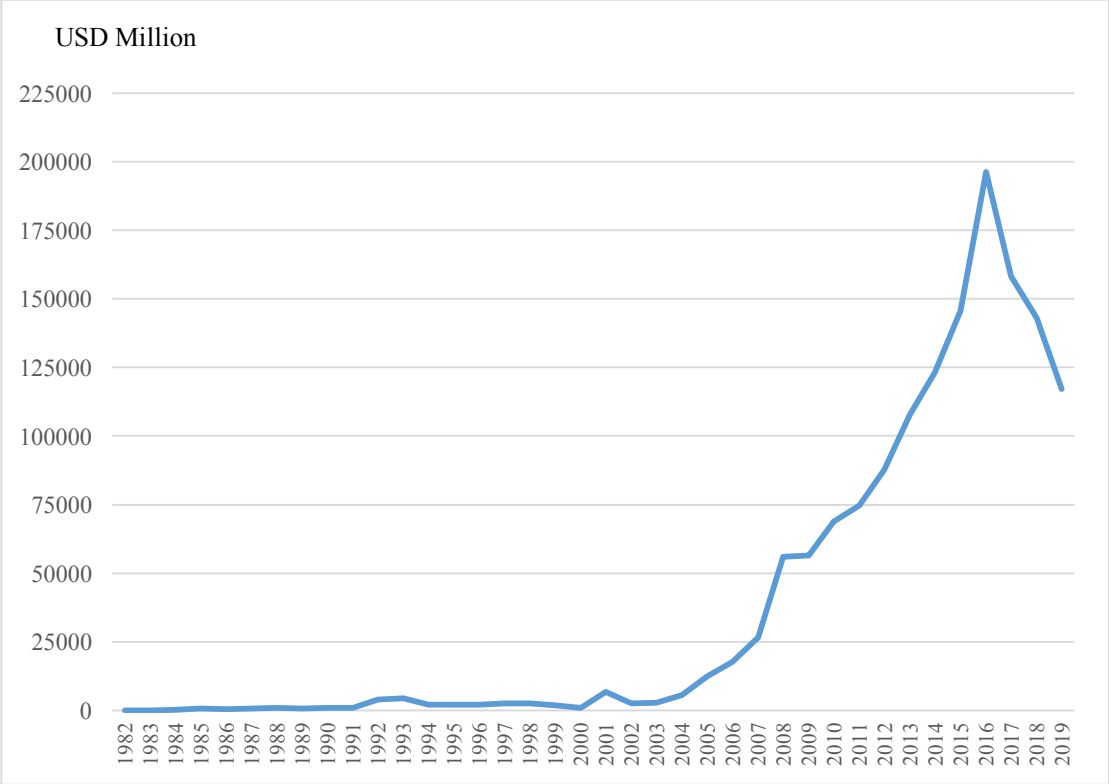
[308] UNCTAD Statistic (https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx).

[309] NDRC (2017). *Report on China's Overseas Investment*. Beijing: Chinese People's Publishing House.

Figure 3-9: Development of China's Outward FDI



Source: UNCTAD Statistic (https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx)

3.4.2.2 The Distribution of OFDI by Industry and Enterprise Type

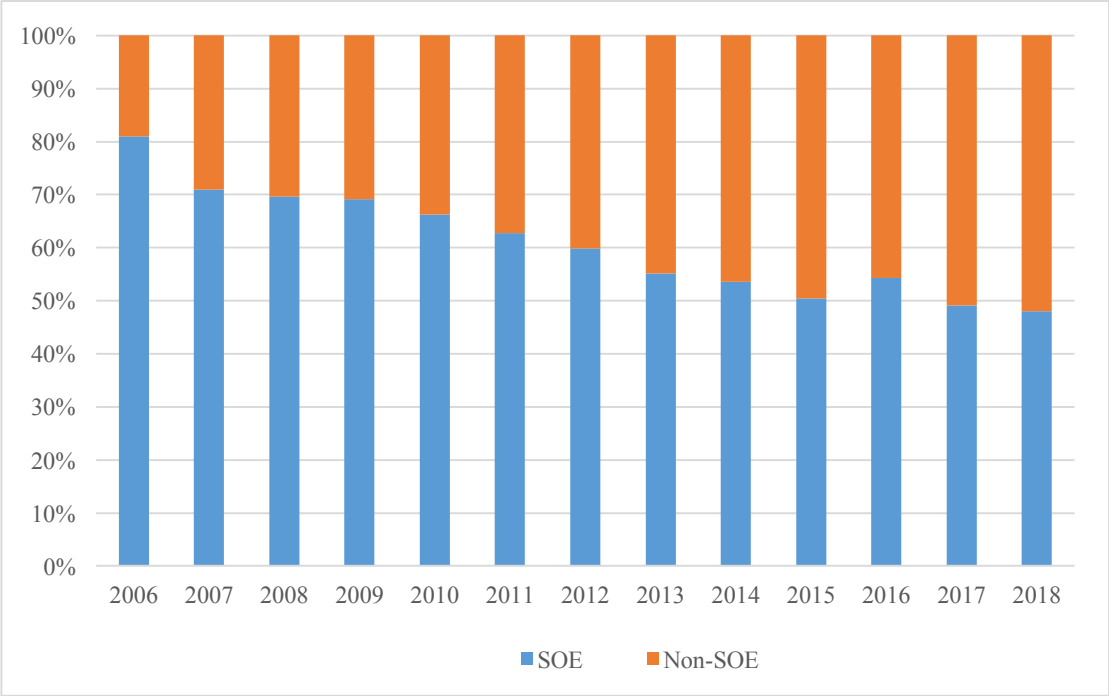
Besides improvement in the volume of overseas investment, other aspects of China's outward investment also changed, such as the changes in enterprise and industry structure. Before 1991, overseas investment was mainly conducted by foreign trade companies and concentrated on the primary industry with limited amount of investment.[310] In the 1990s, outward investment in the secondary industry developed quickly and several large energy projects also developed during this period.[311] The significant growth of outward FDI started in the 2000s, along with increasing numbers of domestic investors and diverse invested sectors. Regarding domestic investors, SOEs still played a crucial role in China's overseas investment, but other types of enterprises developed rapidly in overseas investment. Figure 3-10 illustrates how domestic enterprises changed in relation to outward FDI from 2006 to 2018. In 2006, SOEs occupied a dominant 81% of China's total amount of outward FDI stock, but this

[310] NDRC (2017). *Report on China's Overseas Investment*. Beijing: Chinese People's Publishing House.
[311] Ibid.

decreased to 48% in 2018.[312] Moreover, there was a clear change in the role of central and local enterprises in China's overseas investment. As shown in Figure 3-11, local enterprises in China have played an increasingly important role in China's overseas investment and the amount of non-financial outward FDI of local enterprises (including both government-owned and private enterprises) only made up 26.5% of the total amount in 2003, but in 2018, this figure increased to 79.3%.[313] In 2014, local enterprises surpassed central enterprises, becoming the primary force in outward FDI.[314] The rapid development of the overseas investment conducted by local enterprise could not be achieved without the decentralization of power from central government and the proactive role of local government in promoting this investment. Although there was a general tendency of the reducing proportion of overseas investment produced by central-level enterprises and SOEs in China, there still existed diversity in different provinces, for example Zhejiang and Yunnan province discussed in the next two chapter. The enterprise structure of overseas investment in two provinces varied significantly.[315] Therefore, detailed exploration through case analysis is necessary to have a better understanding of the diversity existed in different Chinese SNGs.

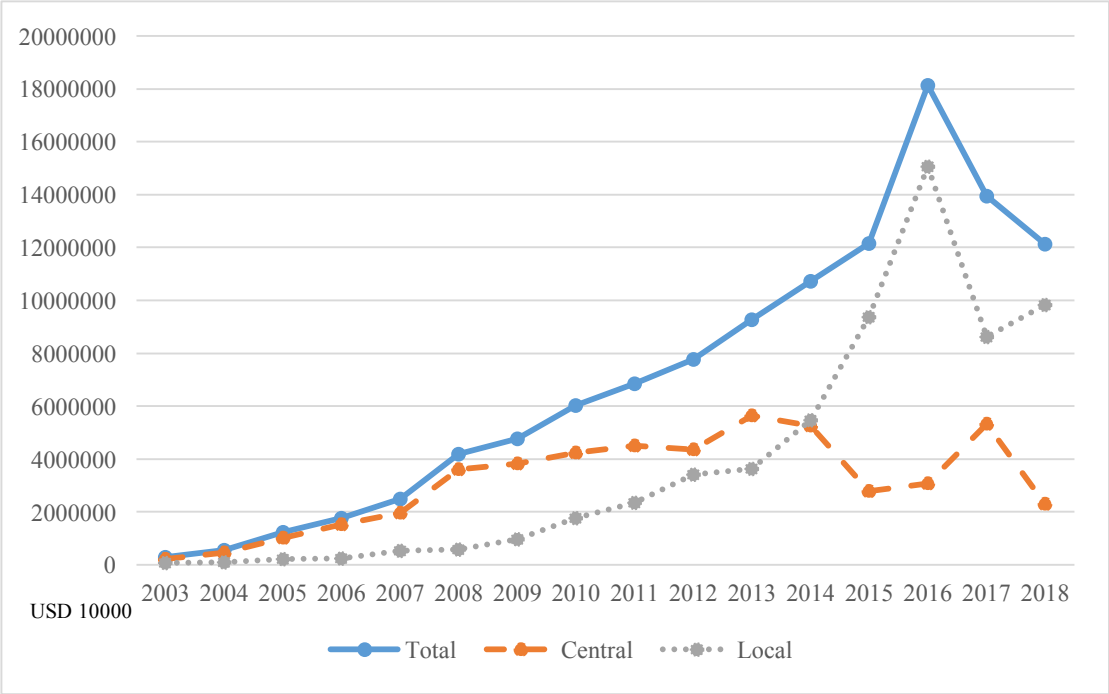
[312] Ministry of Commerce, National Bureau of Statistics & State Administration of Foreign Exchange. *Statistical Bulletin of China's Outward Foreign Direct Investment 2018*, p.31.
[313] Ibid.
[314] Ibid.
[315] See Chapter 4, section 4.4.3 and Chapter 5, section 5.4.3 for more information of the overseas investment of Zhejiang and Yunnan province respectively.

Figure 3-10: Distribution of Non-Financial OFDI Stock of SOE & Non-SOE



Source: Statistical Bulletin of China's Outward Foreign Direct Investment 2018

Figure 3-11: Non-Financial OFDI by Central & Local Enterprise



Source: Statistical Bulletin of China's Outward Foreign Direct Investment 2018

3.4.2.3 Sector and Regional Distribution of OFDI

The development of China's outward FDI was also manifested in the change of invested sectors. Chinese enterprises invested overseas with different aims, such as seeking markets for Chinese export, seeking advanced technology, exploiting natural resources and industry transfers. Table 3-8 shows the sector distribution of China's OFDI. From 2006 to 2016, the sectoral distribution of OFDI became increasing diffused, but several sectors still occupied the most of China's overseas investment. Financial, business services and wholesale are the three main sectors of OFDI, which shows the importance of the market-driven OFDI to promote exports.[316] There was a clear decrease in proportion of the resource-seeking OFDI from 2006 to 2016, which was reflected by the reduced percentage of OFDI in the mining sector. The decrease in resource-seeking OFDI was to some extent related to the slowdown of the OFDI produced by central enterprises alongside environmental concerns.[317] Chinese enterprises also tried to switch some domestic industry to foreign states to improve efficiency and promote industry upgrades, which shows in the OFDI in manufacturing. An increase of OFDI was evident in relation to the technology sector, like computer services and scientific research, which implied the need for Chinese enterprise to upgrade industry through technological improvement. OFDI with the aim to seek advance technology often went to developed countries, which could improve domestic innovation capacity through OFDI-induced reverse technology spill over.[318] Enterprises in different regions of China have different aims in conducting overseas investment, which has resulted in the different destinations of OFDI for different provinces. As a result, SNGs need to develop international interactions with actors from different states. This raises the question of how the variety of international economic activity finally induced the diversity of SNGs' international involvement.

Like the foreign trade and inward FDI, the development of OFDI showed differences in different areas or provinces in China. First, the development of OFDI was largely relied on the capacity of enterprises, especially their foreign exchanges obtained

[316] Salidjanova, N. (2011). *Going out: An overview of China's Outward Foreign Direct Investment*. Washington, DC: US-China Economic and Security Review Commission.
[317] Wang, B., & Gao, K. (2019). Forty Years Development of China's Outward Foreign Direct Investment: Retrospect and the Challenges Ahead. *China & World Economy*, 27(3), 1-24.
[318] Chen, C. (2018). Impact of China's Outward Foreign Direct Investment on Its Regional Economic Growth. *China & World Economy*, 26(3), 1-21.

through foreign trade and FDI. As a result, it is reasonable to suggest that the amount of OFDI from enterprises in developed coastal areas was much greater than that from inland provinces in China. Second, it was discussed that Chinese enterprises would like to achieve different aims through OFDI. But it is important to note that enterprises in different provinces also show differences in OFDI aims due to the advantages and limitations of local enterprises. For Yunnan and Zhejiang, enterprises in these two provinces are showed variety in the volume, enterprises and sectors structure of OFDI as a result of policies from governmental as well as the consideration and capacity of enterprises, which will be discussed in detail in Chapters 4 and 5. Moreover, the influence of OFDI also has different effects on specific enterprises in different regions in China. For example, OFDI in developed countries could bring significant effects to the eastern region but not the central and western regions, while OFDI in developing states and OBOR states brought significant influence to the central region through marginal industrial transfer.[319] With the diverse conditions in different regions and provinces, it is important for SNGs to introduce suitable strategies to promote OFDI and thus promote economic development, which can affect the international relations of different provinces in China.

Table 3-8: Sectoral Distribution of China's OFDI Stock

	2006	2009	2012	2015	2018
Leasing and Business Services	21.5%	29.7%	33%	37.3%	34.1%
Financial Intermediation	17.2%	18.7%	18.1%	14.5%	11%
Wholesale and Retail Trades	14.3%	14.5%	12.8%	11.1%	11.7%
Mining	19.8%	16.5%	14.1%	13%	8.8%
Manufacturing	8.3%	5.5%	6.4%	7.2%	9.2%
Computer Service, Software and Information Transmission	1.6%	0.8%	0.9%	1.9%	9.8%
Real Estate	2.2%	2.2%	1.8%	3.1%	2.9%
Transport, Storage and Post	8.4%	6.8%	5.5%	3.6%	3.4%

[319] Chen, H., Pan, J., & Xiao, W. (2020). Chinese Outward Foreign Direct Investment and Industrial Upgrading from the Perspective of Differences among Countries. *China & World Economy*, 28(3), 1-28.

Construction	1.7%	1.4%	2.4%	2.5%	2.1%
Production and Supply of Gas, Water and Electricity	---	0.9%	1.7%	1.4%	1.7%
Scientific Research and Technical Services	1.2%	1.2%	1.3%	1.3%	2.2%
Service to Households and Other Services	1.3%	0.4%	0.7%	1.3%	0.8%

Source: Statistical Bulletin of China's Outward Foreign Direct Investment 2006,2009,2012,2015,2018

3.5 Changing Concept of Security and the Expanding Role of SNGs

The understanding of security has experienced evident changes in China, which has resulted in the expanding foreign policy agenda. The international involvement of SNGs is also a response to this change. The establishment of a new concept of security happened in China after the end of the Cold War. During the Cold War, national security was narrowly understood as political and military security, which included the safeguarding of territory and sovereignty against external aggression and maintaining the regime.[320] With the end of the Cold War, the threat of external aggression dramatically decreased, while other security threats faced by the national government became complicated, with various issues classed as security concerns by the national government. Although in the 1980s, Chinese leaders developed the idea that 'peace and development are the theme of the era', new security concepts were not really establish at that time when the prospect of war still existed.[321] The origins of new security concepts in China started after the Cold War.

From the mid-1990s to the early 2000s, the Chinese government gradually shifted from its traditional security concept to a non-traditional security concept and finally in 2002, this new concept of security came into being.[322] This new concept rejected the narrow understanding of security, which merely focused on political and military security. In China's Position Paper on the New Security delivered at the ASEAN Regional Forum,

[320] Zhao, Z. (2011). Non-Traditional Security and the New Concept of Security of China. In *Coping with Global Environmental Change, Disasters and Security*. Springer, Berlin, Heidelberg, pp.307-311.
[321] Liu Y. J. (2014). The Historical Revolution and Logic Construction of China's Official Non-Traditional Concept of Security, *International Security Study*, (2), 117-129.
[322] Ibid.

China expressed a new understanding of security, arguing that the content of security has expanded from military and politics to areas like economics, technology, environment and culture.[323] In this regard, the previous approaches to security based on the improvement of military power were not deemed efficient. Instead, strengthening dialogue and cooperation was regarded as the fundamental approach to achieve security.[324] Later, at the 16th CCP national conference, the new concept of security was officially established, which centred on "mutual trust, mutual benefit, equality and cooperation."[325] The report also highlighted the idea that traditional and non-traditional security threats were interwoven.[326] From here, a new concept of security was established and has been further refined in the following years. A growing number of issues have been incorporated into security concerns. The report of the 18th CCP national congress expanded the areas of security, not only referring to political, economic, cultural, information, social, resources, citizen and military security, but also including food, energy and cyber security.[327] In 2014, President Xi developed "a holistic view of national security" at the first plenary meeting of the National Security Council, which again highlighted both traditional and non-traditional security issues.[328] The content of security has dramatically broadened, which has made it impossible for the central government alone to deal with all security issues.

Due to the expanding content of security issues, national governments cannot achieve security through military defence alone, instead, they need to seek international cooperation to deal with non-traditional security challenges. As a result, foreign interactions not only involve political and military security issues. These emerging security concerns also involve international cooperation and conflicts as the influences of these security issues transcend national boundaries. Therefore, the foreign policy agenda has expanded. Simultaneously, the growing number of emerging security issues and the resultant foreign policy agenda has also meant that cooperation between

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[323] China's Position Paper on the New Security Concept, https://www.fmprc.gov.cn/ce/ceun/eng/xw/t27742.htm
[324] Ibid.
[325] Jiang, Zemin. The Report on 16th CCP National Congress, http://news.xinhuanet.com/newscentre/2002-11/17/content_632239.htm.
[326] Ibid.
[327] Hu, Jintao, The Report on 18th CCP National Congress, http://www.xj.xinhuanet.com/2012-11/19/c_113722546.htm.
[328] Understand 'A Holistic View of National Security' through a picture, http://www.12371.cn/2020/04/14/ARTI1586827944134467.shtml

national governments is not enough to deal with all these issues. SNGs should also be incorporated in handling these non-traditional security issues as most of these issues are closely related to local development and even fall under the responsibility of local administration. Therefore, SNGs in China have become important players in the multi-level security framework. For instance, in the case of Yunnan, the local government actively participated in international cooperation with neighbouring states in the issues of drug control, smuggling and water pollution. The changing concept of security has taken international involvement of SNGs beyond economic cooperation. Another issue is that the central government's concerns about non-traditional security can be strategically used by SNGs to achieve local aims. As will be discussed in Chapter 5, Yunnan province framed the 'Malacca Dilemma' to take advantage of the energy security concerns of the central government to finally make Yunnan the energy hub between China and ASEAN. Therefore, the attention given to emerging security issues by the central level has also enabled the international involvement of SNGs beyond economic issues. However, SNGs are not equally affected by the emerging security issues, which is possible to induce SNGs' different response and participation in international security cooperation.

3.6 Conclusion

International involvements of SNGs are motivated and affected by the transformations originated at the national level and the resulted changing central-subnational interactions. First, diplomatic relations at the central level have affected the international involvements of SNGs. In most cases, good diplomatic relations at the central level have laid solid political foundations for cooperation at the subnational level. More importantly, the diplomatic or strategic arrangements at the central level also provide platforms to promote international interaction at the subnational level, such as the sister-city relationship and transborder cooperation mechanism mentioned above. Secondly, China's national policy of reform and opening up is a dominant force to induce the international involvement of SNGs. It was in the process of reengagement in the global economy that SNGs in China obtained both incentives and autonomy to promote international interaction. Simultaneously, opening up policy led to the economic orientation of SNGs' international involvements. On the one hand, SNGs in China are primarily involved in and responsible for international economic activities.

On the other hand, they always take advantage of international relations and platforms to serve economic development and offer more opportunities for local enterprises. Third, the changing concept of security developed in China can also promote the international involvement of SNGs. Increasing multiple security issues make it impossible for central government to deal with all these issues satisfactorily, which offers SNGs chances to participate in international cooperation.

However, these factors resulted in the international involvement of China's SNGs do not acted equally on each SNG, which has led to the diversity of SNGs' international interactions. Moreover, SNGs in China are not passive followers of the central policy. They were able to develop strategy or measurements for the local to respond to the central policy and to promote international involvements according to local variables. In some circumstances, SNGs were possible to develop local proposal and lobby the central for agreements. Therefore, diversity in local variables complicated the central-subnational interactions caused by the central transformations. As argued in this chapter, the twin process of decentralization and opening up divided China into coastal and inland area, with provinces in the coastal area positioned in the centre of reform and opening up due to their advantages in developing export-oriented economy. As a result, provinces in the coastal area became more involved into global economy. This difference in the reform and opening up is closely related to the diversity in local variables and in return affected SNGs' international involvements, such as variations in motivations and strategy for international involvements. Also, the diplomatic relations of the central government and the changing security concept at the central level can differently affected SNGs in China. Therefore, the thesis will refer to the case study of Zhejiang (chapter 4) and Yunnan (chapter 5) to explore how their different local variables affected provincial-central interactions respectively and thus lead to the diversity of their international involvements.

Chapter 4:
A Case Study of Zhejiang Province:
The International Involvements of a Coastal Province

Basic Information about Zhejiang Province	
Location	Southeast China and south of the Yangtze river delta, bordered by Jiangsu and Shanghai to the south
Capital City	Hangzhou
Administrative Divisions	2 vice-provincial level cities (Hangzhou and Ningbo); 9 prefectures; 37 districts, 32 counties, 20 county-level cities and 1 autonomous county under the prefectural level

Source: Website of the People's Government of Zhejiang Province, http://www.zj.gov.cn/col/col1544731/index.html

4.1 Introduction

Chapter 3 discussed how the central transformations put forward in the theoretical framework have induced and shaped the international involvements of China's SNGs. Those transformations originated at the national level have significantly changed central-subnational relations and thus have induced and affected the international involvements at the subnational level. It was also emphasised that the transformations at the central level acted differently on SNGs in China. SNGs varied in the following variables, including geographic location, the international linkage and the elements for economic development, have consequences for their positions in central policies and their interactions with the central government. It in the end lead to the diverse pattern of SNGs' international involvements. This chapter features a detailed case study of Zhejiang province to determine how the central transformations have shaped the specific pattern of international involvement of Zhejiang province. Firstly, I argue that diplomacy on the central level was an important factor affecting the international involvements of Zhejiang. The changing diplomatic relations with different states caused Zhejiang's interaction with different states in different periods. China's improved diplomatic relations with numerous states in the 1970s, especially with the US, provided a good political environment for Zhejiang to open up and promote economic relations with democratic industrialized states. Simultaneously, Zhejiang's

interaction at the subnational level further strengthened diplomatic relations between China and foreign states.

Secondly, the reform and opening up policy played an important role in promoting the international involvements of Zhejiang. Chapter 3 illustrated that the decentralization and internationalization process in the reform period greatly motivated SNGs in China to become involved in international affairs, especially in the economic sphere.[329] Zhejiang's international involvements were also greatly influenced by the reform and opening up policy. The decentralization and opening up in the reform period provided autonomy and incentives for the provincial government to promote international cooperation and become involved in the global economy to serve local development. As a result, the provincial government not only established policies and improved the local environment to support local enterprises to become involved in the global economy, but also strengthened international interactions with various foreign actors to provide more opportunities for local enterprises. For example, the sister-city relationship was used by the provincial government to promote pragmatic economic relations. Moreover, Zhejiang also developed a specific strategy to promote opening up and to engage in the global economy based on local advantages. This chapter will firstly examine the interactions of foreign relations at central and provincial levels and determine how such interactions affected Zhejiang's international involvement. The second section will turn to the issue of how the reform and opening up policy acted on Zhejiang. Finally, the chapter will explore Zhejiang's involvement in the global economy, which reflects the complex central-subnational interactions.

4.2 Diplomacy at the Central Level and Effects on Zhejiang's International Involvement

4.2.1 Interactions of Central Diplomacy and SNGs' International Involvements

Chapter 3 illustrated that the diplomatic relations on the central level can affect the international involvements of SNGs. Improved and stable diplomatic relations between national governments could not only lay solid foundations for economic cooperation

[329] See Chapter 3, section 3.3 for information about China's reform and opening up policy.

on the subnational level, but also provide a platform for SNGs to promote international interactions on the subnational level, such as the sister-city relationship originating from the improvement of Sino-Japan relations.[330] The diplomacy of China's central government and the foreign interaction of Zhejiang province have mutually affected each other. Diplomatic relations on the central level have to a large extent decided the target of foreign interaction on the provincial level. For example, before the 1970s, Zhejiang mainly interacted with two groups of foreign states – socialist states and emerging independent states from Asia and Africa – which was mainly decided by the diplomatic relations at the central level. After the establishment of the PRC, central government developed the foreign policy of 'leaning to one side' of the Soviet-led socialism camp. As a result, 80 percent of foreign visitors to Zhejiang during the 1950s came from socialist states.[331] After the Geneva Conference in 1954 and Bandung Conference in 1955, the relations between China and Asia as well as African states greatly improved, which induced the visits of governmental leaders from these emerging independent states to Zhejiang.[332] Before the 1970s, the international interaction of Zhejiang mainly served to maintain China's diplomatic relations with these states. It deserves mention that foreign leaders were always invited and accompanied by leaders of Chinese central government on visits to Zhejiang. During this period, there was only a limited number of foreign visitors arrived from Western developed states, such as former UK prime minister Attlee, who visited Zhejiang in 1954.[333] As a result of China's foreign policy preferences, Zhejiang's interactions with foreign states were limited before the 1970s. Moreover, the foreign interaction at the provincial level did not developed much local motivation, but mainly served the central diplomacy during this period.

In the 1970s, the story of China's diplomacy began to change. In 1971, China recovered its status in the United Nations. Sino-US relationship began to improve in the early 1970s and the two sides finally developed diplomatic relations in 1979. This progress

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[330] See Chapter 3, section 3.2 for general discussion of relations between central diplomacy and the international involvements of SNGs.

[331] Zhejiang Foreign Affairs Chronicle Editorial Committee eds (1996). *Zhejiang Foreign Affairs Chronicle* [浙江省外事志]. Zhonghua Book Company, p.4.

[332] Ibid., p.5.

[333] Ibid., p.34.

in China's diplomacy led to 70 foreign states developing diplomatic relations with China in the 1970s, which was much more than 31 in the 1950s and 15 in the 1960s.[334] The changes in China's diplomacy in the 1970s also significantly influenced the international involvements of Zhejiang province. Firstly, Zhejiang could interact with an increasing number of foreign states and receive more foreign visitors. In the 1970s, Zhejiang received over 60 heads of foreign states.[335] For example, President Nixon visited Hangzhou, the capital city of Zhejiang, in 1972, and leaders from China and the US negotiated the final version of the Sino-US joint statement in Hangzhou.[336] Also, French president George Pompidou and former UK PM Margaret Thatcher visited Hangzhou in 1973 and 1977 respectively.[337] However, receiving visitors to Zhejiang in the 1970s still served to promote and maintain diplomatic relations at the central level.

Of course, the improvement and maintenance of diplomatic relations at the central level could also serve the local interests of Zhejiang in return. On the one hand, improved diplomatic relations at the central level offered Zhejiang a better international environment for opening up and promoting international economic cooperation with foreign states from the late 1970s. Improved diplomatic relations laid solid political guarantees for the provincial government to promote economic interactions with foreign states. In the case of Zhejiang, I argue that diplomatic relations established in the 1970s between China and some advanced industrialized states, such as France, Japan, and the US, was of great importance to Zhejiang's local development in the reform period. During the reform period, local economic development was the dominant concern of Zhejiang. As a result, the provincial government attached great importance to improving foreign trade and FDI utilization since the late 1970s. The international interaction in the reform period not only served the national diplomacy, but also served local development through improving economic cooperation with foreign states.[338] Regarding Zhejiang's economic partners during the reform period,

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[334] Official Website of Ministry of Foreign Affairs of PRC, Resource, Table of States with Diplomatic Relations, https://www.fmprc.gov.cn/web/ziliao_674904/2193_674977/

[335] Zhejiang Foreign Affairs Chronicle Editorial Committee eds (1996). *Zhejiang Foreign Affairs Chronicle* [浙江省外事志]. Zhonghua Book Company, p.6.

[336] Ibid.

[337] Ibid., pp.46-47.

[338] Ibid., p.7.

the improved relations between China and developed industrialized states would be influential to the province.[339]

On the other hand, the improved diplomatic relations at the central level provided platforms for SNGs to promote interactions. The most significant example is the sister-city relationship. Chapter 3 discussed the improved bilateral relationship between China and Japan that facilitated the establishment of sister-city relationships between local governments in the two states.[340] The original aim of the sister-city relationship was to improve the mutual understandings of people in China and Japan through culture and personnel exchange and thus serve the diplomatic relations of two countries in a bottom-up manner. Later, the role of sister-city relations expanded from promoting mutual understanding to other pragmatic agendas. Sister-city relations in China developed significantly since the 1980s and has become the most common way for SNGs in China to interact and cooperate with their counterparts in foreign states. Chapter 3 discussed how SNGs took advantage of sister-city relations to promote pragmatic cooperation in various issue areas related to local development, such as cooperation in the economy, environment, and local administration.[341] Zhejiang also used its sister-city relationships as a crucial platform to serve local development. It can be seen from Zhejiang's yearbooks that the provincial government has maintained frequent interactions with its sister cities in foreign states through reciprocal visits. Sister-city relationship has become an important platform for Zhejiang province to promote international interaction. The next section will explore the development and the important role of sister-city relationship in Zhejiang's international involvement.

4.2.2 Sister-City Relationships in Zhejiang Province

The establishment of sister-city relationships in Zhejiang province began with the local governments in Japan. In 1979, the capital city of Zhejiang – Hangzhou – developed sister-city relations with Cifu in Japan.[342] On the provincial level, Zhejiang developed its first sister-city relationship with New Jersey in the US in 1981, followed by the

[339] Data relating to Zhejiang's main partners in foreign trade, a major source of FDI, can be found in section 4.4.
[340] See Chapter 3, section 3.2.2 for discussion about sister-city relationships.
[341] See Chapter 3, section 3.2.2.1 for more information.
[342] Shu, G.Z. & Shen, J.M. eds (2014). *The Almanac of Zhejiang* 2014 [浙江年鉴 2014]. House of Zhejiang Almanac, p.396.

establishment of sister-city relations with Shizuoka in Japan in 1982.[343] Since then, the establishment of sister-city relations developed significantly. By the end of 2015, Zhejiang provincial government, together with lower level local governments, developed 99 pairs of sister-city relations with counterparts in foreign states.[344] On the provincial level, Zhejiang had already developed 15 pairs of sister-city relationship with foreign local governments from 12 foreign countries by 2015.[345] Among the foreign states, Zhejiang established the largest number of sister-city relations with its counterparts in Japan, followed by US. As shown in Table 4-1, Zhejiang developed sister-city relations with three states in Japan, including Shizuoka, Fukui and Tochigi. Most of those countries that developed sister-city relations with Zhejiang provincial government were developed industrialized states, which also developed close economic cooperation with Zhejiang province.[346] I suggest that the sister-city relationships were motivated by economic incentives and in return were helpful in maintaining foreign trade relations or promoting foreign investment between Zhejiang and its sister cities in foreign states.

Table 4-1: Main States Developed Sister Cities with Zhejiang Province

Foreign SNG	**Country**	**Date Established**
New Jersey	U.S.A	1981-05-11
Shizuoko	Japan	1982-04-20
Schleswig-Holstein	Germany	1986-04-20
Parana	Brazil	1986-06-07

[343] Shu, G.Z. & Shen, J.M. eds (2014). *The Almanac of Zhejiang* 2014 [浙江年鉴 2014]. House of Zhejiang Almanac, p.394

[344] Li, X.L. eds (2016). *A Special Report on China Urban Competitiveness (1973-2015)* [中国城市竞争力专题报告(1973-2015)]. China Social Science Press, pp.357-361. There is a difference in the statistics collected from the Chinese International Friendship City Association (CIFCA) in the abovementioned book. According to the statistics from Zhejiang's Yearbook, Zhejiang's sister-cities (including those developed with prefectures and counties) numbered 349, among which 66 cities developed relations with the provincial government. In 2015, Zhejiang developed sister-city relations with 392 SNGs from foreign countries, and this number reached 416 in 2017. According to data from Zhejiang's Yearbook, Zhejiang provincial government developed the largest number of sister-city relationship with SNGs in the US. The number collected from the Yearbook is much larger than that reported by CIFCA as a result of different standards. The same situation occurs with Yunnan's statistics. Therefore, for a more comprehensive comparative analysis of the two provinces and for the consistency of data in Chapters 3, 4 and 5, the statistics for 2015 collected from CIFCA are used. I argue that although the statistics for the two provinces are different from those collected in their yearbooks, the conclusion of the comparative analysis is not unduly affected. Moreover, the observations in Chapters 4 and 5 of two cases are also tenable. Therefore, the application of CIFCA data is accountable.

[345] Li, X.L. eds (2016). *A Special Report on China Urban Competitiveness (1973-2015)* [中国城市竞争力专题报告 (1973-2015)]. China Social Science Press, pp.357-361.

[346] See section 4.4 for more information in relation to Zhejiang's foreign trading partner and FDI sources.

Indiana	U.S.A	1987-07-24
Western-Australia	Australia	1987-11-06
Haute-Normandie	France	1990-03-18
Fukui-ken	Japan	1993-10-06
Tochigi-ken	Japan	1993-10-13
Jeollanam-do	South Korean	1998-05-17
Pohnpei	The Federated States of Micronesia	1999-09-25
Uppsala	Sweden	2000-09-20
Eastern-Cape	South Africa	2000-09-27
Matanzas	Cuba	2000-09-27
Minsk	The Republic of Belarus	2015-05-10

Source: Li, X.L. eds (2016). *A Special Report on China Urban Competitiveness (1973-2015)* [中国城市竞争力专题报告（1973-2015）]. China Social Science Press, pp. 357-361.

Sister-city relationships have developed significantly in Zhejiang and the number of sister cities in Zhejiang occupied a leading position in China. By the end of 2015, the number of Zhejiang's sister cities (including those developed with prefectures and counties) ranked the 4th among all the provinces in China.[347] These sister-city relations firstly enabled Zhejiang provincial government and lower governments to promote mutual understanding through grassroots personnel and culture exchange, which finally served the diplomatic relations at the central level in a bottom-up manner. This was the original concern for the establishment of sister-city relationship between China and Japan, and it remained as one of the most crucial purposes of sister-city relationships. For example, Zhejiang conducted the first gala of sister cities citizens, which brought together 1,300 citizens and experts from Zhejiang's sister cities in 1993.[348] Culture exchange was an important way to promote mutual understanding between citizens in different states. For example, Zhejiang and Shizuoko held a calligraphy exhibition in

[347] Li, X.L. eds (2016). *A Special Report on China Urban Competitiveness (1973-2015)* [中国城市竞争力专题报告（1973-2015）]. China Social Science Press, pp. 326-414.

[348] Lu, W. G. & Jiang, J. F. eds (1994). *The Almanac of Zhejiang 1994* [浙江年鉴 1994]. Zhejiang People's Press, p.118.

Hangzhou during the 20th anniversary of their sister-city relationship in 2002.[349] Moreover, the frequent mutual visits between government leaders enabled Zhejiang and its partners to clearly express themselves and even help the central government to show friendship to foreign citizens, which in the end served bilateral relations at both local and central levels. This is the original aim of sister-city relations, but in reality the role of sister-city relations has already incorporated pragmatic concerns at the subnational level.

The most important concern of SNGs during the reform period was to promote local development. SNGs in China regarded international economic cooperation and involvement in the global economy as a crucial way of promoting the local economy in the process of opening up. In this regard, the international interactions of SNGs served to provide opportunities for local enterprises. Zhejiang provincial government attached great importance to sister-city relations for economic cooperation. In the early 1990s, Zhejiang escorted enterprise representatives during mutual visits between Zhejiang and its sister cities with the aim of promoting economic cooperation through official interaction.[350] For example, the governor of Schleswig-Holstein led an economic delegation of 23 businessmen to Zhejiang in 1995 and conducted the *Schleswig-Holstein Industry and Commercial Information Exchange Meeting*.[351] But the cooperation and exchange with sister cities was not equally developed. Indeed, Zhejiang developed much closer relations with some of its traditional sister cities, which can be reflected by the more frequent mutual visits between governmental leaders. Zhejiang listed some of its foreign local partners as key sister cities, such as Indiana in the US, Western Australia, Schleswig-Holstein in Germany, Pearson in the Czech Republic, Shizuoko in Japan and Jeollanam-Do in South Korea.[352] These cities established sister-city relationships with Zhejiang province for a long time, which enabled them to develop substantial and pragmatic cooperation with Zhejiang in the issue of the economy and local social development. In return, the comprehensive

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[349] Pan, J.W.& Sun, J.G. eds (2003). *The Almanac of Zhejiang 2003* [浙江年鉴 2003]. House of Zhejiang Almanac, p.107.

[350] Jiang, J.F. & Zhang, R.G. eds (1996). *The Almanac of Zhejiang 1996* [浙江年鉴 1996]. Zhejiang People's Press, p.146.

[351] Ibid.

[352] Li, H.L. & Shen, J.M. eds (2016). *The Almanac of Zhejiang Province 2016* [浙江年鉴 2016]. House of Zhejiang Almanac, p.409.

cooperation further strengthened the sister-city relationship.

Table 4-2 provides examples of some activities conducted through sister-city relations in different years. Clearly, economic concerns became the most outstanding agenda in the interactions between Zhejiang and its partners. During visits, government leaders from both Zhejiang and its sister-cities conducted commercial fairs to promote foreign trade and to improve investment. As shown in Table 4-2, Zhejiang conducted an export fair in Shizuoko in 1992, during which Zhejiang achieved USD 40 million worth of transactions and also signed several contracts establishing foreign-invested enterprises.[353] Also, for example, Zhejiang conducted foreign trade and investment fair in Shizuoko in 2002, during which the two sides signed a foreign trade contract with a value of USD 22.11 million and reached 17 investment contracts and intended projects worth USD 161.95 million FDI to Zhejiang.[354] In 2007, the secretary of Zhejiang provincial CCP committee visited Western Australia for the 20th anniversary of sister-city relations and signed five economic projects.[355] Moreover, Zhejiang and its sister cities also established economic communication organizations to promote regular exchange and provide support as well as information for enterprises. For example, Zhejiang foreign affairs office together with Zhejiang Artiking Enterprises developed a foreign trade representative organization in Western Australia in 1993.[356] In 1995, Zhejiang established an economic communication promotion committee in Western Australia, Schleswig-Holstein and Parana State in Brazil.[357] Thus, sister-city relationships became a regular and crucial platform for Zhejiang to promote economic cooperation with its counterparts in foreign states.

Zhejiang province attached great importance to its sister-city relations to improve pragmatic cooperation. While economic cooperation was the most important aspect, it

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[353] Dong, Z.C. & Fang, G.X. eds (1993). *The Almanac of Zhejiang 1993* [浙江年鉴 1993]. Zhejiang People's Press, p.114.

[354] Pan, J. W & Sun, J.G. eds (2003). *The Almanac of Zhejiang 2003* [浙江年鉴 2003]. House of Zhejiang Almanac, p.106.

[355] Chen, Y.X. & Li, X.Z eds (2008). *The Almanac of Zhejiang 2008* [浙江年鉴 2008]. House of Zhejiang Almanac, p.126.

[356] Lu, W.G. & Jiang, J.F. eds (1994). *The Almanac of Zhejiang 1994* [浙江年鉴 1994]. Zhejiang People's Press, p.117.

[357] Jiang, J.F. & Zhang, R.G. eds (1996). *The Almanac of Zhejiang 1996* [浙江年鉴 1996]. Zhejiang People's Press, p.146.

was not the only one. Chapter 3 discussed how sister-city relationships between SNGs in China and Japan have been used to promote communication and cooperation in issues of local administration.[358] It also discussed how SNGs in China were responsible for fiscal expenditure of various local issues, which enabled SNGs to obtain a certain degree of autonomy in local administration and to seek international ways to deal with local issues.[359] Sister-city relationship is a suitable platform for SNGs to pursue international cooperation to handle local issues. Zhejiang also took advantages of sister-city relationships to promote exchange, learn experiences and obtain support from its sister cities to deal with local issues. For example, Schleswig-Holstein established the German Environment Protection Technology Cooperation Liaison Office in Zhejiang and helped Zhejiang to train staff in urban planning and environment protection in 1999.[360] In 2000, a delegation from Uppsala province in Sweden conducted workshops in Hangzhou to discuss the biological technology, environmental protection, and elderly care.[361] In 2016, a delegation from Pearson visited the Hospital of Traditional Chinese Medicine in Zhejiang to promote cooperation with Zhejiang in Chinese medicine education and other health-related issues.[362] Although sister-city relationships were originally developed to promote mutual understanding, Zhejiang provincial government has made full use of this platform to promote pragmatic cooperation in local economic and social development.

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[358] See Chapter 3, section 3.2.2.1 for more information.
[359] See Chapter 3, section 3.3.1.1 for more information.
[360] Yao, M. S. & Tan, R.Y. eds (2000). *The Almanac of Zhejiang 2000* [浙江年鉴 2000]. Zhejiang People's Press, p.100.
[361] Yao, M. S. & Tan, R.Y. eds (2001). *The Almanac of Zhejiang 2001* [浙江年鉴 2001]. Zhejiang People's Press, p.128.
[362] Jin, Y.H. eds (2017). *Yearbooks of Foreign and Overseas Chinese Affairs of Zhejiang Province 2017* [浙江外事与侨务年鉴 2017]. Zhejiang University Press.

Table 4-2: Examples of Activities Conducted through Sister-City Relationship

Time	**Major Activities**
1992	Chairman of the Standing Committee of Provincial People's Congress visited New Jersey and Indiana; Deputy Secretary of CCP Provincial Committee visited Western Australia, discussing cooperation in economy and resources; Provincial Governor visited Shizuoko for the 10th anniversary of sister-city relationship establishment and conducted *Zhejiang Export Product Fair* and *Sino-Japan Economic Communication Workshop*.
1997	Shizuoko conducted enterprise expo for the first time in Zhejiang province; Deputy governor and deputy chairman of the provincial CPPCC visited Indiana and Western Australia to participate in the 10th ceremony; Western Australia conducted *Foreign Trade and Investment Fair* in Hangzhou.
2002	Deputy secretary of CCP provincial committee visited Shizuoko for the 20th ceremony and conducted *Foreign trade and Investment Fair* as well as Tourism Fair; Governor of Shizuoko visited Zhejiang and conducted *10th Conference of Zhejiang-Shizuoko Economic Promotion Organization*, Zhejiang-Shizuoko *Tourism Introduction Fair*, visited small commodity market in YiWu.
2007	Secretary of CCP Zhejiang provincial committee visited Western Australia to attend a series of activities for the 20th ceremony; government leaders attended the *2nd Zhejiang-Western Australia Communication Committee Conference*; Deputy Secretary visited Shizuoko; the visiting group attended *Shizuoko Social and Economic Introduction Meeting* and *Zhejiang-Shizuoko Enterprises Communication Meeting*; *9th Academic Workshop between Zhejiang and Jeollanam-Do* was conducted in Hangzhou. Experts from two sides communicated on the issue of aging.

2012	33 mutual visits between Zhejiang and sister-cities; five groups from Shizuoko visited Zhejiang, such as economic communication group and women's group, and attended 30th anniversary of sister-city relationship; Economic cooperation group attended *Zhejiang-Shizuoko Economic Communication Promotion Organization Conference* and visited Xiaoshan Economic and Development Zone; Zhejiang Provincial Governor visited Shizuoko; Zhejiang news office, culture department, commercial department, education department and health department signed cooperative protocols with their counterparts in Shizuoko; Provincial governor conducted *Zhejiang-Shizuoko Foreign trade and Investment Fair* and *Zhejiang-Shizuoko Friendship Sightseeing Year*.
2017	Secretary of CCP provincial committee Che Jun visited Indiana and Illinois, attending the 30th anniversary of Zhejiang-Indiana friendship relations; Che Jun visited Northern Norway, signed cooperation contract with Northern Norway, visited enterprises and several cultural projects, investigated island development and sea management in Norway; Che Jun visited Uppsala and Gothenburg; signed contract with Uppsala to promote further exchange and cooperation; visited enterprises like Volvo, Geely, AstraZeneca; Provincial Governor visited Pearson State in Czech, attended the *Economic and Foreign Trade Exchange Meeting* (10th anniversary of the sister-city relationship between Zhejiang and Pearson State).

Source: Data for 1992 collected from Dong, Z.C. & Fang, G.X. eds (1993). *Zhejiang Almanac 1993* [浙江年鉴 1993]. Zhejiang People's Press; data for 1997 collected from Jiang, J.F. & Zhang, R.G. eds (1998). *Zhejiang Almanac 1998* [浙江年鉴 1998]. Zhejiang People's Press; data for 2002 collected from Pan, J.W & Sun, J.G. eds (2003). *The Almanac of Zhejiang 2003* [浙江年鉴 2003]. House of Zhejiang Almanac; data for 2007 collected from Chen, Y.X. & Li, X.Z eds (2008). *The Almanac of Zhejiang 2008* [浙江年鉴 2008]. House of Zhejiang Almanac; data for 2012 collected from Jin, Y.H. eds (2013). *Zhejiang Foreign Affairs Yearbook 2013*[浙江外事年鉴 2013], Zhejiang University Press; data for 2017 collected from Jin, Y.H. eds (2018). *Zhejiang Foreign and Overseas Chinese Affairs Yearbook 2018*[浙江外事侨务年鉴 2018]. Zhejiang University Press.

4.2.3 Zhejiang's Relations with Embassies and Consulates

China's improved diplomatic relations with foreign states enabled Zhejiang to promote interactions with foreign ambassadors and consuls, especially those in the Shanghai Consulate. The provincial government invited staff from embassies and consulates to visit Zhejiang annually. Figure 4-1 shows the number of groups of ambassadors and consulates visiting Zhejiang in different years. For example, 30 groups of 78 staff from 23 countries visited Zhejiang in 1995, which enabled them to have better knowledge of Zhejiang's economic development, to check the programmes invested in by their countries, to express a desire to promote cooperation with Zhejiang, and even to conduct some research into the province.[363] Zhejiang provincial government also actively invited ambassadors and consuls to attend international events. For example, ambassadors and consuls were invited to attend Zhejiang Investment and Trade Symposium, China Textile Expo, and China Small Commodity Expo in 1999, which enabled Zhejiang to promote investment and develop a good image internationally.[364] Zhejiang provincial government has also conducted a Provincial Information Briefing since 2004 in Shanghai. For example, consul-generals from 18 foreign states and consulate staff from 21 foreign states attended the events in 2004, which enabled Zhejiang to introduce local developments, advertise its investment environment and promote visa cooperation with consulates.[365] Zhejiang foreign affairs office also conducted an event called *Consulates Year* from 2008. For example, provincial foreign offices conducted the first event in 2008 to invite ambassadors and consuls to Quzhou City, during which time staff visited famous resorts and attended Quzhou Economic and Social Development Briefing.[366] These two events have become regular activities for Zhejiang province to interact with foreign embassies and consulates.

Through frequent interaction with foreign embassies and consulates, Zhejiang provincial government could first provide information and advertise the province to

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[363] Jiang, J.F. & Zhang, R.G. eds (1996). *The Almanac of Zhejiang 1996* [浙江年鉴 1996]. Zhejiang People's Press, p.148.

[364] Yao, M.S. & Tan, R.Y. eds (2000). *The Almanac of Zhejiang 2000* [浙江年鉴 2000]. Zhejiang People's Press, p.100.

[365] The House of Zhejiang Almanac eds (2005). *The Almanac of Zhejiang 2005* [浙江年鉴 2005]. House of Zhejiang Almanac, p.99.

[366] Chen, Y.X. & Li, X.Z. eds (2009). *The Almanac of Zhejiang 2009* [浙江年鉴 2009]. House of Zhejiang Almanac, p.426.

foreign states. As a result, Zhejiang could be more widely known and thus attract more investment for the local economy, which is a major concern for the provincial government. Meanwhile, Zhejiang also uses embassies and consulates as a way of obtaining information and conducting economic activities for local enterprises. For example, the New Zealand consulate together with the provincial foreign office conducted the New Zealand-Zhejiang Foreign Trade and Investment Workshop in 1997.[367] In 1998, the provincial government edited the brochure *Foreign Affairs, Economy and Information*, which provided information about economic and investment opportunities collected from India, Mexico, Spanish and other consulates.[368] Moreover, Zhejiang obtained foreign assistance and support through embassies and consulates for its local development. From 1992 to 1998, Zhejiang was the beneficiary of 22 foreign small-scale assistance projects from Japan and Germany.[369] Zhejiang also received training opportunities, for example, Israel consulates provided 20 training opportunities in agriculture, environmental protection, education, and economic management in 1997.[370] China's improved foreign relations with foreign states enabled Zhejiang province to interact with foreign embassies and consulates. This kind of interaction greatly served the local economic and social development of Zhejiang in various aspects.

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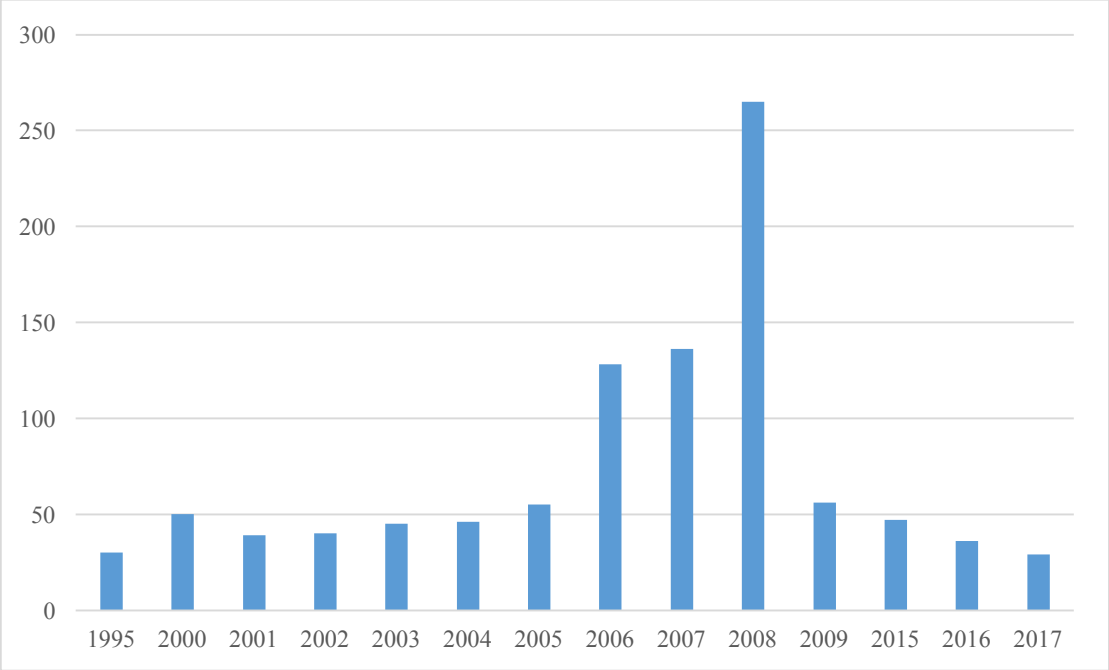
[367] Jiang, J.F. & Zhang, R.G. eds (1998). *The Almanac of Zhejiang 1998* [浙江年鉴 1998]. Zhejiang People's Press, p.110.

[368] Yao, M.S. & Zhang, R.G. eds (1999). *The Almanac of Zhejiang1999* [浙江年鉴 1999]. Zhejiang People's Press, p.104.

[369] Ibid.

[370] Jiang, J.F & Zhang, R.G. eds (1998). *The Almanac of Zhejiang 1998* [浙江年鉴 1998]. Zhejiang People's Press, p.110.

Figure 4-1: Number of Embassy and Consulate Staff Visiting Zhejiang



Source: Data collected from *The Almanac of Zhejiang* [浙江年鉴]. House of Zhejiang Almanac. Data for 1995 collected from *The Almanac of Zhejiang 1996;* data for 2000 collected from The *Almanac of Zhejiang 2001*; with the remaining data collected from the relevant Almanacs.

4.2.4 Zhejiang's International Involvements and Diplomacy

Section 4.2.1 discussed how, during the pre-reform period, the local foreign affairs of Zhejiang province mainly served the diplomacy of the central government. During the reform period, the provincial government promoted international involvements to serve local economic development, which become the most outstanding motivation of SNGs to promote international involvement. But simultaneously, the international involvements also served diplomacy at the central level. It was a common phenomenon in all other provinces in China, including both Zhejiang and Yunnan (discussed in Chapter 5).[371] Section 4.2.2 discussed how sister-city relationships between Zhejiang and its counterparts in foreign states could help to improve and maintain diplomatic relations by promoting mutual understanding at the grassroots level. Moreover, Zhejiang, as in the pre-reform period, helped central government to serve foreign guests in the reform period, which was helpful for the diplomacy on the central level, especially in consideration of receiving the guests of national state heads. Zhejiang

[371] See Chapter 5, section 5.2.3 for more information about how Yunnan serves central diplomacy.

could make itself known to foreign governmental leaders and develop a good international image through receiving these guests. But the function of serving central diplomacy was more prominent given the fact that it was rare for the provincial government to reach substantial cooperation with heads of national states during their visits.

Zhejiang received important foreign government leaders annually, which enabled provincial leaders to help the central government express its policies and friendship. Table 4-3 shows the numbers of visitors from foreign national governments received by Zhejiang in different years. The provincial government always acted as the agent of the central government to serve these foreign states, rather than acting on behalf of the province itself. For example, the provincial government supported Chairman of the NPC standing committee Li Peng in his meeting with chairman of the Thailand National Assembly in Hangzhou and also supported Prime Minister Zhu Rongji meeting with the Germany deputy prime minister in 2000.[372] In most cases, national leaders were not invited by the provincial government, but by the central government. Moreover, the provincial government hosted several large international events, which could also serve national foreign policy. For example, the G20 was conducted in Hangzhou in 2016, which was the most important diplomatic event for China in that year. The provincial government successfully finished the work of receiving and serving eight leaders of foreign national governments, 12 international organization officers, four deputy prime ministers, 175 deputy ministerial level officers, and 36 foreign ambassadors as well as consuls.[373] The work of Zhejiang province and Hangzhou city government received favourable feedback from foreign guests, which positively served national diplomacy. Therefore, improved diplomatic relations on the central level provided political guarantees and important platforms for Zhejiang province to develop international interactions and cooperation. In return, the positive international interaction of Zhejiang province could also serve diplomacy at the central level.

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[372] Yao, M.S.& Tan, R.Y. eds (2001). *The Almanac of Zhejiang 2001* [浙江年鉴 2001]. Zhejiang People's Press, p.127.

[373] Wu, W.B & Shen, J.M. eds (2017). *The Almanac of Zhejiang 2017* [浙江年鉴 2017]. House of Zhejiang Almanac, p.423.

Table 4-3: Foreign Visitors at the National Level Visiting Zhejiang in Different Years

Time	**Basic Information and Examples of foreign visitors**
1991	97 groups of 845 visitors above deputy-minister level Fiji President; President of Austrian National Assembly; President of the Senate of Malaysia; Former President of Australia; Prime Minister of Italy; Emir of UEA; Chairman of Japanese Komeito
1995	66 groups of 405 visitors above deputy-minister level Speaker of the House of Representatives of Malaysia; Speaker of the House of Marshall Islands; Envoy of the Head of State of Nigeria; Minister of Resource Department of Australia
2000	48 groups of 583 visitors above provincial level; two groups of head of states and national government Deputy Prime Minister of Germany; Secretary of Thailand National Assembly
2005	58 groups of 933 visitors above deputy-minister level President of Mongolia; Speaker of Ukraine; Speaker of Benin; Deputy Prime Minister of Turkey; Former US President Clinton; Former Japanese Prime Minister
2010	138 groups of 138 visitors above deputy-minister level Micronesian President; Prime Minister of Trinidad and Tobago; President of Togo; Vice President of the Philippines; Prime Minister of Vietnam; Prime Minister of Grenada; Prime Minister of Lesotho; Deputy Prime Minister of Singapore; Speaker of Algeria; Minister of State of Turkey; President of the African Union
2015	12 groups of 506 visitors of heads of state, heads of central government; three groups of 53 visitors of deputy head of state and government; 36 groups of provincial and ministerial level

	President of Pakistan; President of Sudan; President of Czech Republic; Prime Minister of Russia; King of the Netherlands
2017	14 groups of 820 visitors of the head of national state and central government; five groups of 50 visitors of deputy heads of national state and government; 53 groups of 1,200 visitors of provincial and ministerial level Pakistani Prime Minister; Malaysian Prime Minister; General Secretary of the Vietnam Communist Party; Minister of Foreign Economic, Investment and Trade of Uzbekistan

Source: Data before 2005 collected from *The Almanac of Zhejiang* [浙江年鉴] 1992, 1996 and 2001. Zhejiang People's Press; data for 2005 and 2010 collected from Ruan, Z.X. eds, *Yearbook of Foreign Affairs of Zhejiang province* [浙江外事年鉴] 2006 and 2011; data for 2015 and 2017 collected from Jin, Y.H. eds, *Yearbooks of Foreign and Overseas Chinese Affairs of Zhejiang Province* [浙江外事侨务年鉴] 2016 and 2018, Zhejiang University Press.

4.3 Reform and Opening Up Policy and Response from Zhejiang

Chapter 3 discussed how the opening up and reform policy changed central-local relations and induced the international involvement of SNGs in China.[374] During this process, the interwoven processes of decentralization and internationalization pushed and enabled SNGs to develop international involvements.[375] Decentralization of authority in foreign trade, foreign investment and overseas investment from the central government further enabled SNGs to obtain both autonomy and incentives to become involved in the global economy and to improve international economic cooperation to serve local economic development. Simultaneously, the reform and opening up policy was not equally applied to each province in China, with central government deliberately favouring some provinces.[376] SNGs did not passively respond to the national policy. Instead, SNGs could positively develop suitable measurements based on local advantages. This section will explore the effect that the reform and opening up policy had on Zhejiang and how the provincial government positively responded to the national policy.

Chapter 3 illustrated that the reform and opening up policy, mainly reflected in domestic decentralization as well as opening up to the outside world, played a dominant role in promoting the international involvements of China's SNGs. The international involvements of Zhejiang were also greatly affected by the reform and opening up policy. Firstly, the decentralization in the reform period not only enabled the provincial government to obtain autonomy and incentives to deal with issues related to local development, but also caused the provincial government to undertake the major responsibility for local development. As a result, the provincial government had to seek different ways of promoting local economic and social development. Simultaneously, the policy of opening up made it possible for the provincial government to promote international cooperation to serve local development, mainly in the economic sphere. Therefore, it enriched the content of the international involvements of the provincial government, expanding from solely serving the central diplomacy through receiving

[374] See Chapter 3, section 3.3 for more information.
[375] Chen, Z.M. (2005). Coastal Provinces and China's Foreign Policy, in Hao, Y.F. and Liu, S. eds, *China's Foreign Policy-Making: Societal Force and Chinese American Policy*, Ashgate Publishing, p.188.
[376] See Chapter 3, section 3.3.2.1 for information about the uneven process of reform and opening up.

foreign guests to serving the local development.[377] In other words, the international involvements in the reform period, as highlighted before, gained a strong economic profile. Zhejiang provincial government attached great importance to the international interaction to seek opportunities for economic cooperation.

4.3.1 Position of Zhejiang Province in the Opening Up Policy

The reform and opening up policy was not equally applied to all SNGs in China, which to some extent induced the diversity of international involvements. In some cases, the different positions in relation to the reform policy even caused provincial governments to rethink the strategy of opening up, such as Yunnan province, which gradually shifted its focus to Southeast Asia.[378] Zhejiang occupied a relatively favourable position in China's reform and opening up policy. It was one of the coastal provinces that enjoyed preferential policies since the early stage of the reform period, which greatly promoted Zhejiang to become involved in the global economy. As a result, Zhejiang gradually developed an export-oriented economy, which increased the urgency for the provincial government to develop international interactions to maintain and strengthen international economic cooperation. Table 4-4 shows the process of Zhejiang's opening up during the reform period, clearly illustrating the advantageous position of Zhejiang in China's national policy.

Firstly, Zhejiang was one of the provinces that obtained the authority to conduct self-managed foreign trade at the beginning of the reform period. As argued in Chapter 3, foreign trade was highly centralized and tightly controlled by the central government in the pre-reform period.[379] Central government gradually reformed the foreign trade regime and decentralized the authority of foreign trade to SNGs as well as enterprises in the reform period, which greatly promoted the development of foreign trade. In 1978, some *provinces with customs* (*kou'an sheng*) were permitted to develop foreign trade enterprises and conduct self-management of foreign trade, including Zhejiang province. In 1980, Zhejiang officially started to conduct self-managed foreign trade, which

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[377] Zhejiang Foreign Affairs Chronicle Editorial Committee eds (1996). *Zhejiang Foreign Affairs Chronicle* [浙江省外事志]. Zhonghua Book Company, p.7.

[378] Chapter 5, section 5.3.2.2 discusses how Yunnan shifted its focal point during the process of opening up.

[379] See Chapter 3, section 3.3.3 section for information about China's reform in foreign trade regime.

shifted the province from one supplying product for trade to one directly conducting foreign trade.[380] Zhejiang's foreign trade developed significantly during the reform period and became the leading force to promote local economic development.

Moreover, Zhejiang was one of the coastal provinces that enjoyed the preferential opening up policies in the reform period. Ningbo Port in Zhejiang was approved to open up early in 1978, marking the beginning of Zhejiang's opening up. As seen in Chapter 3, China's opening up started from four SEZs, developed in Guangdong and Fujian provinces at the end of the 1970s, which acquired preferential policies to attract foreign investment and conduct foreign trade.[381] In the 1980s, the successful experiment with SEZs expanded to some coastal cities. As a result, two cities in Zhejiang province, Ningbo and Wenzhou, were listed as coastal opening port cities. In the same year, Ningbo economic and technology development zone (ETDZ) was established, which was one of the earliest national ETDZs in China. And in the early 1990s, the whole coastal area of Zhejiang province opened up.[382] Thus, Zhejiang occupied an advantageous position in the national policy of reform and opening up. Due to the national policies in the reform period, the export-oriented economy of Zhejiang province developed rapidly, which further enriched the purposes of international interactions of the provincial government, from solely serving national diplomacy to promoting the economic development of the local area.

Finally, Zhejiang's favourable position in China's national policy is also reflected in the fact that Zhejiang obtained the advantages of a pilot in numerous aspects.[383] I argue that the local advantages of Zhejiang, such as the developed private economy and special market, also helped the province to obtain the pilot rights from the central government, which enabled Zhejiang to go ahead of other provinces in the economic reform. For example, Zhejiang was approved by the central government to be the pilot

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[380] Wu, J. (2018). *Constructing a new Structure of Comprehensive Opening Up and Involving Into Global Economic Stage* [构建全面开放新格局 融入世界经济大舞台-改革开放 40 周年系列报告], http://tjj.zj.gov.cn/art/2018/11/19/art_1544533_37241069.html

[381] See Chapter 3, section 3.3.2.1 for information about China's opening up.

[382] Fu, J.Q. & Huang, H.L. (2018). Report of 40th Anniversary of Opening and Reform [改革开放 40 周年专稿-波澜壮阔钱江潮 走在前列谋新篇（下）]. *Zhejiang Economy*, (22), pp..34-39.

[383] China's reform developed a gradual approach, which allowed some provinces or cities to take experiments first and then spread the successful experiences to the whole country. Therefore, a pilot province implied that the province obtained the advantages to firstly adopt some policies and make changes before other provinces.

province for private enterprises to go global for overseas investment in 1998.[384] Also, Zhejiang has become the experimental base for new modes of foreign trade in recent years. As shown in Table 4-4, two cities in Zhejiang, Hangzhou and Ningbo, were allowed to conduct experiments in transborder e-commerce in 2012. The arrangement can be explained by Zhejiang's advantages in the Internet industry, with Hangzhou being the home of Alibaba, the biggest online shopping platform in China. In another example, Yiwu was approved by the State Council to first conduct market purchase trade as it was the largest special market for small commodity. Zhejiang's advantages in special market development enabled it to gain a favourable position in foreign trade reform. Thus, national policy, mainly reflected in the reform and opening up process, greatly promoted Zhejiang's international economic cooperation.

Table 4-4: Important Developments during the Process of Zhejiang's Opening Up

Time	**Important Events**
1978	The State Council approved the opening of Ningbo Port; State Council approved Zhejiang to be a province with customs, which was able to conduct self-managed foreign trade.
1979	Provincial government finally confirms the opening up of Ningbo Port.
1980	Zhejiang started self-managed exports; Provincial government confirmed establishment of 17 branches of provincial foreign trade enterprises; Zhejiang's first Sino-foreign joint venture established.
1984	State Council approved establishment of Ningbo and Wenzhou as two of 14 Coastal Open Port Cities; State Council approved establishment of Ningbo Economic and Technology Development Zones.
1985	The Central Committee of CCP and State Council approved development of Coastal Economic Opening Area in Yangtze River Delta, including several counties in Zhejiang province;

[384] Zhang, H.D. & Luo, L.Y. (2009). Study of Zhejiang Enterprises "Going Global" Public Service Platform Construction [浙江省企业走出去公共服务平台建设研究], in Zhang, H.D. eds, *Almanac of Foreign Trade and Economic Cooperation of Zhejiang Province 2009*, Hangzhou Press, p.167.

	State Council and Central Military Committee approve opening up of Zhoushan Port, which finally opens up to foreign ships in 1987.
1987	Zhejiang's first wholly foreign-invested enterprise established.
1988	State Council decides to expand the Coastal Economic Opening Area, including 26 counties in Zhejiang province.
1990	State Council approves establishment of Hangzhou Hi-Tech Industry Zone.
The 1990s	The Central Government develops the "four edges strategy" (*Siyan Zhanlue*) to open the area along the sea, river, border, and road. Under this strategy, the whole coastal area of Zhejiang is opened up.
1996	Every county in Zhejiang develops foreign trade.
1998	Zhejiang becomes the first experimental province for private enterprises to go out to invest in China; Administration Bureau of Foreign Investment established.
2012	Hangzhou and Ningbo become pilot cities to conduct transborder e-commerce.
2014	Yi Wu becomes a pilot to conduct Market Purchase Trade.
2015	Hangzhou becomes the first cross-border e-commerce comprehensive experimental zone.
2017	China (Zhejiang) Pilot Free Trade Zone approved.

Source: Wu, J. (2018). *Constructing a new Structure of Comprehensive Opening Up and Involving Into Global Economic Stage* [构建全面开放新格局 融入世界经济大舞台——改革开放 40 周年系列报告], http://tjj.zj.gov.cn/art/2018/11/19/art_1544533_37241069.html; *Chronicle of 30-year Reform and Opening Up of Zhejiang Province*, http://www.zjdfz.cn/tiptai.web/BookRead.aspx?bookid=201209210001; Fu, J.Q. & Huang, H.L. (2018). Report of 40th Anniversary of Opening and Reform [改革开放 40 周年专稿——波澜壮阔钱江潮 走在前列谋新篇（下）], *Zhejiang Economy*, (22), pp.34-39.

4.3.2 Positive Role of Provincial Government During Opening Up

The national policy at the central level laid a solid foundation for Zhejiang to open up and promote international involvements. During this process, Zhejiang's successful engagement in the global economy, reflected in the rapid development of foreign trade and inward as well as outward investment, could not have been achieved without the

positive role of the provincial government. In other words, international economic activities at the provincial level, although mainly or directly conducted by the enterprises, were also closely related to the governmental policies and activities. Chapter 3 discussed the decentralization of power from the central government to SNGs in the reform period enabled SNGs to obtain autonomy in managing local issues.[385] It illustrated that the decentralization of authority in foreign trade, FDI and overseas investment made SNGs directly engage with foreign enterprises.[386] The decentralization in fiscal power significantly motivated the SNGs to promote their local economy. Therefore, Zhejiang was able and motivated to promote the local's involvement in the global economy. Internally, the provincial government worked out suitable policies which made full use of local advantages. Externally, the provincial government attached great importance to developing foreign interactions to provide more opportunities for local enterprises.

4.3.2.1 The Positive Role of Provincial Government by Developing Policies

As noted previously, it proved impossible for Chinese central government to develop detailed policies for each province. It was the task of SNGs, especially provincial governments, to work out detailed measurements and policies for the local level. The central government developed a series of documents to promote the reform in foreign trade, FDI and overseas investment.[387] Zhejiang provincial government developed the detailed policies for the province to promote reform. For example, the provincial government quickly issued documents to set clear contracted goals of foreign trade for local governments at the lower levels and enterprises based on the central policies issued in 1988 and 1991 respectively.[388] Zhejiang provincial government developed the policy of actively persuading the central government to provide the foreign trade rights to some enterprises with enough capacity and to foreign trade enterprises in the coastal cities and counties in 1992.[389] As a result, Zhejiang took the lead in achieving

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[385] See Chapter 3, section 3.3.1 for China's domestic decentralization.
[386] See Chapter 3, section 3.3.2.2 for information about the decentralization in foreign trade, FDI and overseas investment.
[387] Ibid.
[388] In 1988 and 1991, the provincial government issued the timely *Notification of Several Issues about Implementation of Contracted Foreign Trade System* and *Notification of Several Issues about Further Reform and Improving Foreign Trade Regime* following the central policies.
[389] Zhejiang Foreign Economic and Trade Committee (1992). Trial Opinions of Accelerating the Development of Zhejiang's Foreign Economy and Trade. In Dong, Z.C. & Fang, G.X. eds (1993). *Almanac of Zhejiang 1993*[浙江

the goal that every county in the province participated in foreign trade by 1996.[390] In the area of foreign investment, the provincial government also developed various policies to manage and attract more foreign enterprises to Zhejiang. Through these policies, the provincial government provided preferential treatment and a better business environment to foreign investors based on the general central policies. For example, several types of enterprise were entitled to a reduction or even exemption from local income tax according to the documents issued by the provincial government in 1988.[391] In 1998, Zhejiang provincial government issued 20 regulations to improve the soft environment of FDI and ten preferential policies to encourage foreign enterprises to invest in Zhejiang to handle the decreasing FDI caused by the Asian Financial Crisis in 1997.[392]

More importantly, the provincial government developed specific policies to promote the enterprises becoming engaged in the global economy. For example, the provincial government developed a *four-diversification strategy* of foreign trade, which aimed to promote the foreign trade development through improving the diversification of foreign trade actors, markets, products and modes.[393] Although the volume of Zhejiang's foreign trade increased significantly from USD 240 million in 1980 to USD 11,120 million in 1997, the shortage of extensive foreign trade development model appeared, such as the concentrated foreign trade market in EU, US and Japan, the low value-added and high resource-consuming product structure.[394] The *four-diversification strategy* was suitable for the development of Zhejiang's foreign trade and could better deal with the difficulties faced by Zhejiang as a result of the extensive manner of foreign trade

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年鉴 1993]. Zhejiang People's Press, pp.448-451.

[390] Wu, J. (2018). *Constructing a new Structure of Comprehensive Opening Up and Involving Into Global Economic Stage* [构建全面开放新格局 融入世界经济大舞台——改革开放 40 周年系列报告], http://tjj.zj.gov.cn/art/2018/11/19/art_1544533_37241069.html

[391] Zhejiang Provincial Government (1988). Supplementary Provisions of Encouraging the Foreign Direct Investment of Zhejiang Province. In: Ma Ruikang eds (1989). *Almanac of Zhejiang 1989* [浙江年鉴 1989]. Zhejiang People's Press, pp.91-92

[392] Xu, J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年]. Social Sciences Academic Press (China), p.97.

[393] Lai, C.L. & Luo, Y.L. (2006). Deepening "Four Diversification, Promoting Zhejiang's Transformation of Foreign Trade Growth [深化"四个多元化"推进浙江外贸增长方式转变]. In Zhang, H.D. eds. *Almanac of Foreign Trade and Economic Cooperation of Zhejiang Province2006* [浙江对外贸易经济合作年鉴 2006], pp.163-176.

[394] Ibid.

growth. As a result, the foreign trade volume in Zhejiang province continued to grow rapidly in the following years.[395] Zhejiang became one of the leading province in China in foreign trade development.

The policy for overseas investment also reflected the proactive role of the provincial government in developing the suitable measurements for the local. In 1998, the provincial government established a *two-promotion strategy* for overseas investment development. On the one hand, this strategy promoted the specialized commodity market in Zhejiang to establish overseas branches and enterprises with the capacity to establish overseas marketing points.[396] As a result, enterprises in Zhejiang could develop an international marketing network to further promote exports. On the other hand, the strategy also encouraged industries in Zhejiang to establish production enterprises and continue processing-trade in foreign states.[397] In this regard, the *two-promotion strategy* could help to achieve the diversification of the market and further promoted foreign trade development. Establishing production enterprises overseas could relieve the resource burden in Zhejiang province and reduce the trade friction frequently faced by Zhejiang's enterprises. The *two-promotion strategy* developed by the provincial government was highly complementary with the local facts in Zhejiang and was a timely strategy considering the following 'going global strategy' developed by the central government.

4.3.2.2 Positive Role of Provincial Government through International Interaction

The establishment of local policies and strategies was one of the most important aspects that reflected the positive role of the provincial government in promoting Zhejiang's international economic involvement. While, on the other hand, the provincial government also made full use of international interactions and activities at the governmental level to provide more business opportunities for local enterprises. The previous sections discussed how the provincial government endeavoured to promote

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[395] See section 4.4.1 for data about Zhejiang's foreign trade development.

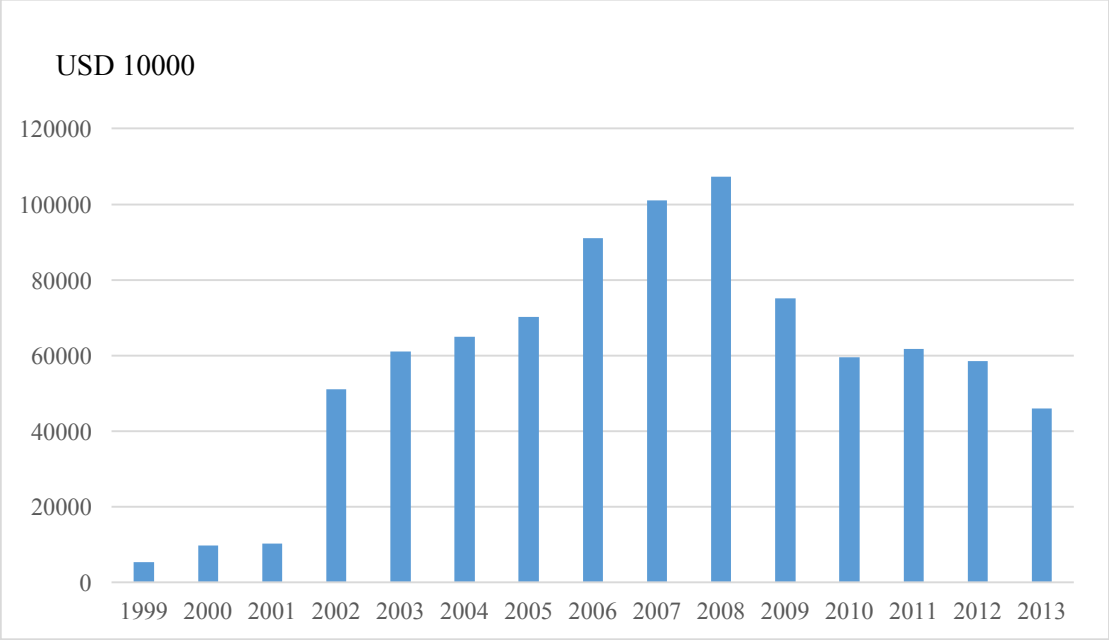
[396] Zha, Z.Q. & Zhao, J.H. (2006). The Contribution of Going Out to Zhejiang's Economic and Social Development [走出去对浙江经济社会发展的影响]. In Zhang, H.D. eds. *Almanac of Foreign Trade and Economic Cooperation of Zhejiang Province 2006* [浙江对外贸易经济合作年鉴 2006], pp.163-176.

[397] Ibid.

economic cooperation through sister-city relations.[398] The provincial government also promoted the interaction with embassies and consulates to seek more information and opportunities for enterprises.[399] More specifically, the provincial government worked hard to promote foreign trade, attract foreign investment as well as improve overseas investment by conducting foreign-oriented economic activities both within and outside the province. For example, Zhejiang provincial government hosted an export commodity fair in Hong Kong for the first time early in 1983.[400] In 1986, the provincial government conducted the first export commodity fair in the capital city of Hangzhou, which attracted 800 representatives and businessmen from 25 foreign countries and reached a foreign trade value over USD 100 million.[401] From 1999, the provincial government started to hold a Zhejiang Investment and Trade Symposium (ZJITS) annually, which became a regular stage for local enterprises to conduct foreign trade and attract foreign investment. Figure 4-2 below shows the volume of trade achieved through the symposium in different years. This regular economic activity can also further strengthen Zhejiang's relations with its sister cities or foreign embassy provided that provincial government always invites them to the events. Thus, the provincial government has played an important role in promoting the enterprises involved in the global economy internally through developing suitable policy and externally through conducting international economic activities.

[398] See section 4.2.2 for detailed information.
[399] See section 4.2.3 for more information.
[400] *Chronicle of 30-year Reform and Opening Up of Zhejiang Province*, http://www.zjdfz.cn/tiptai.web/BookRead.aspx?bookid=201209210001
[401] Ibid.

Figure 4-2: Amount of Trade Achieved Through ZJITS



Source: Website of ZJITS, Retrospect of Previous ZJITS.

https://www.zjits.com/site/hg?selectid=108&lang=cn

The provincial government also developed direct interaction with foreign enterprises and invited them to visit Zhejiang. On the one hand, Zhejiang could make use of the capacity and influence of famous foreign enterprises and use them as a bridge between Zhejiang and other foreign actors.[402] On the other hand, the provincial government endeavoured to attract large foreign enterprises to invest in Zhejiang.[403] Thus, the provincial government attached great importance to relations with foreign enterprises and maintained frequent interactions with them. For example, leaders of several well-known international enterprises were invited to visit Zhejiang and investigate several important projects early in 1995, such as the CEO of Kodak, the SVP of Motorola, and the Chairman of Shell in Great China.[404] Also, Anglo American invested USD 18 million and established Tamas Mining Co. Ltd in the city of Huzhou and Siemens Enterprise developed strategic cooperative relations with Zhejiang province in 2004.[405]

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[402] Yao, M.S & Zhang, R.G. eds (1999). *The Almanac of Zhejiang 1999* [浙江年鉴 1999]. House of Zhejiang Almanac, p.104.

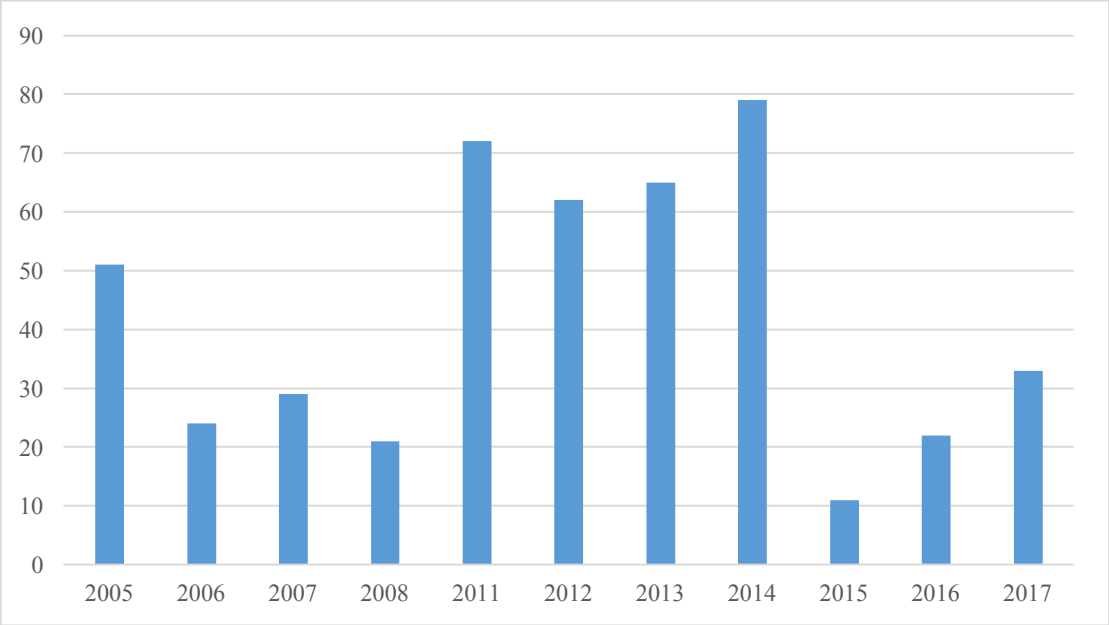
[403] Ibid.

[404] Jiang, J.F. & Zhang, R.G. eds (1996). *The Almanac of Zhejiang 1996* [浙江年鉴 1996]. House of Zhejiang Almanac, p.147.

[405] House of Zhejiang Almanac eds (2005). *The Almanac of Zhejiang 2005* [浙江年鉴 2005]. House of Zhejiang Almanac, p.99.

These are only a few examples of the interactions between provincial government and foreign enterprises. Figure 4-3 shows the number of enterprise groups that have visited Zhejiang in different years. Accordingly, delegations of foreign enterprises became one of the most important types of visitors coming to Zhejiang and receiving enterprises delegation became a crucial part of local foreign affairs.

Figure 4-3: Number of Enterprise Groups Visiting Zhejiang in Different Years



Source: Data collected from *The Almanac of Zhejiang* [浙江年鉴]. House of Zhejiang Almanac. Data for 1995 collected from *The Almanac of Zhejiang 1996;* data for 2000 collected from The *Almanac of Zhejiang 2001* and the remaining data collected from relevant Almanacs.

The provincial government paid particular attention to relations with some specific types of foreign enterprises. In 2000, the provincial government established a specific measurement for the utilization of foreign investment. Accordingly, Zhejiang should obey the principle of 'large, high and new' in utilization of foreign investment, in which 'large' implied that local enterprises should enlarge the size of foreign investment and promote cooperation with large transnational corporations (TNC).[406] Other

[406] CCP of Zhejiang Provincial Committee & Zhejiang Provincial Government (2000). Decision about Further Expanding Opening Up and Accelerating the Development of Open Economy [关于进一步扩大对外开放加快发展开放型经济的决定]. In Zhang, Q.J. eds (2001). *Almanac of Foreign Trade and Economic Cooperation of Zhejiang Province 2001* [浙江对外贸易经济合作年鉴 2001]. China Foreign Economy and Trade Press, pp.87-91.

government documents related to foreign investment also highlighted the investment from large TNCs. For example, the provincial government issued several opinions about further opening up in 2004, in which the provincial government clearly illustrated its goal to attract global top 500 enterprises to establish branches, production basements and re-invest in Zhejiang.[407] The provincial government's emphasis on investment from large foreign enterprises and even the top 500 was closely related to the local fact. Compared with capital from enterprises, Zhejiang was more urgently in need of upgrading industry and transforming its extensive growth model. Investment from large companies could help local enterprises, especially small and medium private enterprises in Zhejiang, to achieve the aim as a result of advanced technology and management. Thus, the provincial government endeavoured to promote interactions with these enterprises. Zhejiang's yearbook noted that the work of receiving foreign guests should pay particular attention to the top 500 enterprises.[408] Therefore, the foreign interaction of the provincial government could better serve the local economic development.

Finally, I argue that the provincial government emphasised the development and maintenance of relations with overseas Chinese, especially those with roots in Zhejiang. Zhejiang was a province that possesses a large number of countrymen residing abroad. In 2005, the number of Zhejiang citizens overseas Chinese was 1.445 million, located in 129 countries and regions.[409] Interactions with overseas Chinese have enabled Zhejiang to fully make use of the local advantages of human resources. Overseas Chinese have helped local enterprises to become involved in the global economy. For example, the geographic distribution of overseas foreign direct investment (OFDI)from Zhejiang's enterprises was closely related to the location of Zhejiang's overseas Chinese or people with family ties to Zhejiang.[410] It was reasonable for the provincial

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[407] CCP of Zhejiang Provincial Committee & Zhejiang Provincial Government (2004). Several Opinions of Further Expanding Opening Up [关于进一步扩大开放的若干意见]. In Lai, C.L. eds (2005). *Almanac of Foreign Trade and Economic Cooperation of Zhejiang Province 2005* [浙江对外贸易经济合作年鉴 2005]. Hangzhou Press, pp.38-43.

[408] House of Zhejiang Almanac eds (2005). *The Almanac of Zhejiang 2006* [浙江年鉴 2006]. House of Zhejiang Almanac, p.117.

[409] Ibid., p.122.

[410] Zha, Z.Q. & Zhao, J.H. (2006). The Contribution of Going Out to Zhejiang's Economic and Social Development [走出去对浙江经济社会发展的影响]. In Zhang, H.D. eds. *Almanac of Foreign Trade and*

government to deepen relations with overseas Chinese in various ways.

For instance, the Deputy Director of the Standing Committee of Provincial People's Congress led a group who visited Los Angeles, San Francisco, Boston and New York with the main purpose of promoting overseas Chinese to invest in Zhejiang and strengthen the connection with the overseas Chinese communities in these American cities in 1994.[411] The provincial government also conducted overseas Chinese gathering annually from 1992, which became a regular platform for Zhejiang to promote relations with overseas Chinese in different countries. For example, the provincial government conducted the 14th gathering in Paris during Zhejiang Week, which attracted over 500 overseas Chinese from 36 countries in 2005.[412] The government also invited overseas Chinese to attend some large activities, such as ZJITS. For example, the Provincial Overseas Chinese Office and Ningbo Overseas Chinese Office jointly held the Overseas Chinese Investment and Cooperation Fair, attended by 60 overseas Chinese businessmen carrying 30 projects.[413] The close relations with overseas Chinese offered great opportunities for Zhejiang to promote economic cooperation with and attracted foreign investment from foreign states.

4.3.3 The Development of Zhejiang's Private Economy

4.3.3.1 Development of Private Economy and Effects on Zhejiang's Opening Up

Chapter 3 observed the decentralization in China involved two aspects: inter-governmental decentralization and marketization.[414] The former referred to the decentralization of authority from the central government to SNGs, such as fiscal decentralization. The latter aspect involved the decentralization of power from the government to the private sector, which was mainly reflected in the development of a non-public economy in China in the reform period.[415] The previous sections mainly

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Economic Cooperation of Zhejiang Province 2006 [浙江对外贸易经济合作年鉴 2006], pp.163-176.

[411] Lu, W.G. & Jiang, J.F. eds (1995). *The Almanac of Zhejiang 1995* [浙江年鉴 1995]. Zhejiang People's Press, p.116.

[412] House of Zhejiang Almanac eds (2005). *The Almanac of Zhejiang 2006* [浙江年鉴 2006]. House of Zhejiang Almanac, p.122.

[413] Chen, Y.X.& Li, X.Z. eds (2011). *The Almanac of Zhejiang 2011* [浙江年鉴 2011]. House of Zhejiang Almanac, p.391.

[414] See Chapter 3, section 3.3.1 for more information.

[415] Zheng, Y. (2006). Explaining the Sources of De Facto Federalism in Reform China: Intergovernmental Decentralization, Globalization, and Central-Local Relations. *Japanese Journal of Political Science*. 7(2), p.101.

discussed the interactions between provincial government and the central government as a result of decentralization in the reform period. Inter-governmental decentralization made SNGs to take major responsibility for local economy, even in the management of local SOEs discussed in Chapter 3, section 3.3.1.1. Local SOEs to some extent became the agent of SNGs to involved in international economic activities. However, the private enterprises in Zhejiang province have gradually occupied a dominant position. Therefore, this section will explore the interaction between government and the private sector in Zhejiang province. Zhejiang is a province in which the private economy is the most developed in China. The positive role of private enterprises has greatly influenced the structure of Zhejiang's foreign trade and the development of Zhejiang's inward and outward foreign investment. Thus, it is necessary to discuss the development of Zhejiang's private economy and the interactions between the government and private enterprises in the reform period.

There was no space for the development of private economy under the planned economic system in the pre-reform period. As a result, public economy, reflected in the state-owned and collective economy, dominated Zhejiang's local development, which contributed 94.3% to GDP growth and 100% to industry growth in 1978.[416] The development of the non-public economy, mainly including private and individual economy, began in the reform period. Several specific local facts in Zhejiang at the beginning of the reform period provided a good pre-condition for the development of the private sector and thus induced the rapid development of local private economy in the following decades. The proportion of Zhejiang's state economy was much lower than other provinces as the central government assumed it was inappropriate to locate the industry in the frontier of coastal defence.[417] As a result, Gross Value of Industrial Output (GVIO) produced by the state-owned enterprises only occupied 61.34% in Zhejiang, which was much lower than the average level of 77.63% in China.[418] Instead, the proportion of collective GVIO made up 38.66% of the total in Zhejiang province,

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[416] Fu, J.Q. & Huang, H.L. (2018). Report of 40th Anniversary of Opening and Reform [改革开放 40 周年专稿——波澜壮阔钱江潮 走在前列谋新篇（下）], *Zhejiang Economy*, (22), pp.34-39.

[417] Nation Bureau of Statistics (2004). *The Comparative Analysis of Development Process and Status Quo of Zhejiang and Sichuan's Private Economy* [川浙民营经济发展历程、现状的比较分析]. http://www.stats.gov.cn/ztjc/ztfx/fxbg/200404/t20040406_14553.html.

[418] Ibid.

which was much higher than the average level of 22.37% in China.[419]

The shortage of state investment in Zhejiang province led to two main outcomes. On the one hand, Zhejiang opposed a low proportion of SOEs, instead, "the great majority of industrial enterprises came under the aegis of the local plan."[420] On the other hand, the shortage of central investment, together with a lack of natural resources, pushed people in Zhejiang to seek different ways of supporting daily life and thus promoted them to develop business outside Zhejiang.[421] Moreover, with a long history of emphasis on the commerce in Zhejiang, its people became "commercially adept", which became anther important foundation for the development of the private economy.[422] Thus, both the local advantages and disadvantages at the beginning of the reform period encouraged the development of private economy in Zhejiang, which in return formed the most powerful force in the opening up. Zhejiang's non-public economy started to develop in the 1980s when the promotion of the household contracted system motivated the appearance of the individual economy. In 1980, the Revolutionary Committee of Wenzhou (a prefecture in Zhejiang famous for the development of private economy and businesses) issued the first individual business license in China.[423]

However, the private economy did not improve so significantly in the 1980s in the face of long-term discrimination and the negative attitude from the central government. In the 1980s, the central government mainly adopted a 'Three Nos' attitude towards the private economy: no promotion, no publicity, and no resistance.[424] Due to a sense of

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[419] Nation Bureau of Statistics (2004). *The Comparative Analysis of Development Process and Status Quo of Zhejiang and Sichuan's Private Economy* [川浙民营经济发展历程、现状的比较分析]. http://www.stats.gov.cn/ztjc/ztfx/fxbg/200404/t20040406_14553.html.

[420] Keith, F. (1997). Zhejiang Province: Paradoxes of Restoration, Reinvigoration and Renewal. In Goodman, D. S. eds. (1997). *China's Provinces in Reform: Class, Community, and Political Culture.* Taylor & Francis US, p.247.

[421] Nation Bureau of Statistics (2004). *The Comparative Analysis of Development Process and Status Quo of Zhejiang and Sichuan's Private Economy* [川浙民营经济发展历程、现状的比较分析].

[422] Keith, F. (1997). Zhejiang Province: Paradoxes of Restoration, Reinvigoration and Renewal. In Goodman, D. S. eds. (1997). *China's Provinces in Reform: Class, Community, and Political Culture.* Taylor & Francis US, p.239.

[423] Chronicle of Zhejiang's 30-Year Reform and Opening Up. In Chen, Y.X. & Li, X.Z. eds (2009). *The Almanac of Zhejiang 2009* [浙江年鉴 2009]. House of Zhejiang Almanac, pp.33-80.

[424] Nation Bureau of Statistics (2004). *The Comparative Analysis of Development Process and Status Quo of Zhejiang and Sichuan's Private Economy* [川浙民营经济发展历程、现状的比较分析]. http://www.stats.gov.cn/ztjc/ztfx/fxbg/200404/t20040406_14553.html.

insecurity, business owners in the private economy chose to wear the hat of collective economy to avoid trouble.[425] As a result, the gross domestic product (GDP) produced by individual and private economy made up 15.7% in Zhejiang, while the percentage of GDP created by collective economy reached 53.1% in 1990.[426] It was after the southern tour in 1992 that the private economy improved rapidly when the central government officially recognized the status of the non-public economy and further promoted marketization. In 1997, the GVIO and GDP produced by the private sector increased to 40.6% and 33.7% respectively.[427] The following 15th and 16th national congress of CCP further confirmed the legitimacy of private economy, and the private sector in Zhejiang developed rapidly in a relaxed political environment. In 2017, the private sector contributed 65.4% of the total GDP, 55.6% of tax revenue, 76.9% of exports and 85.6% of employment.[428] It is no exaggeration to say that private economy became the leading force in Zhejiang's economic development. More importantly, private economy became a brand for Zhejiang province and occupied a leading position in China. Nearly a quarter of China's top 500 private enterprises came to be located in Zhejiang province, including the famous ones like Alibaba Group and H3C technology.[429]

The outstanding development of private economy significantly influenced the process of Zhejiang's opening up. The development of private economy produced the key "acquired factor" for Zhejiang province, namely, abundant entrepreneur resources, which later became the leading force in Zhejiang's opening up.[430] The development of individual and private economy led to a specific form of economic development in Zhejiang: the "small commodity and large market" from the 1980s.[431] In the mid-1990s,

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[425] Shan, D. (2008). 30 Years of Zhejiang's Private Economy: Development Process and Valuable Experience [浙江民营经济 30 年：发展历程与宝贵经验]. *Zhejiang Economy*. (21), pp.28-31.

[426] Nation Bureau of Statistics (2004). *The Comparative Analysis of Development Process and Status Quo of Zhejiang and Sichuan's Private Economy* [川浙民营经济发展历程、现状的比较分析]. http://www.stats.gov.cn/ztjc/ztfx/fxbg/200404/t20040406_14553.html.

[427] Ibid.

[428] Lin, X.Z. (2018). *Zhejiang Grows to Economy the Size of Netherlands in 40 Years of Opening Up*, https://www.yicaiglobal.com/news/china-time-zhejiang-grows-economy-size-netherlands-40-years-opening

[429] Fu, J.Q. & Huang, H.L. (2018). Report of 40th Anniversary of Opening and Reform [改革开放 40 周年专稿——波澜壮阔钱江潮 走在前列谋新篇（下）], *Zhejiang Economy*. (22), pp.34-39.

[430] Huang, X.H. (2008). The Open Up Model of Zhejiang Province: A "Reversed" Pro-Competitive Advantages Model [浙江开放模式——顺比较优势的"倒逼型"开放]. *Zhejiang Social Sciences*, (1), pp.48-54.

[431] Wang, S.Q. (2005). Comparison of the Model of Open Economy Development in Zhejiang, Jiangsu and

seeking both domestic and international markets became the major concern for entrepreneurs when the local market was too small to support the development of industry. Therefore, Zhejiang's opening up started from the market internationalization and the going out of commodity.[432] Zhejiang's export-oriented economy that developed in the reform period clearly demonstrated Zhejiang's manner of opening up, which started from the market opening up and then expanded to productive process internationalization and finally achieved the internationalization of productive factors through attraction of FDI.[433] The opening up model of Zhejiang province affected the development of its foreign trade and investment as well as overseas investment, which will be discussed in section 4.4.

4.3.3.2 The Positive Role of Government in Development of the Private Economy

The development of the private economy cultivated a large number of entrepreneurs for local development, who became the most proactive force in the opening up process. However, the role of provincial government in the development of private economy could not be neglected. The development of Zhejiang's private economy could not have been achieved without the support of local government. For example, some local governments in Zhejiang province, such as Wenzhou, adopted an acquiescent attitude to the development of private economy, which provided a buffer between enterprises and the central government at the beginning of the reform period.[434] Besides, the provincial and local governments developed a series of policies to promote the development of private economy since the 1990s when the status of private economy was not recognized by the central government. For example, 76 prefectures and counties issued documents to encourage the healthy development of individual and private economy in 1992.[435] Also, the provincial government revealed the '820 project' to promote private economy in 1997, which included measures such as supporting 20

Shanghai [江浙沪开放型经济发展模式比较]. *World Economy Studies*, 12, pp.21-25.

[432] Ibid.

[433] Huang, X.H. (2008). The Open Up Model of Zhejiang Province: A "Reversed" Pro-Competitive Advantages Model [浙江开放模式——顺比较优势的"倒逼型"开放]. *Zhejiang Social Sciences*. (1), pp.48-54.

[434] Nation Bureau of Statistics (2004). *The Comparative Analysis of Development Process and Status Quo of Zhejiang and Sichuan's Private Economy* [川浙民营经济发展历程、现状的比较分析]. http://www.stats.gov.cn/ztjc/ztfx/fxbg/200404/t20040406_14553.html.

[435] Chronicle of Zhejiang's 30-Year Reform and Opening Up. In Chen, Y.X. & Li, X.Z. eds (2009). *The Almanac of Zhejiang 2009* [浙江年鉴 2009]. House of Zhejiang Almanac, pp.33-80.

private enterprises to develop into large enterprises and cultivating 20 famous brands of private enterprises.[436] The support from the provincial and local government greatly helped the development of private economy in Zhejiang.

More importantly, the policies developed by the provincial government during the process of opening up paid particular attention to the role of private enterprises and took advantage of the developed private economy. In other words, the government and private sector in Zhejiang province positively affected each other. For example, section 4.3.2.2 discussed how the provincial government developed a *two promotion strategy* for overseas investment, which attached importance to the expansion of overseas markets. The creation of the strategy conformed with the opening up mode of Zhejiang as a result of developed private economy discussed in the last section. Also, Zhejiang province emphasized the diversification of foreign trade actors in the late 1990s, which supported private enterprises to obtain the rights to conduct self-managed foreign trade. Moreover, the provincial government attached great importance to attracting FDI from large multinational enterprises as they could provide the technology and industry skills to update private enterprises. Therefore, the provincial government offered great freedom and enough support for the development of the private economy during the process of opening up. As a result, the enterprises and government formed a positive interaction in the reform period, which further promoted Zhejiang to become involved in the global economy and improved the internationalization of the local economy. Ultimately, this interaction greatly shaped the development of foreign trade, FDI and overseas investment of Zhejiang province, discussed in the next section.

4.4 Zhejiang's Engagement in the Global Economy

Chapter 3 discussed how China chose to re-engage in the global economy to serve domestic economic modernization through the development of foreign trade, attraction of FDI, and later the promotion of overseas investment in the reform period. As a result, the international involvements of SNGs in the reform period obtained a high economic profile, which implied that serving economic development became a dominant purpose of local foreign affairs. In the early stage of the reform period, the provincial

[436] Chronicle of Zhejiang's 30-Year Reform and Opening Up. In Chen, Y.X. & Li, X.Z. eds (2009). *The Almanac of Zhejiang 2009* [浙江年鉴 2009]. House of Zhejiang Almanac, pp.33-80.

government became directly involved in foreign trade through government-controlled foreign trade enterprises before the authority for self-managed foreign trade was finally devolved to enterprises. This was also the story in Zhejiang province. Its involvement in the global economy was not a solely economic issue. Instead, the specific mode of economic internationalization in certain provinces reflected the complex interactions between various factors at national and subnational levels. Section 4.2 illustrated the developed diplomatic relations provided a stable political foundation for international economic cooperation in Zhejiang and meanwhile offered the provincial government a platform to promote international interaction and thus serve the local economy. Section 4.3 explored that national policy and the positive response from the provincial government promoted involvement in the global economy. During this process, the local limitations and advantages of Zhejiang also greatly shaped its involvement in the global economy. Thus, Zhejiang's engagement in the global economy not only shows the interaction between market and government, but also helps with understanding the diversity of SNGs' international interactions in the reform period.

4.4.1 Zhejiang's Involvement in the Global Economy through Foreign Trade

4.4.1.1 The Overall Development of Zhejiang's Foreign Trade in Goods

In the pre-reform period, Zhejiang was mainly responsible for purchasing and supplying products to several provinces with customs for foreign trade. In 1958 Zhejiang obtained power to directly conduct foreign trade of limited categories of goods, including food, silk, local product, and livestock products.[437] As a result, foreign trade in Zhejiang improved slightly in the pre-reform period. The story began to change at the end of the 1970s. Firstly, the national policy of opening up greatly promoted the development of Zhejiang's foreign trade. Section 4.3.1 illustrates that Zhejiang was one of the provinces that obtained the authority to conduct self-managed foreign trade at the beginning of reform and opening up, which witnessed the beginning of the rapid development of foreign trade in the following decades. Secondly, the inter-governmental fiscal decentralization and the reform of foreign trade regime greatly

[437] Research Group Hangzhou Customs Statistic and Analysis Division (2020). The Course, Characteristics, Enlightenment and Prospect of Foreign Trade Development in Zhejiang Province over the Past Seven Decades Since the Founding of PRC [新中国成立 70 周年浙江省对外贸易发展的历程、特征、启示与展望]. *Journal of Customs and Trade*, 41(1), pp.1-14.

motivated the provincial government to promote foreign trade.[438] As a result, Zhejiang provincial government promoted the foreign trade by establishing the suitable policy such as four-diversification strategy (section 4.3.2.1) and through governmental interaction. Provincial government took advantages of the interaction with sister cities, embassy and consulate as well as foreign enterprises to promote the involvement into global economy.[439] Furthermore, provincial government also conducted large economic expo, like ZJITS, to facilitate foreign trade and investment (section 4.3.2.2). More importantly, provincial government also supported the private economy development and attached great importance to the private enterprises in promoting foreign trade.[440] As a result of the combination effects of reform in the foreign trade regime, the supported policies and proactive role of the provincial government as well as the rapid development of the private economy, Zhejiang's foreign trade increased significantly in the reform period.

The dramatic improvement of foreign trade, particular to the aspect of export, became a major force leading to the striking economic development in Zhejiang province. The volume of foreign trade in Zhejiang province increased dramatically, from a total of only USD 70 million in 1978 to USD 377,900 million in 2017, an increase of over 5,388 times of that in 1978, with an annual average growth rate of 24.6%.[441] Imports increased from USD 20 million in 1978 to USD 91,114 million in 2017, an average growth rate of 24.5%, and the volume of exports grew from USD 52 million to USD 28,6793 million, an average growth rate of 24.7%.[442] Figure 4-4 clearly shows the rapid development of Zhejiang's foreign trade since the 1980s. Like the general trend of China's foreign trade development, Zhejiang's foreign trade development experienced different stages in the previous decades.[443] According to Figure 4-4, the volume of Zhejiang's foreign trade started to increase in the 1980s, but the improvement was slight. The 1990s saw the first stage of obvious growth of Zhejiang's foreign trade,

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[438] See Chapter 3, section 3.3.2.2 for foreign trade reform

[439] See section 4.2.2, section 4.2.3 and section 4.3.2.2 for the information of how Zhejiang promote international economic cooperation through interaction with sister-cities, embassy and consulate, and foreign enterprises respectively.

[440] See section 4.3.3.2 for the information of how Zhejiang supported the development of private economy.

[441] Fu, J.Q. & Huang, H.L. (2018). Report of 40th Anniversary of Opening and Reform [改革开放 40 周年专稿——波澜壮阔钱江潮 走在前列谋新篇（下）], *Zhejiang Economy*, (22), pp.34-39.

[442] Ibid.

[443] See Chapter 3, section 3.4.1.1 for data about China's foreign trade development.

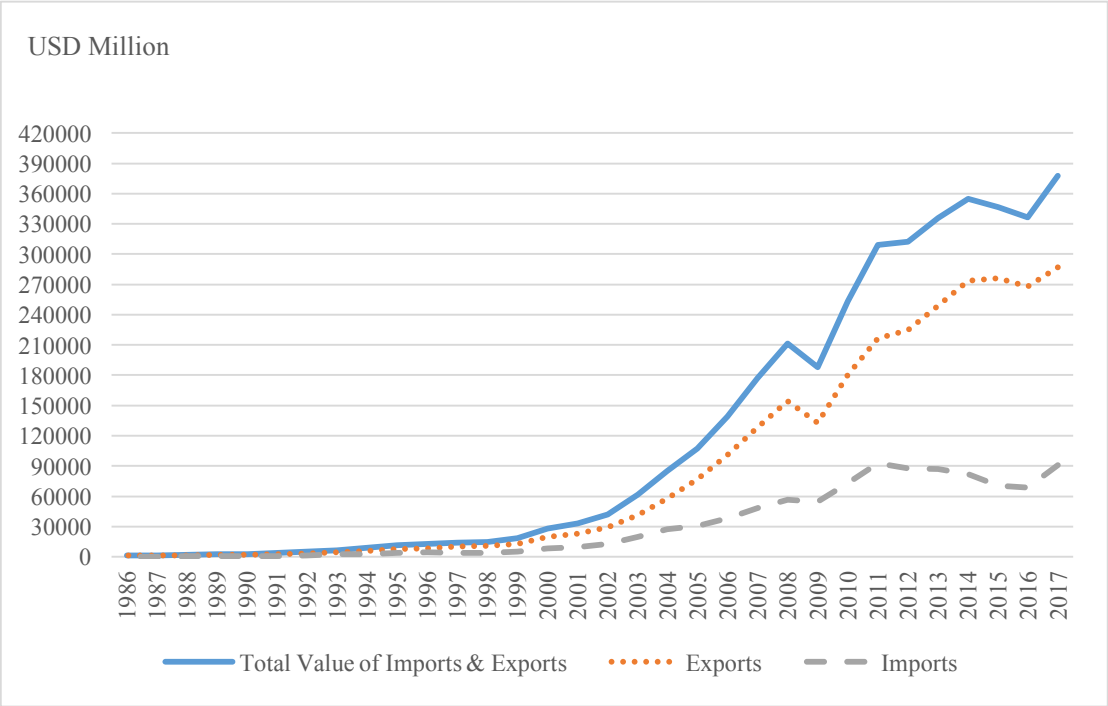
which could be explained by the further reform and opening up since 1992. In 2001, the total amount of Zhejiang's foreign trade rose to USD 32.8 billion, with exports of USD 22.98 billion and imports of USD 9.82 billion.[444] The exports of Zhejiang province ranked fourth in China, making up 8.6% of China's total exports, and the volume of imports ranked sixth, making up 4% of China's total imports in 2001.[445] China's entry into the WTO implied the further opening up and liberalization of China's economy, which led to the dramatic growth of Zhejiang's foreign trade, as shown in Figure 4-4. From 2002 to 2007, the percentage of Zhejiang's total value of foreign trade in GDP increased from 43.4% to a peak of 71.7%.[446] Foreign trade became the strongest force in promoting the local economy. An increasing involvement in the global economy also made the local economy more sensitive and vulnerable to global economic events, reflected in the decrease in foreign trade in 2008 to 2009 as a result of the global financial crisis.

The improvement of foreign trade greatly contributed to the economic development of Zhejiang province, which can be seen in the dependence of the provincial economy on foreign trade. In 1978, the percentage of Zhejiang's exports as part of GDP was only 0.7%, but in 2017, this figure rose to 37.6%.[447] This increase also changed Zhejiang's role in China's economic development as a whole. Currently, Zhejiang has become a super international trade province in China. Exports from Zhejiang occupied only 0.5% of the total volume of China's exports in 1978, but by 2017 it had increased to 12.7%, ranked third among all the provinces in China.[448] Therefore, the increase of foreign trade in Zhejiang province is not only critical to local development, but also to China's economic development more widely. The significant improvement of foreign trade in Zhejiang was closely related to the support from both provincial and central government. In return, the important role in foreign trade to local development further motivated the provincial government to strengthen international interactions with

[444] Research Group Hangzhou Customs Statistic and Analysis Division (2020). The Course, Characteristics, Enlightenment and Prospect of Foreign Trade Development in Zhejiang Province over the Past Seven Decades Since the Founding of PRC [新中国成立 70 周年浙江省对外贸易发展的历程、特征、启示与展望]. *Journal of Customs and Trade*, 41(1), pp.1-14.
[445] Ibid.
[446] Ibid.
[447] Fu, J.Q. & Huang, H.L. (2018). Report of 40th Anniversary of Opening and Reform [改革开放 40 周年专稿——波澜壮阔钱江潮 走在前列谋新篇（下）], *Zhejiang Economy,* (22), pp.34-39.
[448] Ibid.

foreign actors to offer more opportunities for enterprises. The development of Zhejiang's foreign trade showed similarity with the general development trend of foreign trade across China as well as in other provinces. Zhejiang's foreign trade development also showed obvious local characteristics, as discussed in the next sections.

Figure 4-4: Foreign Trade in Goods of Zhejiang Province (1986-2017)



Source: Zhejiang Statistic Bureau (2018). *Zhejiang Statistic Yearbook*, China Statistic Press.

4.4.1.2 The Large Foreign Trade Surplus of Zhejiang Province

Chapter 3 discussed how foreign trade in China was unequally developed, with coastal provinces becoming much more developed due to their advantages in transportation and priorities in the reform policy. Zhejiang province, together with several other coastal provinces displayed in Table 4-5, were the leading provinces in foreign trade development. The total volume of foreign trade in goods of these six provinces occupied 72.6%, 76%, 73% and 70% of China's total volume in 2000, 2005, 2010 and 2015, respectively.[449] However, Zhejiang province also showed clearly different

[449] The proportion was calculated by the author based on data collected from Zhang, Q.J. eds (2001). *Almanac of Foreign Trade and Economic Cooperation of the Zhejiang Province 2001*. China Foreign Economic and Trade Press, p.51; Zhang, H.D. eds (2006). *Almanac of Foreign Trade and Economic Cooperation of the Zhejiang Province 2006*. Hangzhou Press, p.115; Zhang, H.D. eds (2011). *Almanac of Commerce of Zhejiang Province 2011*. Zhejiang People's Press, p.162; Zhang, H.D. eds (2016). *Almanac of Commerce of Zhejiang Province 2016*. Zhejiang People's Press, p.192.

characteristics compared with other coastal provinces in foreign trade, reflected as the much larger foreign trade surplus in Zhejiang. Figure 4-4 shows the general trend of Zhejiang's export and import development from 1986. The gap between Zhejiang's exports and imports expanded significantly in this period. Table 4-5 shows the volume of exports and imports of six coastal provinces, including Zhejiang, in different years. Foreign trade surplus existed in all six coastal provinces except Shanghai, whose exports and imports were relatively balanced. However, the surplus of foreign trade in Zhejiang province was much larger than that of other coastal provinces. The proportion of exports in Zhejiang province occupied no less than 60% in the reform period, reaching a peak of 80% in 2016.[450] Zhejiang developed an obviously export-oriented economy and exports played a dominant role in local development.

The large surplus of Zhejiang's foreign trade was closely related to the dominant mode of foreign trade in the province, which manifested as general trade. Chapter 3 discussed how the processing trade played an important role for some coastal provinces in engaging in the global economy, such as Guangdong province.[451] The development of process trade could boost both imports and exports in these provinces. However, foreign trade in Zhejiang showed a unique pattern. Its general trade played a significant role in promoting the growth of Zhejiang's foreign trade in goods. Figure 4-5 displays the development of exports from both general trade and processing trade of Zhejiang province since the 1990s. The growth of exports produced by general trade led to the increased volume of Zhejiang's exports. According to Figure 4-6, the value of general trade occupied a high proportion of over 70% of the total value of Zhejiang's foreign trade. The dominant role of general trade in Zhejiang's foreign trade growth was closely related to the specific pattern of Zhejiang's method of opening up caused by the proactive role of private enterprises.[452] With the special local advantages and the support from the provincial as well as local government (section 4.3.3.2), private enterprises developed rapidly in Zhejiang province and became the leading force in Zhejiang's export-oriented economy.

[450] Proportion calculated based on data from Figure 4-4 and Table 4-5.
[451] See Chapter 3, section 3.4.1.2 for more information.
[452] See section 4.3.1.1 in this chapter for more information.

Table 4-5: The Exports and Imports of Major Coastal Provinces (USD million)

	Zhejiang	Guangdong	Shanghai	Jiangsu	Shandong	Fujian
2000	194.4	919.2	253.5	257.7	155.3	129.1
	83.9	781.8	293.6	198.7	94.6	83.1
2005	768.04	2381.62	907.21	1229.82	461.28	348.45
	305.87	1898.19	956.24	1049.59	306.14	195.86
2010	1804.8	4531.99	1807.24	2705.50	1042.47	714.97
	729.93	3314.64	1881.68	1952.42	847.04	372.87
2015	2766.6	6435.6	1959.4	3386.7	1440.5	1130.4
	707.5	3793.9	2533	2069.5	976.9	563.4
2016	17666	23575	12105	21063	9052	6839
	4536	39455	16559	12572	6414	3513

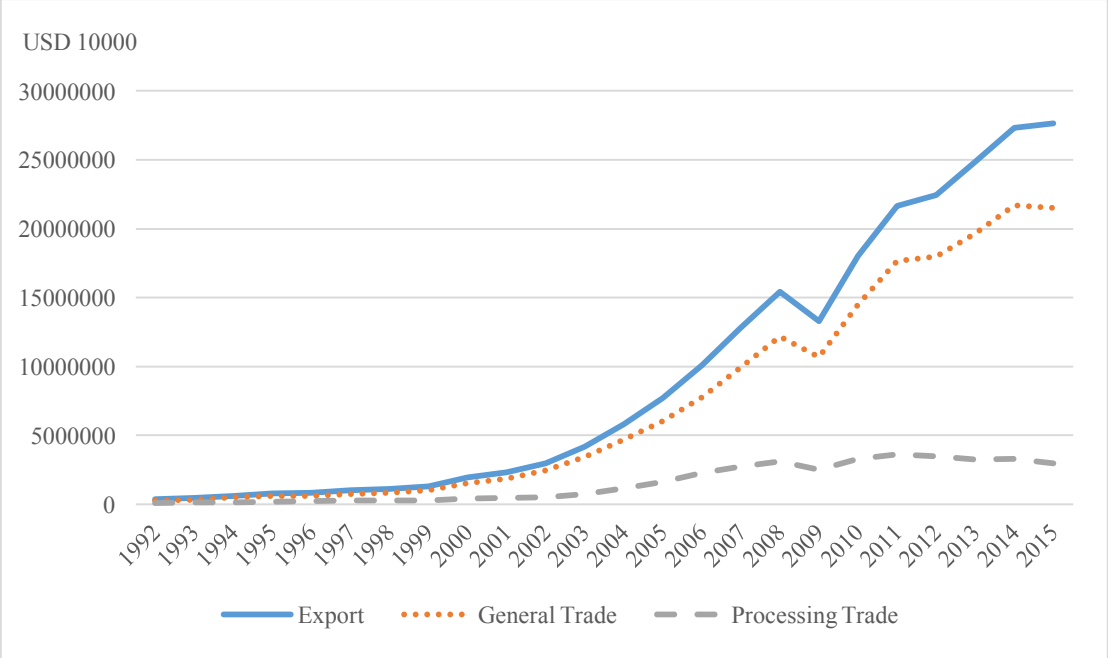
Sources: Zhang, Q.J. eds (2001). *Almanac of Foreign Trade and Economic Cooperation of the Zhejiang Province 2001*. China Foreign Economic and Trade Press, p.51; Zhang, H.D. eds (2006). *Almanac of Foreign Trade and Economic Cooperation of the Zhejiang Province 2006*. Hangzhou Press, p.115; Zhang, H.D. eds (2011). *Almanac of Commerce of Zhejiang Province 2011*. Zhejiang People's Press, p.162; Zhang, H.D. eds (2016). *Almanac of Commerce of Zhejiang Province 2016*. Zhejiang People's Press, p.192; Zhang, H.D. eds (2017). *Almanac of Commerce of Zhejiang Province 2017*. Zhejiang People's Press, p.187.

The dominant role of general trade contributed to the unbalanced structure of exports and imports in Zhejiang province, which on the one hand made exports the leading force in Zhejiang's economic development. On the other hand, the long-lasting and large foreign trade surplus increased the risks of foreign trade friction for local enterprises on the international market because of the protection policies of foreign states. Zhejiang's extensive model of foreign trade growth further worsened the situation and it was one of the provinces where the issue of foreign trade friction was prominent. For example, Zhejiang encountered 33 investigations of anti-dumping, anti-subsidy, and special safeguard mechanism from 14 countries, which involving 37 types of products and 1,500 enterprises with a value of USD 1.141 billion.[453] Thus, the

[453] Lai, C.L. & Luo, Y.L. (2006). Deepening "Four Diversification, Promoting Zhejiang's Transformation of Foreign Trade Growth [深化"四个多元化"推进浙江外贸增长方式转变]. In Zhang. H.D. eds. *Almanac of Foreign Trade and Economic Cooperation of Zhejiang Province2006* [浙江对外贸易经济合作年鉴 2006], pp.163-176.

frequent foreign trade friction created new tasks for the provincial government. For example, the provincial government put forward the idea of establishing a warning mechanism for foreign trade friction.[454] The provincial government also issued a document which provided basic guidelines for dealing with anti-dumping in 2014.[455]

Figure 4-5: Different Modes of Export (Goods) of Zhejiang Province

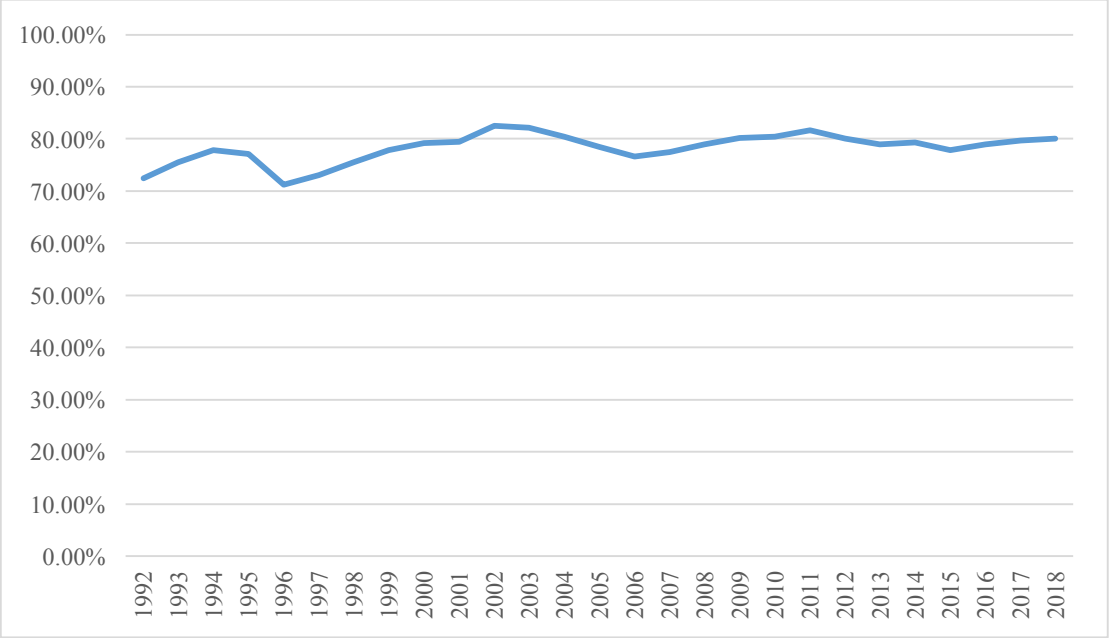


Source: Zhejiang Statistic Bureau. *Zhejiang Statistic Yearbook 2016* [浙江统计年鉴 2016]. China Statistic Press.

[454] CCP of Zhejiang Provincial Committee & Zhejiang Provincial Government (2004). Several Opinions of Further Expanding Opening Up [关于进一步扩大开放的若干意见]. In Lai, C.L. eds (2005). *Almanac of Foreign Trade and Economic Cooperation of Zhejiang Province 2005* [浙江对外贸易经济合作年鉴 2005]. Hangzhou Press, pp.38-43.

[455] Zhejiang Commerce Department (2014). Implementation Opinion of Zhejiang Export Anti-Dumping Measurements [浙江省出口产品反倾销应对办法]. In Zhang, H.D. eds (2015). *Almanac of Commerce of Zhejiang Province 2015*. Zhejiang People's Press, pp.59-64.

Figure 4-6: Proportion of General Trade in Zhejiang's Exported Goods



Source: Calculated by the author based on data from the Zhejiang Statistic Bureau (2019). *Zhejiang Statistic Yearbook* [浙江统计年鉴 2019] China Statistic Press.

4.4.1.3 The Increasingly Dominant Role of Private Enterprise in Foreign Trade

The developed private economy in Zhejiang province significantly shaped its foreign trade development. Private enterprises played and are playing a dominant role in promoting Zhejiang's foreign trade, which to some extent has led to it having the largest proportion of general trade and has resulted in the huge foreign trade surplus of Zhejiang's foreign trade. However, private enterprises did not obtained the authority to conduct self-managed foreign trade at the early stage of reform period. Chapter 3 discussed how the authority for foreign trade was first devolved to provincial government-controlled foreign trade enterprises before being gradually devolved to other types of enterprise. SOEs and foreign-invested enterprises were authorized to conduct self-managed foreign trade much earlier than private enterprises. In 1989, some prefectures, counties and product-orientation enterprises in Zhejiang province made a first step towards conducting self-supported products.[456] In 1992, Zhejiang preliminarily formed the structure of provincial foreign trade enterprises, prefectural and county-level foreign trade enterprises, foreign-funded enterprises and product-

[456] Ma, R.K. eds (1990). *The Almanac of Zhejiang 1990* [浙江年鉴 1990]. Zhejiang People's Press, p.305.

orientation enterprises to promote the development of foreign trade.[457] By the end of the 1990s, private enterprises were highly constrained in conducting self-managed foreign trade. As a result, SOEs and foreign-invested enterprises occupied a much larger proportion of Zhejiang's foreign trade. According to Figure 4-7, the percentage of exports produced by private enterprises in Zhejiang province was negligible, while SOEs occupied nearly 70% and foreign-invested enterprises made up 24.4% of Zhejiang's total exports in 1997.

The story began to change at the end of the 1990s when private enterprises were allowed to conduct foreign trade. Zhejiang province, where the private economy quickly developed in the 1990s, saw a dramatic growth of foreign trade produced by private enterprises from the end of the 1990s. In 1998, the volume of exports produced by private enterprises totalled USD 28,200 million, making up only 0.3% of Zhejiang's total exports.[458] In the same year, the central government issued a regulation allowing private enterprises to conduct self-supported foreign trade. The provincial government attached great importance to the diversification of foreign trade actors and helping private enterprises to obtain the authority to conduct foreign trade.[459] In 1999, 43 private enterprises in Zhejiang obtained the right to conduct foreign trade.[460] Since then, private enterprises in Zhejiang have improved rapidly in foreign trade, especially in terms of exports. According to Figure 4-7, the value of exports produced by Zhejiang's private enterprises have exceeded collective enterprises, SOEs and foreign-invested enterprises in 2003, 2004 and 2007, respectively.

In 2007, the volume of exports by private enterprises reached over USD 500 billion, occupying 39.1% of Zhejiang's total exports.[461] Exports produced by SOEs in Zhejiang

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[457] Dong, Z.C. & Fang, G.X. eds (1993). *The Almanac of Zhejiang 1993* [浙江年鉴 1993]. Zhejiang People's Press, p.245.

[458] Zhejiang Statistic Bureau (1999). *Zhejiang Statistic Yearbook 1999* [浙江统计年鉴]. China Statistic Press, p.440.

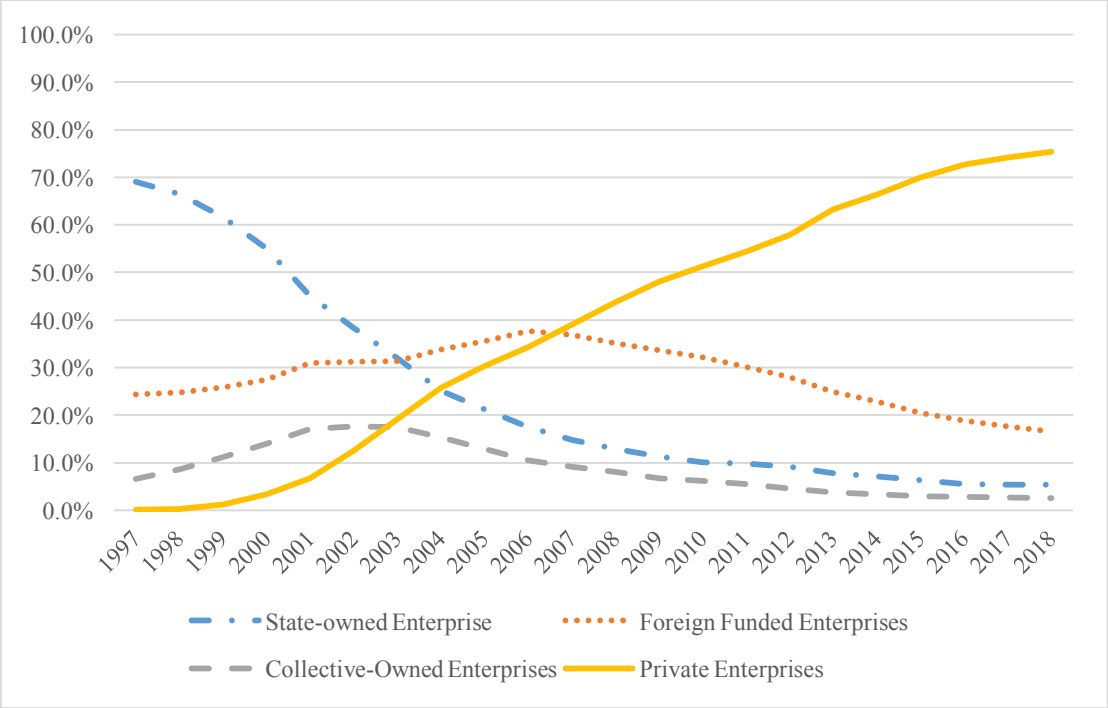
[459] Zhejiang province developed four-diversification for foreign trade, in which promoting the diversification of foreign trade actors was important, including private enterprises. See section 4.3.2.1 for more about this strategy.

[460] Yao, M.S. & Tan, R.Y. eds (2000). *The Almanac of Zhejiang 2000* [浙江年鉴 2000]. Zhejiang People's Press, p.267.

[461] Zhejiang Statistic Bureau (2008). *Zhejiang Statistic Yearbook 2008* [浙江统计年鉴 2008]. China Statistic Press, p.436

continued to decrease, only making up 5.4% of Zhejiang's total exports in 2017.[462] Foreign-invested enterprises were another important force in promoting Zhejiang's exports, occupying a relatively stable proportion in the export market since the end of the 1990s. Figure 4-8 shows that private enterprises in Zhejiang province also gradually became the leading contributors in Zhejiang's imports, which surpassed collective enterprises, SOEs and foreign-funded enterprises in 2004, 2006 and 2014. However, the imports of private enterprises did not develop as rapidly as exports. According to Figure 4-8, foreign-invested enterprises played a leading role in the growth of Zhejiang's imports for a long time, which could be explained by their important role in the processing trade. However, the development of FDI in Zhejiang province occurred much later and slower than other coastal provinces, as discussed in section 4.4.2, which to some extent explained its lower percentage of processing trade.

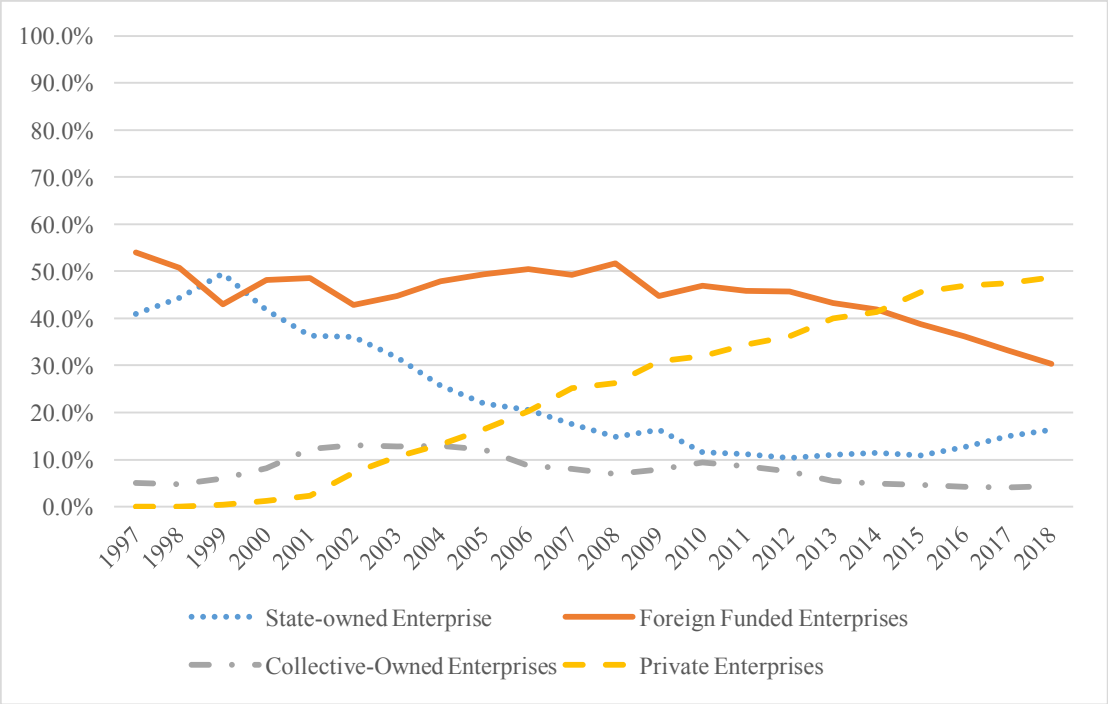
Figure 4-7: Percentage of Exports Produced by Different Types of Enterprises



Source: Calculated by the author based on data collected from Zhejiang Statistics Bureau. *Zhejiang Statistic Yearbook 2008 to 2019* [浙江统计年鉴 2008-2019]. China Statistic Press. Data for 1997 collected from *Zhejiang Statistic Yearbook 1998*, with remaining data collected from relevant Yearbooks.

[462] Zhejiang Statistic Bureau (2018). *Zhejiang Statistic Yearbook 2018* [浙江统计年鉴 2018]. China Statistic Press, p.406.

Figure 4-8: Proportion of Imports Produced by Different Types of Enterprises



Source: Calculated by the author based on data collected from Zhejiang Statistics Bureau. *Zhejiang Statistic Yearbook 1998 to 2019*[浙江统计年鉴 1998-2019].China Statistic Press. Data of 1997 collected from *Zhejiang Statistic Yearbook 1998*, with remaining data collected from relevant Yearbooks.

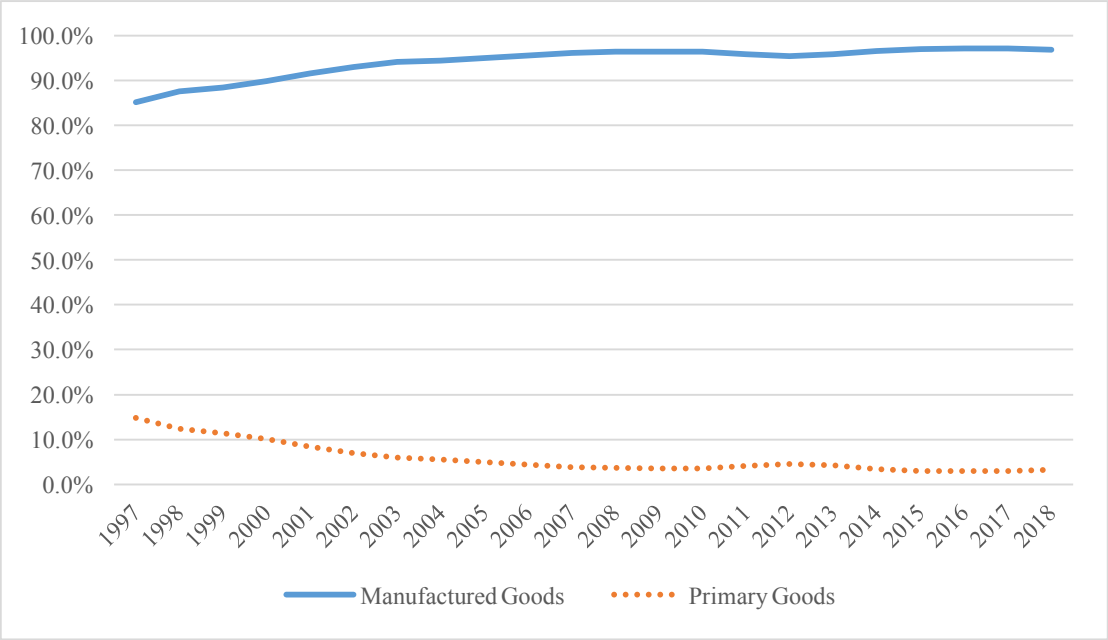
4.4.1.4 The Labour-Intensive Product Structure of Zhejiang's Foreign Trade

Industry development in Zhejiang led to the changing product structure of the province. An important change in the product structure can be seen in the increasing proportion of manufactured goods in Zhejiang's foreign trade. In 1986, the proportion of primary and manufactured goods in Zhejiang's total volume of exports was 47.6% and 52.4%, respectively.[463] With the industry development based on the local advantages of Zhejiang province, the volume of manufactured goods increased rapidly. According to Figure 4-9, manufactured goods occupied a dominant proportion of 85.2% of Zhejiang's total volume of exports in 1997, 91.6% in 2001, and 97.1% in 2016, leaving little space for primary goods. The story of imports was different: at the beginning of the reform period, manufactured goods dominated the structure of Zhejiang's imports since both China and Zhejiang remained underdeveloped in terms of industry. In 1986, the proportion of manufactured and primary goods in Zhejiang's total imports was 94.5%

[463] Proportion calculated by the author based on data collected from Zhejiang Statistic Bureau (1991). *Zhejiang Statistic Yearbook 1991* [浙江统计年鉴 1991]. China Statistic Press, p.308.

and 5.5% respectively.[464] At that time, the industry and technology development in Zhejiang province was not able to support manufacturing activity at the local level, while imported manufactured goods, especially machinery and equipment, enabled Zhejiang to produce goods for local use and export. With the improvement of domestic industry, the proportion of manufactured goods in Zhejiang's total volume of imports decreased steadily in the following years, falling to 72.6% in 1997 and 62.8% in 2017 (see Figure 4-10). The rising volume of manufactured goods in foreign trade was not unique to Zhejiang province as a result of domestic industrialization. Yunnan province also witnessed similar change, but with a delay.[465] Speciality of Zhejiang's foreign trade product structure showed in the specific categories of goods due to the advantages of local industry.

Figure 4-9: Proportion of Primary and Manufactured Goods in Zhejiang's Exports

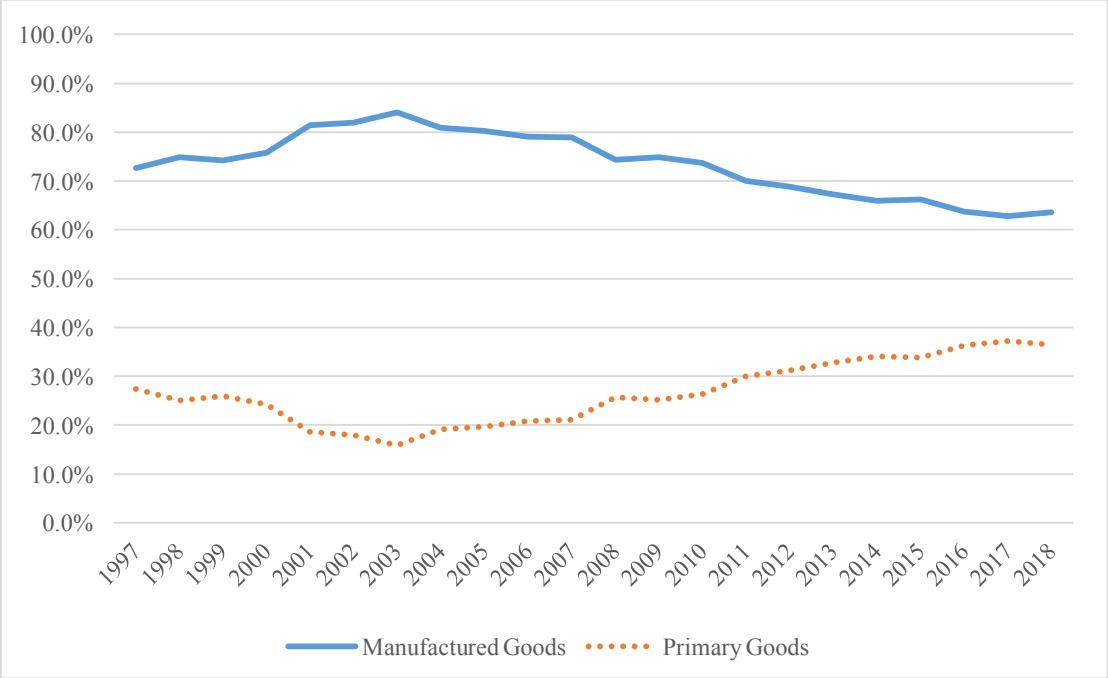


Source: Calculated by the author based on data collected from Zhejiang Statistics Bureau. *Zhejiang Statistic Yearbook 1998 to 2019* [浙江统计年鉴 1998-2019]. China Statistic Press. Data for 1997 collected from *Zhejiang Statistic Yearbook 1998*, with remaining data collected from relevant Yearbooks.

[464] Proportion calculated by the author based on data collected from Zhejiang Statistic Bureau (1991). *Zhejiang Statistic Yearbook 1991* [浙江统计年鉴 1991]. China Statistic Press, p.308.

[465] See Chapter 5, section 5.4.1.3 for data related to Yunnan province.

Figure 4-10: Proportion of Primary and Manufactured Goods in Zhejiang's Imports



Source: Calculated by the author based on data collected from Zhejiang Statistics Bureau. *Zhejiang Statistic Yearbook 1998 to 2019* [浙江统计年鉴 1998-2019]. China Statistic Press. Data for 1997 collected from *Zhejiang Statistic Yearbook 1998*, with remaining data collected from relevant Yearbooks.

Regarding the product structure of Zhejiang's foreign trade, goods of traditional advantageous industry occupied a crucial position for a long time. In 1991, the export volume of textiles, silk, clothing, art craft and light industry products made up 56.91% of Zhejiang's total exports.[466] Due to the "long-history of silk production, abundant labour force and proactive private capital," textiles and clothing products dominated the export structure of Zhejiang province for a long time and remain an important proportion to date.[467] Figure 4-11 shows the development of major types of export products of Zhejiang province. Although the proportion of textile and clothing decreased from 37.63% in 2000 to 22.3% in 2018, it was still the second largest category of export goods in Zhejiang province. Accompanying the decreasing proportion of textile products, electrical and mechanical products gradually gaining a

[466] Qian, F.M. (2004). Comparative Analysis of Foreign Trade Development Model in Jiangsu and Zhejiang Province [江苏、浙江两省外贸发展模式的比较研究]. *Journal of International Trade*, (10), 38-42.

[467] Zheng, Y & Xu, Z.L. (2015). Analysis of Zhejiang's Foreign Trade Structure and its Influence Factors [浙江外贸结构及其影响因素的分析]. *Management and Administration*, (6), 69-71.

dominated position in Zhejiang's exports as a result of industry upgrades. In 1987, the export value of mechanical and electrical products was USD 155 million, occupying 11.3% of Zhejiang's total exports.[468] The volume of mechanical and electrical products rose significantly during later decades, especially after the 2000s. The rapid development of exports of mechanical and electrical goods on the one hand was a result of industry development, and on the other was closely related to support from the government. For example, the State Council issued a document in 1992 to put forward measurements to promote the export of mechanical and electrical products.[469] Locally, Zhejiang provincial government also took measures to promote the export of mechanical and electrical products by developing the funding to support those enterprises to go global and expand onto the international market.[470]

As a result, both the volume and proportion of mechanical and electrical goods in Zhejiang's export clearly improved. Figure 4-12 shows the evident growth of export volume in electrical and mechanical products in Zhejiang province. According to Figure 4-11, it exceeded the traditional textile industry and became the largest category of export products in Zhejiang, with a proportion rising from 13.6% in 1988 to 42.90% in 2017.[471] However, it should be noted that Zhejiang's exports of mechanical and electrical goods had shortcomings. First, the percentage of Zhejiang's mechanical and electrical goods was lower than the average of China as a whole. The contribution of electrical and mechanical goods to exports developed quickly in China, increasing from a proportion of 17.9% in 1990 to 58.7% in 2018.[472] In Zhejiang, the proportion of mechanical and electrical goods rose from 14.56% to 43.5% during the same period.[473] Second, the technology and skills employed in Zhejiang's mechanical and electrical

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[468] Ma, R.K. eds (1988). *The Almanac of Zhejiang 1988* [浙江年鉴 1988]. Zhejiang People's Press, p.295.

[469] State Council (1993). *Opinion of Further Promoting the Export of Mechanical and Electrical Products* [关于进一步推动机电产品出口的意见]. http://www.gov.cn/zhengce/content/2010-12/03/content_8156.htm

[470] Cai, L.& Wu, Z.M. (2015). International Competition of Zhejiang's Export of Mechanical and Electrical Products [浙江机电产品出口国际竞争力分析]. *Modern Economic Information*, (2), pp.160-161.

[471] Ma, R.K. eds (1989). *The Almanac of Zhejiang 1988* [浙江年鉴 1989]. Zhejiang People's Press, p.287.

[472] National Bureau of Statistics. *22nd Report on Economic and Social Achievements of 70 Anniversary of the Founding of PRC* [新中国成立 70 周年经济社会发展成就系列报告之二十二], http://www.stats.gov.cn/tjsj/zxfb/201908/t20190827_1693665.html

[473] Dong, Z.C. & Fang, G.X. eds (1991). *The Almanac of Zhejiang 1991* [浙江年鉴 1991]. Zhejiang People's Press, p.302.

goods still remained at a low level and labour-intensive products dominated.[474] The proportion of technology-intensive products in the mechanical and electrical category remained at a low level in the reform period, at 17.1% while this proportion in its neighbour province of Jiangsu reached a high of 61.5%.[475]

Simultaneously, Zhejiang's export of high-tech products also increased slowly. Based on Figure 4-11, the proportion of high-tech products in Zhejiang's exports only rose slightly from 2000 to 2018, making up less than 10% in the total volume of exports. Meanwhile, the rate of high-tech products in China's total volume of exports reached 30% in 2018.[476] The high proportion of labour-intensive manufacturing and the low rate of technology-intensive products in Zhejiang's exports was to some extent related to the important role of private enterprises in promoting Zhejiang's exports. Compared to foreign-invested enterprises and SOEs, private enterprises were less developed in technology and less attractive for high-level human resources. As a result, they tended to invest in labour-intensive industry, such as traditional textile production and low-tech mechanical and electrical products. Thus, the developed private economy greatly promoted the general development of Zhejiang's foreign trade. But on the other hand, the limitations of private enterprises also led to an extensive process of foreign trade growth. As a result, it was urgent for Zhejiang province to upgrade its industry by attracting high quality foreign investment and also to transfer the traditional industry to foreign countries through overseas investment, which will be discussed in sections 4.4.2 and 4.4.3. For this aim, provincial government, as discussed in section 4.3.2.2, endeavoured to promote interactions with large TNCs.

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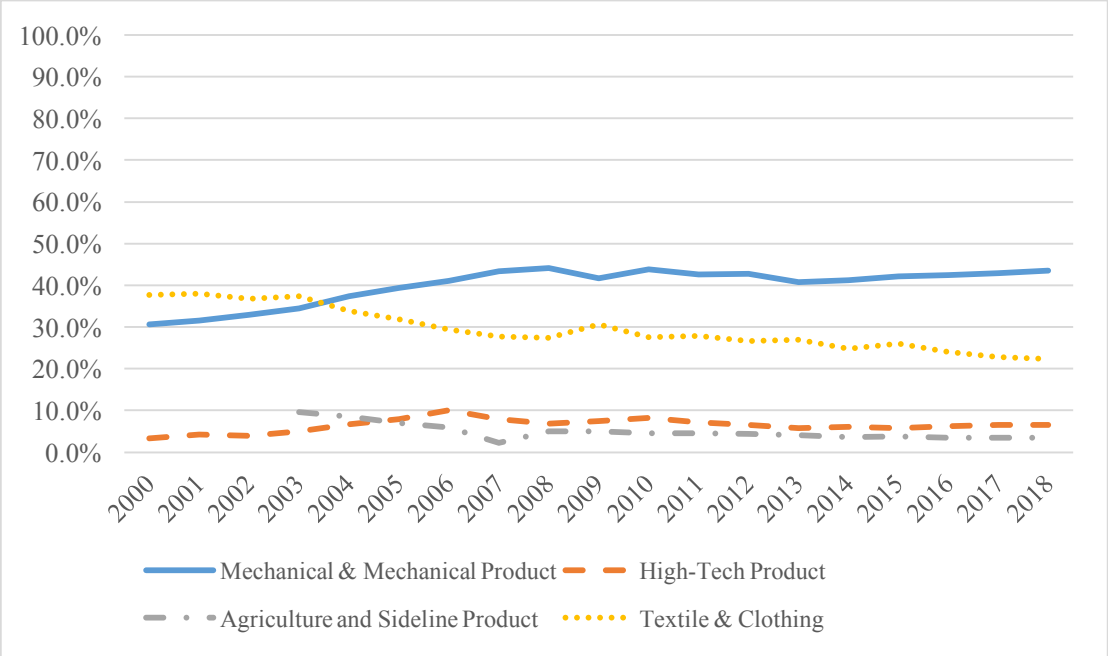
[474] Zhang Youren (2008) Analysis of The Evolution of Zhejiang's Foreign Trade Structure and Foreign Trade Friction [浙江出口贸易结构演进与贸易摩擦研究]. *The Review of Modern Commerce*, 1, 186-214.

[475] Ni W.Q. (2016). Comparative Analysis of Export Competition of Mechanical and Electrical Products in Zhejiang and Jiangsu Province [江苏与浙江两省机电产品出口竞争力比较分析]. *International Trade*,10, 28-30.

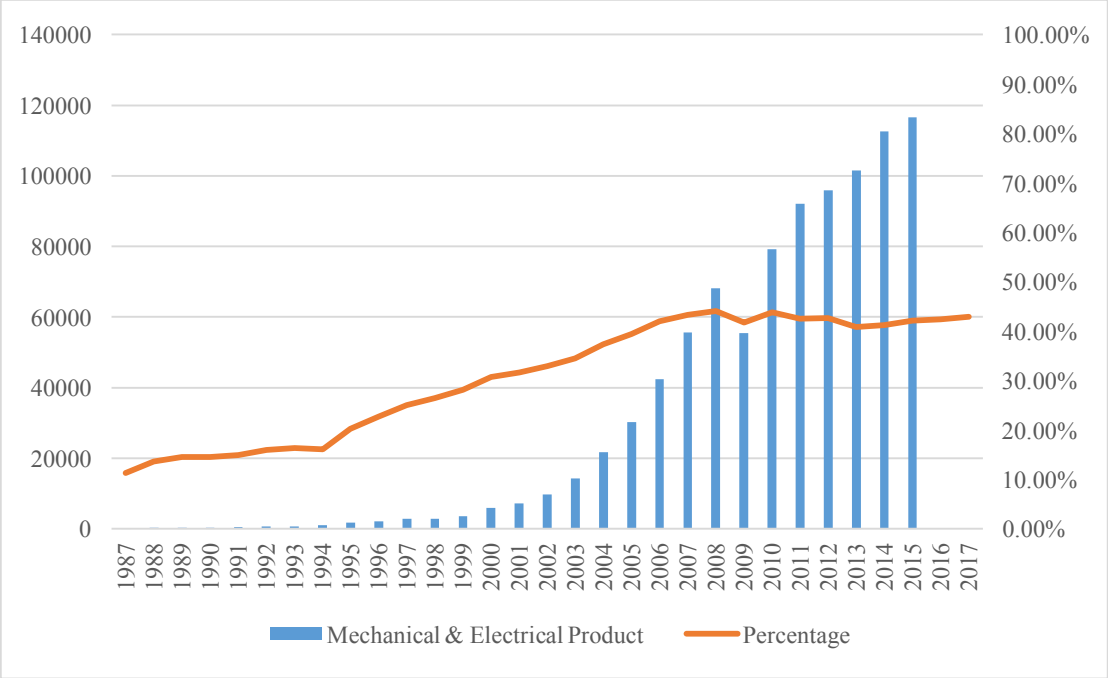
[476] National Bureau of Statistics. *22nd Report on Economic and Social Achievements of 70 Anniversary of the Founding of PRC*, http://www.stats.gov.cn/tjsj/zxfb/201908/t20190827_1693665.html

Figure 4-11: Proportion of Different Types of Product in Zhejiang's Exports



Source: Data from 2000 to 2008 collected from *Almanac of Foreign Trade and Economic Cooperation of the Zhejiang Province 2001 to 2009;* data from 2009 to 2018 collected from *Almanac of Commerce of Zhejiang Province 2010 to 2019*

Figure 4-12: Development of Mechanical and Electrical Products in Zhejiang's Exports



Source: Zhejiang Statistics Bureau. *Zhejiang Statistic Yearbook 2018* [浙江统计年鉴 2018]. China Statistic Press.

4.4.1.5 The Increasing Diversity of Foreign Trade Partners of Zhejiang Province

The opening up period witnessed an increasing number of foreign trade partners with Zhejiang province. In the pre-reform period, Zhejiang was mainly responsible for purchasing goods and sending them to provinces with customs for export. In 1958, Zhejiang was authorized to directly conduct trade with foreign states, but only limited to some socialist states.[477] In the 1980s, Zhejiang became a province with customs and obtained the ability to directly conduct foreign trade and thus its foreign trade partners started to increase in number. In 1985, Zhejiang's exported products went to 122 states and regions and the number of Zhejiang's foreign trade partners continued to increase in the following years.[478] In 1995, Zhejiang developed foreign trade relations with 163 states and regions.[479] The provincial government attached importance to expanding its foreign trade market and developed the *four diversification strategy*, one of which was to promote market diversification.[480] Moreover, Zhejiang's export-oriented economy also induced enterprises to go out to expand the markets for their products.[481] In 2000, Zhejiang's foreign trade partners expanded to more than 200 states.[482] There is a clear tendency of diversification of foreign trade market in Zhejiang province in the reform period.

Table 4-6 and Table 4-7 show the top ten export and import partners of Zhejiang province since 1985. The total percentage of exports and imports with the top ten states decreased significantly from 1985 to 2018, which also reflected the expanding trade with foreign trade partners. However, the importance of major foreign trade markets and partners still stands out. Zhejiang's traditional major export markets were the EU, America and Japan, occupying the majority of Zhejiang's total volume of exports. According to Figure 4-13, exports going to these markets occupied over half of the total

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[477] Research Group Hangzhou Customs Statistic and Analysis Division (2020). The Course, Characteristics, Enlightenment and Prospect of Foreign Trade Development in Zhejiang Province over the Past Seven Decades Since the Founding of PRC [新中国成立 70 周年浙江省对外贸易发展的历程、特征、启示与展望]. *Journal of Customs and Trade*, 41(1), pp.1-14

[478] Ma, R.K. eds (1986). *Zhejiang Economic Almanac1986* [浙江经济年鉴 1986]. Zhejiang People's Press, p.283.

[479] Jiang, J.F. & Zhang, R.G. eds (1996). *The Almanac of Zhejiang 1996* [浙江年鉴 1996]. Zhejiang People's Press, p.306.

[480] See section 4.3.2.1 for more information about the strategy.

[481] See section 4.3.3.1 for Zhejiang's model of opening up.

[482] Yao, M.S. & Tan, R.Y. eds (2001) *The Almanac of Zhejiang 2001* [浙江年鉴 2001]. Zhejiang People's Press, p.289.

volume of Zhejiang's exports before 2010 before the proportion slightly decreased to 45.6% in 2018. Exports to the ASEAN developed from 5.28% in 1997 to 9.30% in 2018.[483] Development of the China-ASEAN free trade zone and establishment of OBOR provided more opportunities for local enterprises to improve foreign trade with ASEAN, which has emerged as crucial partner for China. However, the importance of relations with ASEAN differently influenced Chinese provinces. As will be discussed in Chapter 5, foreign trade with ASEAN is much more important for Yunnan than Zhejiang.[484] The EU, US and Japan are still crucial import markets for Zhejiang province. According to Figure 4-14, the proportion of imports with these three markets occupied about half of Zhejiang's total in 1997, but this figure decreased to less than 30% in 2018. Simultaneously, ASEAN emerged as an important import market for Zhejiang province. The proportion of Zhejiang's imports from ASEAN rose from 5.16% in 1997 to 15.5% in 2018.[485] ASEAN states, such as Singapore, Indonesia, Thailand and Malaysia, emerged as Zhejiang's top ten import partners from 1995 according to Table 4-7. The changing proportion of imports from different states was to some extent caused by the changing demands of Zhejiang province. As shown in the import product structure, the import of mechanical and electrical goods decreased from the 1990s, which could have led to decreasing imports from developed states or regions, such as the US and EU.

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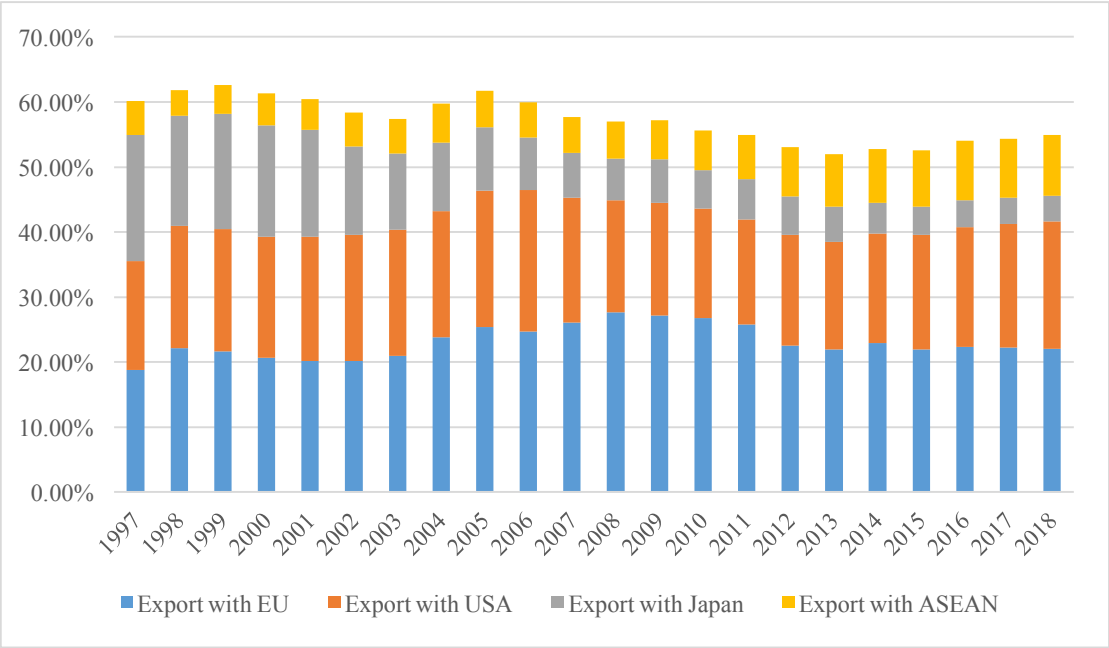
[483] Data for 1997 from Zhejiang Statistic Bureau (1999). Zhejiang Statistic Yearbook 1999 [浙江统计年鉴 1999]. China Statistic Press, p.440; data for 2017 from Zhejiang Statistic Bureau (2019). *Zhejiang Statistic Yearbook 2019* [浙江统计年鉴 2019]. China Statistic Press, p.405.

[484] See Chapter 5, section 5.4.1.2 for more information about Yunnan's trade with ASEAN.

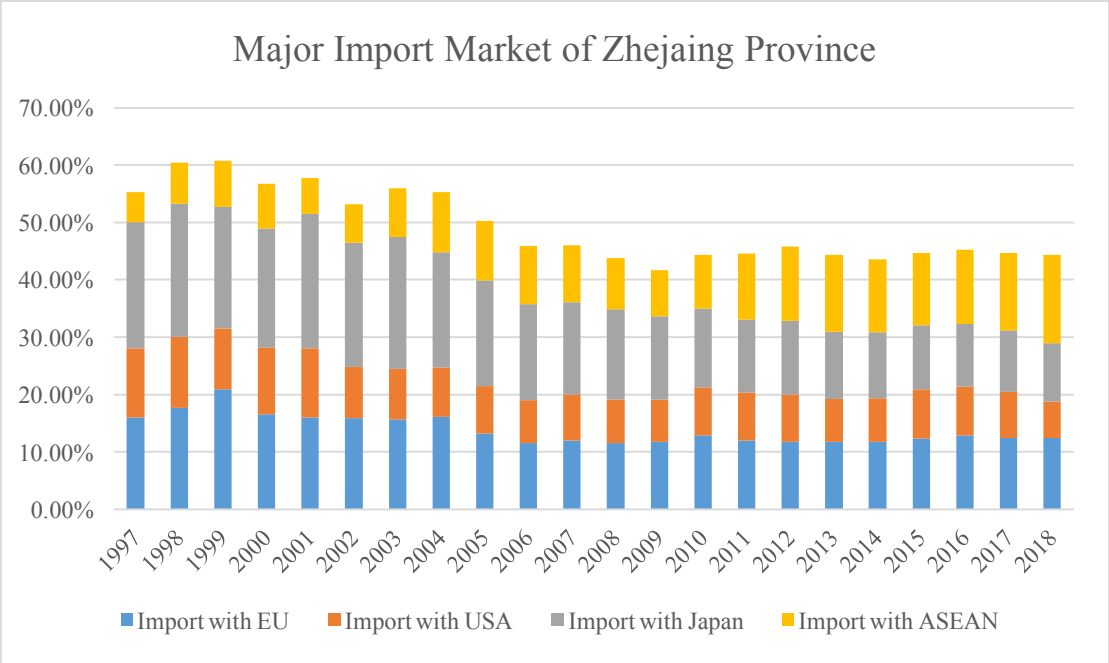
[485] Data of 1997 from Zhejiang Statistic Bureau (1999). *Zhejiang Statistic Yearbook 1999* [浙江统计年鉴 1999]. China Statistic Press, p.440; data of 2017 from Zhejiang Statistic Bureau (2019). *Zhejiang Statistic Yearbook2019* [浙江统计年鉴 2019]. China Statistic Press, p.405.

Figure 4-13: Major Export Market of Zhejiang Province



Sources: Zhejiang Statistics Bureau. *Zhejiang Statistic Yearbook 1998 to 2019* [浙江统计年鉴 1998-2019]. China Statistic Press. Data for 1997 collected from *Zhejiang Statistic Yearbook 1998*, with remaining data collected from other Yearbooks.

Figure 4-14: Major Import Market of Zhejiang Province



Sources: Zhejiang Statistics Bureau. *Zhejiang Statistic Yearbook 1998 to 2019* [浙江统计年鉴 1998-2019]. China Statistic Press. Data for 1997 collected from *Zhejiang Statistic Yearbook 1998*, with remaining data collected from other Yearbooks.

Table 4-6: Top Ten Export Partners of Zhejiang Province and Percentage of Total Exports

	No.1	**No.2**	**No.3**	**No.4**	**No.5**	**No.6**	**No.7**	**No.8**	**No.9**	**No.10**	**Total**
1990	HK 29.20%	Japan 15.28%	US 10.01%	Germany 6.07%	USSR 4.20%	Italy 2.99%	Singapore 2.99%	France 2.37%	Switzerland 1.63%	Morocco 1.63%	**76.37%**
1995	Japan 22%	HK 16.1%	US 13.9%	Germany 5.1%	Italy 2.9%	Netherlands 2.7%	France 2.1%	Singapore 2.0%	UK 1.9%	Australia 1.8%	**70.5%**
2000	US 18.65%	Japan 17.07%	HK 6.16%	Germany 4.49%	Korea 3.35%	Italy 3.12%	UK 2.78%	Netherlands 2.52%	UAE 2.37%	France 2.24%	**62.77%**
2005	US 20.99%	Japan 9.77%	Germany 5.44%	HK 3.61%	UK 3.32%	UEA 3.31%	Italy 3.19%	Korea 2.69%	France 2.58%	Spain 2.53%	**57.47%**
2010	US 16.88%	Germany 6.10%	Japan 5.85%	HK 3.57%	Italy 3.52%	UK 3.32%	India 3.07%	Russia 2.83%	Netherlands 2.62%	Korea 2.62%	**50.38%**
2015	US 17.7%	Japan 4.3%	Germany 4.1%	UK 3.9%	India 3.5%	UEA 2.6%	Russia 2.4%	Korea 2.3%	Netherlands 2.2%	Brazil/Italy 2.1%	**47.2%**
2018	US 19.6%	Japan 4%	Germany 4%	India 3.9%	UK 3.1%	Russia 2.8%	Korea 2.6%	Vietnam 2.2%	Netherlands 2.2%	Brazil 2.2%	**46.6%**

Source: Data for 1990 from Dong, Z.C. & Fang, G.X. eds (1991). *The Almanac of Zhejiang 1991* [浙江年鉴 1991]. Zhejiang People's Press; data for other years collected from *Almanac of Foreign Trade and Economic Cooperation of the Zhejiang Province 2001;* data for other years from *Almanac of Commerce of Zhejiang Province 2011, 2016 & 2018*.

Table 4-7: Top Ten Import Partners of Zhejiang Province and Percentage of Total Imports

	No.1	**No.2**	**No.3**	**No.4**	**No.5**	**No.6**	**No.7**	**No.8**	**No.9**	**No.10**	**Total**
1990	HK 46.46%	Japan 20.12%	US 10.11%	Germany 5.51%	Australia 3.78%	------	------	------	------	------	**85.98%**
1995	Japan 26.6%	US 13.5%	HK 6.1%	Germany 5.9%	Australia 3.2%	Italy 2.7%	Russia 2.6%	UK 2.4%	Canada 1.8%	Singapore 1.77%	**66.57%**
2000	Japan 20.74%	Taiwan 12.11%	US 11.68%	Korea 10.99%	Germany 5.97%	Indonesia 3.64%	Australia 3.27%	HK 2.58%	Italy 2.57%	Canada 2.49%	**76.04%**
2005	Japan 18.48%	Korea 12.38%	Taiwan 11.6%	US 8.29%	Germany 4.64%	Saudi Arabia 2.93%	Singapore 2.67%	India 2.57%	Thailand 2.28%	Malaysia 2%	**67.84%**
2010	Taiwan 13.94%	Japan 13.70%	Korea 8.7%	US 8.38%	Germany 4.27%	Australia 4.15%	Saudi Arabia 3.13%	India 2.81%	Brazil 2.65%	Chile 2.36%	**64.09%**
2015	Taiwan 11.3%	Japan 11.2%	US 8.6%	Korea 8.1%	Australia 6%	Germany 3.7%	Brazil 3%	Saudi Arabia 2.9%	Singapore 2.5%	Indonesia 2.4%	**59.7%**
2018	Japan 10.1%	Korea 8.9%	Taiwan 7.8%	Australia 6.9%	US 6.4%	Germany 3.9%	Brazil 3.9%	Malaysia 3.8%	Indonesia 3.6%	Saudi Arabia 3.3%	**58.6%**

Source: Data for 1990 from Dong, Z.C. & Fang, G.X. eds (1991). *The Almanac of Zhejiang 1991* [浙江年鉴 1991]. Zhejiang People's Press; data for other years collected from *Almanac of Foreign Trade and Economic Cooperation of the Zhejiang Province 2001;* data for other years from *Almanac of Commerce of Zhejiang Province 2011, 2016 & 2018*.

4.4.2 Zhejiang's Engagement in the Global Economy through FDI

4.4.2.1 General Development of Zhejiang's FDI

Attraction of FDI to promote domestic development was another important aim of the establishment of the opening up policy by the central government. During this process, China's central government decentralized authority to SNGs through the reform of FDI regime.[486] As a result, China's FDI inflow grew significantly in the reform period. Zhejiang province, as argued previously, obtained an advantageous position in the opening up policy.[487] Simultaneously, the provincial government also played a proactive role by developing local policy and strengthening international interactions to attract more foreign enterprises to invest in Zhejiang. As discussed previously, provincial government did not only develop local policies to promote FDI (section 4.3.2.1), but also took advantages of governmental interactions with foreign actors from sister cities (section 4.2.2), embassy and consulate (section 4.2.3) to attract more investment. Moreover, provincial government attached great importance to the direct interaction with foreign enterprises and invited staff to Zhejiang as way to facilitate FDI, especially the high-quality FDI (section 4.3.2.2). Therefore, the volume of Zhejiang's actual use of FDI increased significantly in the previous decades as shown in Figure 4-15. In 1984, the total use of FDI in Zhejiang province was only USD 2.52 million, which increased to USD 17.9 billion in 2017 with an average annual growth rate of 30.9% and occupying 8.1% of China's total FDI.[488] The opening up of coastal cities in Zhejiang from 1984 promoted the development of FDI. In 1991, Zhejiang's accumulated actual use of FDI reached USD 282 million, increasing from USD 1.81 million in 1983.[489]

However, it can be seen from Figure 4-15 that Zhejiang's use of FDI rose much more significantly, first after 1992 and then after 2001, as a result of China's further opening up and involvement in the global economy by entry into the WTO. HK remained as the most important FDI source for Zhejiang province, as shown in Table 4-8. Compared

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[486] See section Chapter 3, section 3.3.3.2 for more information.

[487] See section 4.3.1 for more information.

[488] Fu, J.Q. & Huang, H.L. (2018). Report of 40th Anniversary of Opening and Reform [改革开放 40 周年专稿——波澜壮阔钱江潮 走在前列谋新篇（下）], *Zhejiang Economy*, (22), pp.34-39.

[489] Xu, J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年]. Social Sciences Academic Press (China), p.97.

with the volume in the 1990s, the proportion of FDI from HK has seen significant growth in the last two decades. The important position of HK in the FDI could be explained by the proactive role of overseas Chinese. Zhejiang provincial government endeavoured to promote interactions with overseas Chinese with an aim of promoting economic cooperation (section 4.3.2.2). Taiwan was also an important source of FDI for Zhejiang province in the 1990s after Taiwan freed its investment in mainland China in 1988.[490] However, its contribution to Zhejiang's FDI continued to decrease in the 2000s. FDI from developed industrialized countries, such as the US and Japan, increased during this period, but the proportion of FDI from these states increased significantly after the Asian Financial Crisis, later decreasing. FDI from these states made a significant contribution to improving the quality of Zhejiang's FDI.

Although Zhejiang's inflow of FDI did increase significantly in the reform period as it did in other Chinese provinces, it also showed some specific patterns as a result of Zhejiang's special process of opening up. As noted previously, Zhejiang's opening up started from the market as a result of its developed private economy and the proactive role of entrepreneurs in seeking market both outside the province and outside China. As a result, Zhejiang's FDI increased later than the average of China and slower than other coastal provinces whose development relied heavily on FDI, such as Jiangsu and Guangdong. Before 2002, the opening degree of FDI in Zhejiang province was lower than the average in China.[491] In 1999, the opening degree of FDI in Zhejiang province was only 1.9%, which was lower than the average degree of 4.07% in China.[492] In 2003 this figure in Zhejiang province reached 4.65%, exceeding that of China of 3.78%.[493] Meanwhile, Zhejiang's dependency rate on FDI was much lower than that of some other coastal provinces. For example, the dependency rate of FDI in Zhejiang and its two neighbours, Jiangsu and Shanghai, was 0.003, 0.007 and 0.003 in 1990 respectively.[494] In 2003, these three figures increased to 0.043, 0.070 and 0.072 in the three provinces

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[490] Xu, J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年]. Social Sciences Academic Press (China), p.101.

[491] The opening degree of FDI refers to the dependency rate of GDP on FDI, namely the volume of actual use of FDI/GDP, see Xu J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年]. Social Sciences Academic Press (China), p.7.

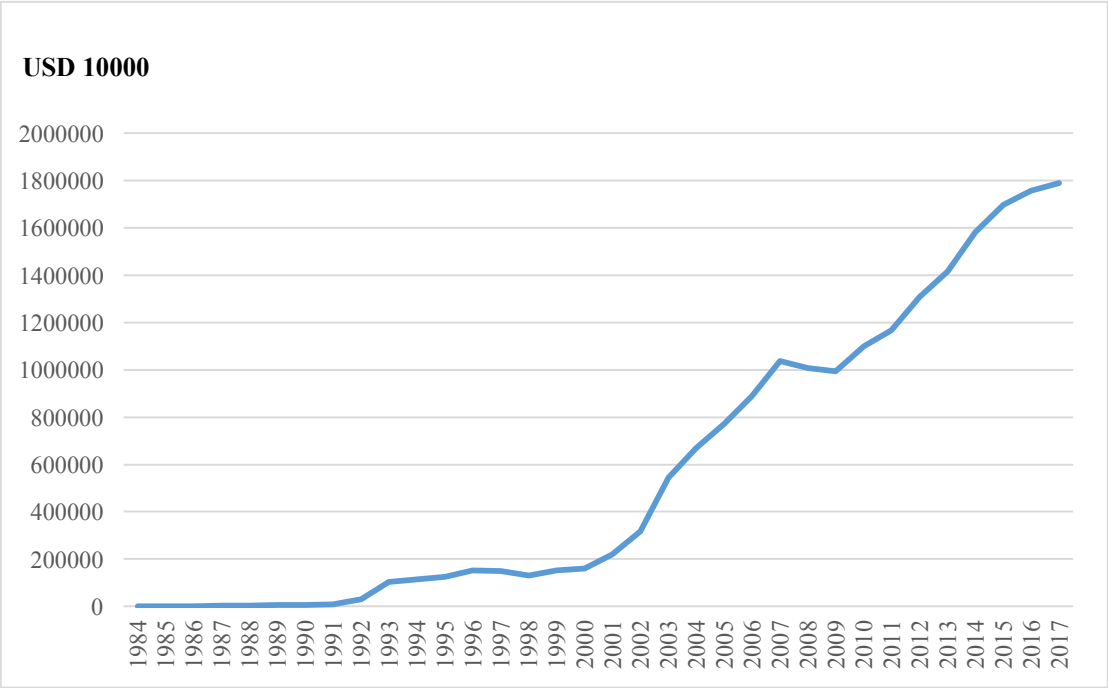
[492] Ibid., p.8.

[493] Ibid., p.8.

[494] Wang, S.Q. (2005). Comparison of the Model of Open Economy Development in Zhejiang, Jiangsu and Shanghai [江浙沪开放型经济发展模式比较]. *World Economy Studies*, (12), pp.21-25.

respectively.[495] Accordingly, Zhejiang's FDI development was much slower than the other two provinces during this period. Since the end of the 1990s, Zhejiang provincial government has attached greater importance to attracting FDI and the volume of FDI in Zhejiang began to increase more rapidly, especially after further opening up since 2001.

Figure 4-15: Actual Use of FDI by Zhejiang Province (1984-2017)



Source: Zhejiang Statistics Bureau (2018), *Zhejiang Statistic Yearbook 2018* [浙江统计年鉴 2018], China Statistics Press.

4.4.2.2 The Improving Quality of FDI Coming to Zhejiang Province

In the reform period, the quality of FDI coming to Zhejiang increased rapidly, with a significant growth in the average volume of single projects. Before 1995, the average volume of single FDI (contracted) projects in Zhejiang was approximately USD 1.08 million as the FDI in this period mainly came from the small and middle enterprises of HK and Korea.[496] The size of single FDI projects rose to USD 2.44 million in 2005

[495] Wang, S.Q. (2005). Comparison of the Model of Open Economy Development in Zhejiang, Jiangsu and Shanghai [江浙沪开放型经济发展模式比较]. *World Economy Studies*. 12, pp.21-25.

[496] Xu, J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年]. Social Sciences Academic Press (China), p.104.

and USD 11.45 million in 2017.[497] As a result of the emphasis by the provincial government given to the large enterprises, an increasing number of top 500 enterprises have invested in Zhejiang province. By 2017, the accumulative number of top 500 enterprises invested in Zhejiang had reached 581, with a volume of investment of USD 32.25 billion.[498] Moreover, the distribution of Zhejiang's FDI also experienced clear change in the reform period. The secondary industry was the dominant sector attracting FDI for a long time. According to Table 4-9, the volume of actual use of FDI in the secondary industries occupied the largest proportion until 2010, but these experienced a continual decrease from 2000. Those FDI invested in the secondary industry have mainly moved to the manufacturing sector, which enabled them to make use of the advantages of Zhejiang's abundant labour force.

However, as a result of the increasing expense of labour in the manufacturing sector and the improvement of Zhejiang in the tertiary industry, a growing quantity of FDI changed from secondary to tertiary industry. In 2013, the volume of actual use of FDI in the tertiary industry occupied 55.63% of the total in Zhejiang, which for the first time exceeded that of the secondary industry.[499] Table 4-9 also shows the expanding gap between FDI in these two industries in the following years. The decreased FDI going to the manufacturing sectors also led to a decreasing percentage of foreign trade created by foreign-invested enterprises. Zhejiang's increasing FDI in the early 2000s contributed to the process of processing trade. According to Figure 4-5, the volume of Zhejiang's processing trade increased significantly after the 2000s and started to decrease slightly after 2011. To some extent, the transition of FDI from the secondary to the tertiary sector could explain this change in processing trade. In other words, FDI into Zhejiang changed from export-oriented to others, such as markets. It can be seen that more FDI is going to hi-tech industry, which conforms with the purpose of industry upgrades in Zhejiang. The provincial government has attached great importance to FDI, especially from advanced and large foreign enterprises, to upgrade the skills and

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[497] Xu, J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年]. Social Sciences Academic Press (China), p.104.

[498] Fu, J.Q. & Huang, H.L. (2018). Report of 40th Anniversary of Opening and Reform [改革开放 40 周年专稿——波澜壮阔钱江潮 走在前列谋新篇（下）]. *Zhejiang Economy*, (22), pp.34-39.

[499] Xu, J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年]. Social Sciences Academic Press (China), p.100.

technology that's lacking in the local private enterprises. For this aim, provincial government attached great importance to developing governmental interactions with large TNCs which are advantageous in technology. According to Table 4-9, the FDI invested in the information, software, and scientific research sectors have increased significantly since the 2000s. Thus, the changing sector distribution of FDI in Zhejiang province is also reflected in improving quality. The improving quality of FDI flowing to Zhejiang has been closely related to the industrial development, for example, the rapid improvement of Internet Industry in Zhejiang. Moreover, the proactive role that provincial government has played in promoting relations with foreign TNCs is also important for the inflow of high-quality FDI.

Table 4-8: Major FDI Sources of Zhejiang Province and Percentage of Each Source

	No.1	No.2	No.3	No.4	No.5	No.6	No.7	No.8	No.9	No.10
1995	HK Macao 44.9%	Taiwan 14%	Japan 12.3%	USA 6.5%	Singapore 5%	UK 2.5%	France 1.8%	Canada 1.6%	Italy 0.8%	---
2000	HK 31.4%	US 11.2%	Taiwan 9%	Japan 7.8%	Singapore 6.2%	Korea 4.7%	UK 2.6%	France 1.3%	Australia 0.98%	Italy 0.79%
2005	HK 39.3%	Virgin 13.5%	US 6.5%	Japan 6.4%	Taiwan 3.9%	Italy 2.4%	Korea 2.3%	Singapore 1.9%	France 1.3%	UK 1.27%
2010	HK 66%	Virgin 6.6%	US 3.5%	Japan 2.8%	Singapore 2.2%	Taiwan 1.6%	Korea 1.2%	UK 0.88%	Italy 0.87%	Canada 0.83%
2015	HK 63%	Germany 5.7%	Virgin 3.7%	US 2.9%	Singapore 2.6%	UK 1.98%	Japan 1.6%	Australia 0.89%	Korea 0.72%	Taiwan 0.33%
2016	HK 64.4%	Virgin 5.8%	Singapore 2.3%	Japan 2.29%	Germany 2.13%	US 1.8%	France 1.3%	Taiwan 0.97%	Korea 0.96%	UK 0.29%
2017	HK 68%	Virgin 3%	Japan 2.72%	Singapore 2.2%	Germany 1.9%	Korea 1.5%	UK 1.5%	US 1%	Taiwan 0.77%	France 0.56%

Source: Zhejiang Statistics Bureau, *Zhejiang Statistic Yearbook* [浙江统计年鉴], China Statistics Press; data for 1995 collected from *Zhejiang Statistic Yearbook 1996*; data for 2005 collected from *Zhejiang Statistic Yearbook 2005*, with remaining data collected from other Yearbooks.

Table 4-9: Actual Use of FDI in Different Industry Sectors in Zhejiang Province

	2000	2005	2010	2015	2016	2017
Primary Industry	**0.9%**	**0.5%**	**0.8%**	**0.5%**	**0.7%**	**0.5%**
Agriculture	0.4%	0.1%	--	--	--	--
Secondary Industry	**79.8%**	**80.5%**	**61.5%**	**42.4%**	**40.7%**	**34.3%**
Manufacturing	67%	78.6%	60.3%	40.9%	38.6%	30.5%
Electricity, Gas & Water	7.8%	1.3%	0.6%	1%	1.6%	1.6%
Construction	4.7%	0.6%	0.6%	0.3%	0.5%	2.6%
Tertiary Industry	**19.3%**	**19%**	**37.7%**	**57%**	**58.6%**	**65.2%**
Communication, Transport, Post, Telecommunications	3.4%	2.6%	1.1%	2.1%	3.6%	3.5%
Wholesale, Retail, Food, Beverages	--	0.9%	3.4%	9.8%	12.2%	13.1%
Real Estate	5.1%	8%	21.1%	17.9%	12.1%	10.2%
Information, Computer Services & Software	--	2.6%	3.4%	6.6%	7%	11.8%
Renting and Business Services	--	--	3.9%	7.9%	6.7%	10.2%
Scientific Research, Technical Services	--	--	2.4%	8.2%	8.4%	11.7%
Accommodation and Catering	--	1.7%	1.3%	0.3%	0.1%	0.4%
Banking	--	--	--	4.8%	7.4%	3.2%

Source: Zhejiang Statistics Bureau, *Zhejiang Statistic Yearbook* [浙江统计年鉴], China Statistics Press; data for 1995 collected from *Zhejiang Statistic Yearbook 1996,* data for 2005 collected from *Zhejiang Statistic Yearbook 2005*, with remaining data collected from other Yearbooks.

4.4.3 Zhejiang's Engagement in the Global Economy through Overseas Investment

4.4.3.1 The General Development of Zhejiang's Overseas Investment

Zhejiang's overseas investment began in the 1980s. In 1980, Zhejiang established foreign trade organization in HK and in 1984, the province was allowed by the Department of Foreign Economy and Trade to establish the first Sino-foreign joint enterprises in Canada.[500] But in the 1980s, Zhejiang's overseas investment was limited and mainly conducted by the government and some SOEs.[501] According to Figure 4-16 Zhejiang's overseas investment started to develop rapidly in the 2000s. In the late 1990s, the provincial government developed two promotional strategies to promote investment.[502] And in the early 2000s, the central government developed a 'going global strategy', which turned its attitude to overseas investment from constraint to encouragement.[503] With the continuing development, local enterprises were capable of going global for investment, which enabled them to become further involved in the global economy. As a result, overseas investment increased quickly in the new century. The accumulated volume of overseas investment from 2001 to 2004 reached USD 185 million, higher than the total volume of the 1990s.[504] With the initiation of OBOR, Zhejiang experienced a further jump in the volume of overseas investment in 2014 as shown in Figure 4-16. By the end of 2017, Zhejiang enterprises had invested a total of USD 70.7 billion in foreign states, with the establishment of 9,188 overseas organizations and enterprises in 145 foreign countries.[505]

4.4.3.2 Characteristics of Zhejiang's Overseas Investment

Development of overseas investment was a common phenomenon in a majority of

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[500] Chronicle of Zhejiang's 30-Year Reform and Opening Up in Chen, Y.X. & Li, X.Z. eds (2009). *The Almanac of Zhejiang 2009* [浙江年鉴 2009]. House of Zhejiang Almanac, p.39; Xu, J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年], Social Sciences Academic Press (China), p.112.

[501] Zhang, H.D. & Luo, L.Y. (2009). Study of Zhejiang Enterprises "Going Global" Public Service Platform Construction [浙江省企业走出去公共服务平台建设研究], in Zhang, H.D. eds, *Almanac of Foreign Trade and Economic Cooperation of Zhejiang Province 2009*, Hangzhou Press, p.166.

[502] See section 4.3.2.1 for more information on the strategy.

[503] See Chapter 3, section 3.

[504] Xu, J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年]. Social Sciences Academic Press (China), p.114.

[505] Fu, J.Q. & Huang, H.L. (2018). Report of 40th Anniversary of Opening and Reform [改革开放 40 周年专稿——波澜壮阔钱江潮 走在前列谋新篇（下）]. *Zhejiang Economy*, (22), pp.34-39.

provinces in China. However, as a result of economic development, capacity and the needs of local enterprises, different patterns showed in overseas investment in different province. In Zhejiang, market-oriented overseas investment occupied an important position, especially before the 2000s.[506] The opening up model for Zhejiang province, which attached great importance to expanding markets for Zhejiang's commodities, to a large extent induced the market-oriented overseas investment of the province. The two-promotion strategy established by the provincial government in the late 1990s emphasized promotion of the development of the overseas marketing network.[507] As a result, enterprises from Zhejiang established 362 foreign trade organization in 59 states, with a volume of overseas investment of USD 116.1 million by the end of 1999, accounting for half of the total overseas investment in the period.[508] Zhejiang's development of overseas investment played an important role in promoting export growth. For example, in 2000, Zhejiang's overseas investment brought a volume of export totalling USD 692 million.[509] Also, the overseas commodity market established with the two-promotion strategy positively influenced exports. By the end of 2001, nine overseas commodity markets brought USD 110 million in exports and the China Commodity Market in Brazil, the first commodity market established by Zhejiang, brought in about USD 42 million worth of exports.[510]

After the 2000s, the forms of Zhejiang's overseas investment expanded from a concentration mainly on the establishment of an overseas marketing network to the development of overseas processing industry enterprises, resource exploitation enterprises, and overseas research enterprises.[511] In 2003, overseas investment in the manufacturing sector through Zhejiang's overseas investment exceeded that of the

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[506] Xu, J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年]. Social Sciences Academic Press (China), p.117.

[507] See section 4.3.2.1 for more information on the strategy.

[508] Yao, M.S. & Tan, R.Y. eds (2000) *The Almanac of Zhejiang 2000* [浙江年鉴 2000]. Zhejiang People's Press, p.273.

[509] Yao, M.S. & Tan, R.Y. eds (2001) *The Almanac of Zhejiang 2001* [浙江年鉴 2001]. Zhejiang People's Press, p.291.

[510] Pan, J.W. & Tan, R.Y. eds (2002) *The Almanac of Zhejiang 2002* [浙江年鉴 2002]. Zhejiang People's Press, p.292.

[511] Zhejiang Almanac Editorial Committee eds (2004). *The Almanac of Zhejiang 2004* [浙江年鉴 2004]. Zhejiang People's Press, p.272.

trade-related organizations.[512] In 2008, overseas investment in secondary industry occupied 81.5% of the total volume.[513] Overseas investment in Zhejiang's traditionally advantageous industries accounted for the largest part, among which the textiles and clothing industry made up 35.43% of the total volume in 2008.[514] Overseas investment in these industries enabled Zhejiang enterprises to make use of a cheap labour force and land resources in foreign states and expand its local market without facing trade friction. Also, Zhejiang' overseas investment developed a growing motivation to improve technology and skills through overseas investment and thus improve the competition of enterprises. For example, Geely Group acquired Volvo in 2010, which greatly improved its manufacturing technology and skills. Zhejiang's overseas investments have mainly been in developed states, reflecting the purpose of market-seeking and technology-seeking investments. By the end of 2017, the top five destinations which attracted the largest accumulated volume of Zhejiang's investment were Hong Kong, the US, Indonesia, Virgin Island and Sweden.[515] The shifted purpose of Zhejiang's overseas investment conformed with the need of industry upgrades in the province.

Secondly, the developed private economy meant that private enterprises gradually became the dominant force in Zhejiang's overseas investment. In 1998, Zhejiang became the pilot province for private enterprises to go out for investment.[516] Since then, private enterprises became increasing important in Zhejiang's overseas investment. In 2001, overseas investment conducted by private enterprises in Zhejiang province exceeded half of the total amount.[517] In 2004, private enterprises invested in 362 projects to the value of USD 151 million overseas, which accounted for 95.8% of the total number of overseas projects and 90.1% of the total overseas investment of

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[512] Xu, J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年]. Social Sciences Academic Press (China), p119.

[513] Ibid, p.120.

[514] Chen, Y.X. & Li, X.Z. eds (2009). *The Almanac of Zhejiang 2009* [浙江年鉴 2009]. House of Zhejiang Almanac, p.290.

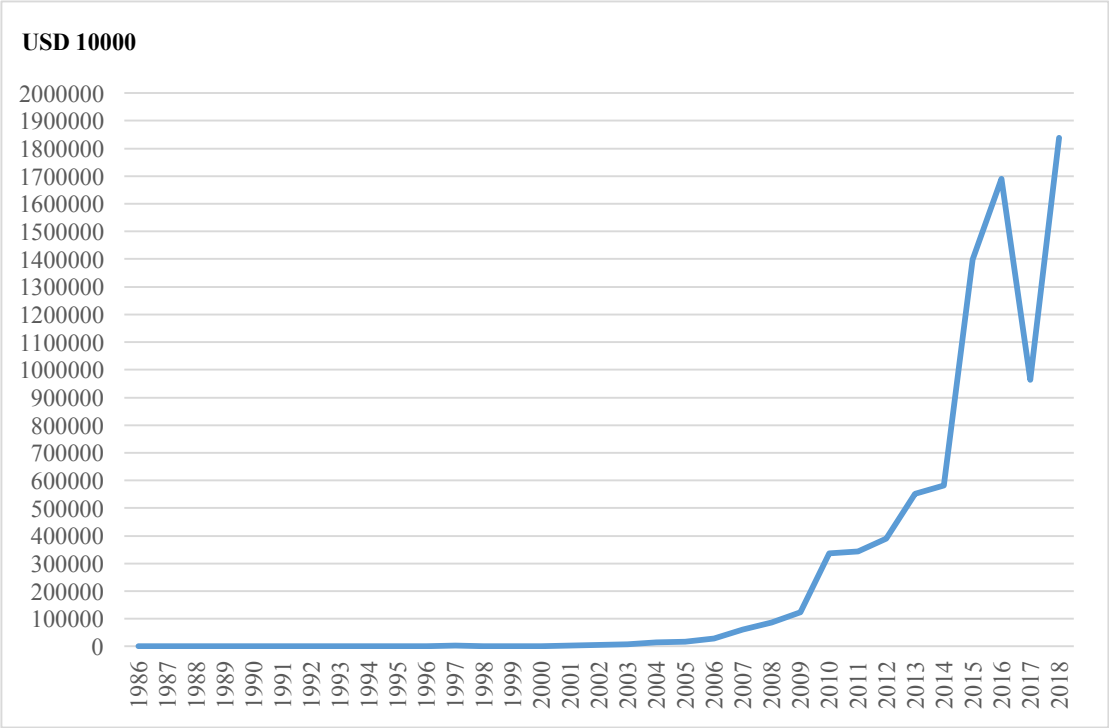
[515] Xu, J.F. (2019). *40 Years of Zhejiang's Opening Up* [浙江开放 40 年]. Social Sciences Academic Press (China), p.119.

[516] Zhang, H.D. & Luo, L.Y. (2009). Study of Zhejiang Enterprises "Going Global" Public Service Platform Construction [浙江省企业走出去公共服务平台建设研究]. In Zhang, H.D. eds. *Almanac of Foreign Trade and Economic Cooperation of Zhejiang Province 2009*. Hangzhou Press, p.167.

[517] Zha, Z.Q. & Zhao, J.H. (2006). The Contribution of Going Out to Zhejiang's Economic and Social Development [走出去对浙江经济社会发展的影响]. In Zhang, H.D. eds. *Almanac of Foreign Trade and Economic Cooperation of Zhejiang Province 2006* [浙江对外贸易经济合作年鉴 2006], p.223.

Zhejiang province.[518] The dominant role of private enterprises in 'going global' reflected the system advantages and high level of marketization of Zhejiang province. Simultaneously, the dominant role of private enterprises in overseas investment affected the modes of enterprises to go out. Private enterprises chose a cluster method to conduct foreign investment through the establishment of an overseas economic cooperation zone due to limitations in capital and management personnel of small and medium size private enterprises. By the end of 2016, Zhejiang's enterprises had developed six overseas economic cooperation zones, four of which were national level zones, occupying one quarter of the total in China.[519] Thus, the characteristics of local economic development could greatly influence the opening up of Zhejiang province.

Figure 4-16: The Development of Zhejiang's Overseas Investment (1986-2018)



Source: *Zhejiang economic Almanac* 1987 to 1992; *Zhejiang Almanac* 1993 to 2019. House of Zhejiang Almanac.

[518] Zha, Z.Q. & Zhao, J.H. (2006). The Contribution of Going Out to Zhejiang's Economic and Social Development [走出去对浙江经济社会发展的影响]. In Zhang, H.D. eds. *Almanac of Foreign Trade and Economic Cooperation of Zhejiang Province 2006* [浙江对外贸易经济合作年鉴 2006], p.223.

[519] Xu, J.F. (2019). 40 Years of Zhejiang's Opening Up [浙江开放 40 年]. Social Sciences Academic Press (China), p.119.

4.5 Conclusion

This chapter explored the international involvements of Zhejiang, a developed coastal province in China. The international involvement of Zhejiang province was motivated and affected by factors that originated at the central level and resultant central-subnational interaction. The diplomatic relations on the central level greatly influenced the international involvements of Zhejiang province. Improved diplomatic relations at the central level with foreign government provided a stable environment for Zhejiang's opening up in the reform period. Moreover, it also provided important platforms for Zhejiang provincial government to become involved in the international arena. As a result, the provincial government was able to promote international interactions by establishing sister-city relations or through relations with embassies and consulates in China. In return, international involvements of Zhejiang province also helped the central government to maintain diplomatic relations with foreign states, such as receiving national guests or holding important diplomatic events to support the central government at the provincial level.

The national policies at the central level also greatly influenced the international involvements of Zhejiang province. The decentralization and opening up in the reform period provided both autonomy and incentives for provincial government to become involved in international society. Simultaneously, the dominant aim during the reform period – domestic economic development – meant that the international involvement of the provincial government obtained a high economic profile. Zhejiang's engagement in the global economy reflected the proactive role of both central and provincial government based on the local characteristics. In the process, the advantageous position in the national policy enabled Zhejiang to open up and become involved in the global economy earlier. The provincial government was able to develop both suitable policies for the local as well as to promote international economic cooperation through governmental interactions. The developed private economy also enabled Zhejiang to develop a specific pattern to open up. The economic interaction of Zhejiang province in the reform period clearly reflected the influences of central-subnational interactions. The next chapter discuss another case study: Yunnan, an inland province. The transformations at the central levels acted differently on Yunnan province, which results in a different pattern of Yunnan's international involvement.

Chapter 5:
A Case Study of Yunnan Province:
The International Involvements of a Border Province

Basic Information about Yunnan Province	
Location	South Western China
Capital City	Kunming
Administrative Divisions	16 prefecture level units; 17 districts, 16 county-level cities, 67 counties and 29 autonomous counties below prefectures.
Neighbouring States	4,060 km borderline with three Southeast Asia states: Myanmar, Laos and Vietnam.
International River	Mekong River flowing from Tibet plateau through Yunnan to Laos, Myanmar, Thailand, Cambodia and Vietnam.
Ethnicity	25 minority ethnic groups; occupying 33.6% of Yunnan's total population.

Source: Official Website of People's Government of Yunnan Province; General Information of Yunnan, http://www.yn.gov.cn/yngk/

5.1 Introduction

Chapter 4 discussed the international involvements of Zhejiang province–an economically developed and internationalized coastal province. This chapter turns to the international engagement of Yunnan, a less developed inland province. The two provinces exhibit clear diversity in both their advantages and limitations in respect of international involvements. As an inland and border province, Yunnan has developed a very different pattern in its approach to international affairs, which has enabled it to make full use of its local advantages. Chapter 3 illustrated how the influence of diplomatic relations and foreign policy has influenced the international involvements of SNGs.[520] This is also evident in Yunnan where international involvements have been

[520] See Chapter 3, section 3.1

significantly affected by China's relations with Southeast Asian states as well as China's engagement with ASEAN, explored in the first section of this chapter. China's improved diplomatic relations with Southeast Asian states since the 1990s has provided Yunnan a good international environment to further open up and has shifted its focal point to Southeast Asian states. Moreover, China's involvements in regional and subregional cooperation has offered Yunnan an important platform and given it a crucial role to play.

Secondly, national policy, reflected in the reform and opening up policy, has influenced the international involvements of Yunnan province. Chapter 3 discussed how the process of decentralization and internationalization led to the international activities of SNGs, and the chapter also focused on the uneven and gradual process of reform and opening up.[521] The international involvement of Yunnan also displays the dominant role of national policy, which caused Yunnan to be seen as a backward province in terms of internationalization at the first stage of opening up. Simultaneously, this disadvantage in national policy induced Yunnan provincial government to rethink its local strategy for opening up. The second section of this chapter discusses the complex interaction between central government and Yunnan province in the process of opening up, exploring the role Yunnan provincial government played in initiating local strategy of opening up. The complex interaction of central and subnational interaction shaped Yunnan's international involvement. Finally, the changing concept of security developed by the central government[522] and the security cooperation between China and Southeast Asia enabled Yunnan to become involved in international non-traditional security field, which further expanded the province's international activities.

5.2 China's Neighbouring Policy and Influences on Yunnan's International Involvements

Chapter 3 discussed the complex interplay between China's diplomatic relations and the international involvements of SNGs.[523] The diplomatic relations at the central level greatly influence the interactions at the subnational levels. On the one hand, good

[521] See Chapter 3, section 3.2 for more information.
[522] See Chapter 3, section 3.4 for more information.
[523] Chapter 3, Section 2 for more information.

political relations at the central level could positively affect international economic cooperation, in which SNGs in China are deeply involved. On the other hand, the interactions between national governments could provide platforms for SNGs to engage with foreign states or SNGs, such as through sister-city relations. In return, the international involvements at the subnational level could also serve China's foreign relations at the central level – the international involvements of Yunnan also followed these rules. China's neighbour policy and its relations with Southeast Asian states have significantly affected the international involvements of Yunnan province, especially considering that Yunnan gradually adjust its opening up strategy and shifted its focus to Southeast and South Asia. A secure environment and stable diplomatic relations between China and neighbouring states were of great importance to Yunnan's opening up and its involvement into regional cooperation.

5.2.1 China's Relations with Southeast Asia and ASEAN

The opening up of China's border provinces could not have been achieved without a secure and stable surrounding. International interactions along the borders, including trade, was aimed at achieving a secure and stable neighbouring environment by meeting the life and production needs of and promoting friendship between border residents.[524] However, both the relations among Southeast Asian states and their relations with China demonstrated significant instabilities during the Cold War period. Yunnan is located on the frontier of various international and regional conflicts, which made it difficult for the provincial government to proactively promote border trade with neighbouring states for several decades.[525] The situation began to change in the 1980s when China shifted its focus from class struggle to domestic economic development, which created a need for a stable surrounding and improved relations with Southeast Asian states. Recovery of border trade between Yunnan province and Myanmar in 1980 also served border stability. Simultaneously, domestic transformation in China led to the changing perception in Southeast Asian states that "China was on longer a power dissatisfied with the status quo and intent on export revolution."[526] As a result, the

[524] Sun, H.N. (2015). Process, Opportunity and Thinking: Border Development as well as Opening Up and the Stability and Development of Southwestern Border [历程，机遇与思考：沿边开发开放与西南边疆的稳定与发展], *China Borderland Studies*. 3, pp 16-32.
[525] Ibid.
[526] Cheng, J. Y. (1999). China's ASEAN Policy in the 1990s: Pushing for Regional Multipolarity. *Contemporary Southeast Asia*, p.177.

relationship between China and Southeast Asian states greatly improved in the 1980s. The Tiananmen Incident in 1989 also caused China to rethink its foreign policy to deal with the international isolation caused by sanctions imposed by Western states.[527] Herein, China developed a more Asian-oriented foreign policy, with Southeast Asia as a major focus.[528] The end of the Cold War in the early 1990s freed both China and Southeast Asian states from ideological confrontation and provided a better environment for cooperation. Since then, China has accelerated its recovery and improved relations with Southeast Asian states as well as ASEAN as a whole. The improved diplomatic relations have provided Yunnan with a secure border environment to open up and develop economic cooperation with Southeast Asian states.

The improved relations between China and Southeast Asia manifest at both the bilateral and the multilateral level. On the one hand, China established or recovered bilateral relations with all Southeast Asian states in the early 1990s. In August 1990, China normalized diplomatic relations with Indonesia and with Singapore two months later, followed by Brunei in 1991. Vietnam followed in 1992, which was "particularly conducive to Yunnan's external environment" as a neighbouring states along Yunnan's border.[529] The improved diplomatic relations offered political guarantees for Yunnan to further open up following the central policy developed in 1992. On the other hand, China also attached great importance to its relationship with ASEAN. China significantly improved its relationship with ASEAN from the 1990s. In 1991, then-Foreign Minister Qian Qichen attended the 24th ASEAN Foreign Ministers Meeting, which marked the beginning of China-ASEAN relations as well as the starting point of a parallel development of both bilateral and multilateral relations between China and ASEAN states.[530] Since then, various mechanisms have been established to strengthen China-ASEAN political relations and promote economic and security cooperation. Table 5-1 lists the progress of China-ASEAN relation building. China and ASEAN developed a dialogue partnership in 1991, which was upgraded to a comprehensive

[527] Zhao, Q. (1995). China's Foreign Relations in the Asia-Pacific Region: Modernization, Nationalism and Regionalism. *China Review*, 8, pp.1-30.
[528] Ibid.
[529] Li, M. (2014). Local Liberalism: China's Provincial Approaches to Relations with Southeast Asia. *Journal of Contemporary China*, 23(86), p.277.
[530] Wang, G.H. & Zhang, X.M. (2011). Multilateral Diplomacy and Sino-ASEAN Relations [多边外交与中国——东盟关系]. *Around Southeast Asia*, (12), pp.3-9.

partnership in 1996. The Asian Financial Crisis in 1997 further promoted China-ASEAN relations as China refused to depreciate the RMB and provided financial support for ASEAN states.[531] The first informal meeting of China and ASEAN leaders was convened in Malaysia in 1997, which marked the establishment of the China-ASEAN 10+1 mechanism.[532] This mechanism was an important multilateral platform and the key for China-ASEAN multilateral diplomacy, under which much crucial cooperation was achieved. At the 7th China-ASEAN 10+1 leaders meeting in 2003, the two sides established a strategic partnership for peace and prosperity, which made China the first strategic partner for ASEAN.[533]

China proactively promoted economic cooperation with ASEAN states through the 10+1 mechanism. In the fourth 10+1 meeting, China put forward the idea to develop a free trade zone and in 2002, the two groups signed the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation, which provided the basis for construction of a free trade area (FTA). Following several successful negotiation on various issues (Table 5-1), China and ASEAN finally developed a free trade zone in 2010, marking a milestone for China-ASEAN economic cooperation: "The initiation [and establishment] of China-ASEAN FTA (CAFTA) was of particular interest to Yunnan because CAFTA would highlight the geographic importance of Yunnan province."[534] It enabled Yunnan to obtain recognition from the central government about its specific role in China-ASEAN cooperation. The *Opinion of State Council about Supporting Yunnan to Accelerate the Construction of Important Bridgehead Opening up to Southwest*, issued in 2011, attached importance to the CAFTA to promote the foreign economic cooperation of Yunnan province.[535] The establishment of CAFTA greatly strengthened the economic interactions between Yunnan and Southeast Asia states. It pushed Yunnan to become the frontier in China's opening up and improved

[531] Zhou G.Y. (2017). A Critique of China's Neighbourhood Diplomacy: Current Situations and Future Priorities [中国周边外交的当前态势和未来重点]. *Southeast Asia Studies*, (1), pp.75-91.
[532] Wang, G.H. and Zhang, X.M. (2011). Multilateral Diplomacy and Sino-ASEAN Relations [多边外交与中国——东盟关系]. *Around Southeast Asia*, (12), pp.3-9.
[533] Ibid.
[534] Li, M. (2014). Local Liberalism: China's Provincial Approaches to Relations with Southeast Asia. *Journal of Contemporary China*, 23(86), p.281.
[535] State Council (2011). *Opinion of State Council about Supporting Yunnan to Accelerate the Construction of Important Bridgehead Opening up to Southwest* [国务院关于支持云南省加快建设面向西南开放重要桥头堡的意见], http://www.gov.cn/zwgk/2011-11/03/content_1985444.htm

Yunnan's role in China's regional cooperation.[536]

In addition to the economic issues, China and ASEAN also promoted cooperation to deal with various other issues, which also fit in with Yunnan's interests and enabled Yunnan to become involved in China-ASEAN relations. According to joint statements to establish strategic partnership issued in 2003, China and ASEAN claimed to promote cooperation in political, economic, social, security and regional issues.[537] It put forward five key points in economic cooperation, including agriculture, information and communication, human resource development, mutual investment, and Mekong River Development.[538] The two sides further expanded cooperation into more areas, such as the establishment of the FTA, transportation, tourism, energy development, and finance in the following years. The issues emphasized in China-ASEAN cooperation were also in accord with the local strategy developed by Yunnan and thus made the province an important participant in China-ASEAN interactions. For example, China and ASEAN highlighted transportation cooperation, such as the construction of the Kunming-Bangkok highway and the Pan-Asia railway, which were important projects Yunnan interested in .[539] Yunnan province also proposed to construct a network of railways and to build a seven-in and four-out highway to connect Yunnan and neighbouring states under its grand route-way strategy.[540] The geographic location of Yunnan made it an important part of the China-ASEAN land route network and thus offered the opportunity for Yunnan to promote international interactions with ASEAN states. The cooperation of China and ASEAN in transportation represents only one of the various areas in which Yunnan became involved. Indeed, Yunnan developed cooperative interactions with ASEAN states in many other areas, especially through the sub-regional cooperative mechanism developed by China and neighbouring states.

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[536] Liu, Z. (2011). *Yunnan's Position and Development in China's Neighbouring Security and Regional Cooperation* [云南在中国周边安全与区域合作中的定位与发展]. Paper for Southeast Asia Study Workshop.

[537] State Council (2003). *Joint Statement between PRC and ASEAN Leaders—the Strategic Partnership for Peace and Prosperity*[中华人民共和国与东盟国家领导人联合宣言——面向和平与繁荣的战略伙伴关系], see http://www.gov.cn/gongbao/content/2003/content_62469.htm

[538] Ibid.

[539] ASEAN-China Centre. *Action Plan for Practicing China-ASEAN Joint Statement of Strategic Partnership for Peace and Prosperity (2011-2015)* [落实中国—东盟面向和平与繁荣的战略伙伴关系联合宣言的行动计划], http://www.asean-china-center.org/2012-02/27/c_131433868_2.htm

[540] Xue, Z.R. and Ma, Y.H. (February 2005). *Yunnan Builds a Golden Corridor: From order to ASEAN Logistic Center* [从边疆到东盟物流中心的基因突变 打造"黄金走廊"]. http://finance.sina.com.cn/g/20050217/08361362730.shtml?from=wap

Table 5-1: Development of China-ASEAN Relations

1991	**China-ASEAN Dialogue Partnership**
1994	ASEAN Regional Forum (ARF) established, initiated by ASEAN, participated in by China; Multilateral Mechanism for Security Dialogue and Cooperation
1996	**China-ASEAN Comprehensive Partnership**
1997	First Informal Meeting between China-ASEAN leaders and **China-ASEAN Good Neighbourly Partnership of Mutual Trust** **China-ASEAN 10+1** and 10+3 (China, Japan and South Korea) Mechanism started
2002	*Framework Agreement on China-ASEAN Comprehensive Economic Cooperation* signed, providing the basic structure for China-ASEAN free trade zone *China-ASEAN Joint Declaration on Cooperation in Non-Traditional Security Field* *Declaration of Action by Various Parties Concerning the South China Sea*
2003	China entered into Treaty of Amity and Cooperation in Southeast Asia China and ASEAN developed **'the Strategic Partnership for Peace and Prosperity'**
2004	*Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation Between China and ASEAN* signed; implemented in July 2005
2005	*Second Protocol to Amend the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation* *Second Protocol to Agreement on Trade in Goods* *Agreement on Dispute Settlement Mechanism of the Framework Agreement on Comprehensive Economic Cooperation*
2007	*Agreement on Trade in Service of the Framework Agreement on Comprehensive Economic Cooperation*
2009	*Agreement on Investment of the Framework Agreement on*

	Comprehensive Economic Cooperation China appointed ASEAN ambassador
2010	CAFTA officially established
2011	China-ASEAN Centre established

Source: Wang, G.H. and Zhang, X.M. (2011). Multilateral Diplomacy and Sino-ASEAN Relations [多边外交与中国—东盟关系]. *Around Southeast Asia,* (12), pp.3-9; Wang, Q. (2011). Two Decades of China-ASEAN Economic Relations: Retrospect and Prospect [中国—东盟经济关系 20 年：回顾与展望]. *Southeast Asia Affairs,* (4).

5.2.2 Yunnan's Participation in Sub-Regional Cooperation

Subregional cooperation is an important aspect in China-ASEAN cooperation. China and ASEAN attached great importance to subregional development and have endeavoured to promote cooperation through various mechanism, such as Great Mekong Subregion Economic Cooperation Program (GMS), ASEAN-Mekong Development Cooperation Framework, and the Mekong River Commission. The emphasis on the Mekong River subregion development and the related mechanisms developed among China and ASEAN states have provided important platforms for Yunnan to participate in subregional cooperation with involved states. Yunnan province had to participate in the subregional cooperation as it was located in upstream of the Mekong river and easily influenced by issues in the subregion. Among these mechanisms, GMS was the most important for Yunnan province as it had directly participated in the GMS as a representative of China since the establishment of the GMS in 1992. "The initiation of GMS provided the first and best opportunity for Yunnan to open up" in 1992 when the central government decided to further open up the border area.[541] Participation in the GMS served the provincial idea of shifting Yunnan's focus to opening up to Southeast Asia in the early 1990s.

5.2.2.1 Brief Introduction to GMS

GMS was initiated by the Asian Development Bank (ADB) to enhance interactions and cooperation between members and thus promote economic development and eliminate poverty in the subregion. It is an inter-state mechanism, the members of which includes China, Cambodia, Laos, Myanmar, Thailand, and Vietnam. There is a three-level

[541] Li, M. (2014). Local Liberalism: China's Provincial Approaches to Relations with Southeast Asia. *Journal of Contemporary China*, 23(86), p.278.

institutional structure in the GMS cooperation, including the Leaders' Summit, the Ministerial Conference as well as the working group and forum in the priority sectors, along with a unit at ADB headquarter providing overall secretarial support.[542] As the highest level organ in the GMS, the first leaders' summit was held in Phnom Penh, Cambodia and is held every three years by each member state in turn. The ministerial conference was developed since the establishment of GMS in 1992 to provide overall guide. On the operational level, numerous working groups and forums have been developed to coordinate work in specific sectors including agriculture, energy, environment, health and human resource development, information and communication technology, tourism, transport, trade facilitation and urban development.[543] The GMS programme is a flexible and pragmatic arrangement mainly based on projects approved by the member states. In 1994, the ADB approved its first GMS projects, including Yunnan Expressway and Theun Hinboun hydropower project in the Laos.[544] In 2011, after almost 20 years of work, the GMS programme has implemented 55 projects in sectors such as transportation improvement, hydropower, and tourism infrastructure, with a total project cost of USD 14 billion.[545] Since 2012, the GMS programme has entered its third decade with *the Greater Mekong Subregional Strategic Framework 2012-2022*.

5.2.2.2 Yunnan's Involvement in GMS Cooperation

As mentioned previously, GMS is an inter-state mechanism in the subregion, of which the Chinese central government is a member. However, since the establishment of GMS, Yunnan province has become an important participator that is directly involved in GMS projects. The position of Yunnan as a primary actor in GMS has been recognized by both Chinese central government and the ADB.[546] It is reasonable that Yunnan's direct involvement in the GMS was recognized given that a majority of GMS-related projects located in Yunnan and the implementation of these projects could not succeed without support from the Yunnan provincial government. Moreover, it should be noted that the

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[542] Greater Mekong Subregion, How the programme works, https://greatermekong.org/about
[543] Greater Mekong Subregion, Overview, https://greatermekong.org/about
[544] Asian Development Bank (2011). *Greater Mekong Subregion: Twenty Years of Partnership,* p.10.
[545] Asian Development Bank (2011). *Greater Mekong Subregion Economic Cooperation Program Strategic Framework 2012-2022*, p.1.
[546] Chen, D.Y. (2008). Yunnan and Greater Mekong Subregional Cooperation Mechanism[云南与大湄公河次区域经济合作机制]. *International Review*, (6), pp.16-21.

establishment of GMS in 1992 was also related to Yunnan province. Before the establishment of GMS, a group of officers from the ADB visited Yunnan and the existing cooperation between Yunnan and neighbouring states provided confidence for the ADB to develop the GMS programme.[547] Yunnan demonstrated high enthusiasm for the GMS programme even though the Chinese central government's interest in multilateral cooperation was lukewarm in the early 1990s.[548]

The leadership of China's GMS delegation, and the attendee at the ministerial meeting in the early 1990s, was undertaken by the senior officer of the People's Bank of China. After the financial crisis in 1997, the improved relations between China and ASEAN meant that China became increasingly active in the GMS programme.[549] GMS-sponsored infrastructure development projects served local need and "contributed to Yunnan's strategy towards internationalization" as a landlocked and underdeveloped province.[550] At the first GMS ministerial meeting held in 1992, Yunnan's general secretary was appointed as the deputy head of the Chinese delegation to attend the meeting, who proactively made a request to the head of the Chinese delegation for an opportunity to express Yunnan's initiative at the meeting.[551] Yunnan's initiative to improve cross-border transportation and to construct the Kunming-Bangkok highway received a positive response and was later included in GMS priority projects.

Yunnan province grasped the timely opportunities provided by the GMS and proactively participated in the programme. Domestically, Yunnan was allowed to join in the National Lancang-Mekong Coordination Group developed in 1994 and led by National Development and Reform Commission (NDRC), through which Yunnan could express local needs in its GMS cooperation.[552] Yunnan's governor was included as a formal member in the Chinese delegation to participate in the GMS leaders' summit.

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[547] Chee, D.Y. (2008). Yunnan and Greater Mekong Subregional Cooperation Mechanism[云南与大湄公河次区域经济合作机制], *International Review*. (6), pp.16-21.

[548] Chiang, M. H. (2019). China–ASEAN Economic Relations after Establishment of Free Trade Area. *The Pacific Review*, 32(3), pp.267-290.

[549] Tubilewicz, C. (2017). Paradiplomacy as a Provincial State-Building project: The Case of Yunnan's Relations with the Greater Mekong Subregion. *Foreign Policy Analysis*, 13(4), pp.931-949.

[550] Chen, Z.M; Jian, J.B & Chen, D.Y. (2010). The Provinces and China's Multi-Layered Diplomacy: The Cases of GMS and Africa. *The Hague Journal of Diplomacy*, 5, p.12.

[551] Ibid, P.9.

[552] Chen D.Y. (2008). Yunnan and Greater Mekong Subregional Cooperation Mechanism [云南与大湄公河次区域经济合作机制], *International Review*, (6), pp.16-21.

Before Guangxi Autonomous Region was approved by the central government to attend GMS in 2005, Yunnan maintained a unique position in China's GMS cooperation. Yunnan also attached great importance to its position as the main province in GMS and Guangxi's participation in GMS produced angst in Yunnan provincial elites.[553] To safeguard Yunnan's position, the provincial government proposed to the central government to hold the second GMS Leaders' Summit in Kunming in 2005. It was the first international conference of national government leaders conducted in Yunnan province and the most important event in terms of foreign affairs for the province that year.[554] Additionally, the fifth (1996, Kunming) and twelfth (2003, Dali) GMS ministerial meetings were also held in Yunnan province. In 2008, Yunnan joined with the Ministry of Commerce to convene the first GMS economic corridor forum and advanced the idea of transforming the transportation corridor into an economic corridor. Participation in the domestic and international GMS-related organs and conferences provided Yunnan with a regular and institutionalized platform to interact with neighbouring states and express local demands and ideas.

However, Yunnan's engagement in the GMS relied on the support from Beijing as it is an inter-state mechanism. Furthermore, the mechanism resulted in an unequal position between Yunnan and other GMS states, which had the potential to limit Yunnan's role in GMS.[555] To reduce the negative impact of this situation, Yunnan proactively promoted the development of multilateral and bilateral platforms with GMS states and SNGs. Bilaterally, the mechanisms, including Yunnan-North Thailand Cooperation Working Group, Yunnan-North Laos Cooperation Working Group, the Economic Cooperation Consultation of Yunnan and Four Provinces of Vietnam, and the Yunnan-Myanmar Economic and Trade Cooperation Forum, were established. Multilaterally, the Joint Coordination Committee of Lancang-Mekong Commercial Vessels and Sailing was developed among China, Laos, Myanmar, and Thailand. Moreover, Yunnan initiated the establishment of the GMS economic corridor provincial governor forum – the first forum was hosted by Yunnan province in Kunming in 2008, which offered a

[553] Summers, T. (2013). Yunnan-A Chinese Bridgehead to Asia: A Case Study of China's Political and Economic Relations with its Neighbours. Elsevier, p.105.
[554] Yunnan Provincial Government Research Office (2006). *Yunnan Almanac 2006* [云南年鉴 2006]. Yunnan Almanac Press, p.96.
[555] He, S.D. (2012). Yunnan's 20-Years Participation in GMS Cooperation: Review and Reflection [云南参与 GMS 合作 20 年：述评与思考]. *Journal of Kunming University of Science and Technology*, 12(4), pp.11-18.

platform for local government leaders in the GMS states to communicate and coordinate. Yunnan provincial leaders also made official visits to GMS states with the aim of promoting communication and understanding between Yunnan and neighbouring states. For instance, a group led by the provincial governor visited five GMS states in 2007, during which the group visited 11 cities, and met with 11 national leaders and 40 provincial leaders as well as some enterprises and commercial organizations.[556] Through this visit, Yunnan's enterprises signed 42 projects, with a value of USD 4.2 billion.[557] Again in 2012, the 20th anniversary of GMS, a group led by the Yunnan provincial governor took a Yunnan GMS friendship trip to five GMS states, during which Yunnan signed 104 project contracts with a value of USD 4.16 billion with five states.[558] Through both bilateral and multilateral interaction with GMS states, Yunnan further strengthen its position in the regional cooperation.

5.2.2.3 Yunnan's benefits and achievements by implementing GMS project

Active participation in the GMS projects brought many benefits to Yunnan province and significantly helped its local development. Participation in GMS projects enabled Yunnan not only to benefits from economic cooperation with neighbouring states and from the financial support of the ADB, but also to gain central government support for local development strategy.[559] For example, from 1992 to 2007, Yunnan successfully obtained five ADB loan projects with a contracted loan valued at USD 752 million, occupying 58% of provincial use of loan from international financial organizations.[560] These ADB loans supported Yunnan to improve its transport infrastructure, such as the Yunnan highway from Chuxiong to Dali (USD 150 million), Southern Yunnan Road Development (USD 250 million), and Southwestern Yunnan Road development (USD 250 billion).[561] Yunnan also obtained a loan of USD 250 million to construct Yunnan Lincang Border Economic Cooperation Zone in 2018.[562] These kinds of projects

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[556] Yunnan Provincial Government Research Office(2008). *Yunnan Almanac 2008* [云南年鉴 2008]. Yunnan Almanac Press, P.97.
[557] Ibid.
[558] Liu, Z. & Lu, G.S. eds (2013). *Report on the Cooperation and Development in the Greater Mekong Sub-Region (2012-2013)* [大湄公河次区域合作发展报告 (2012-2013)]. Social Science Academic Press.
[559] Tubilewicz, C. (2017). Paradiplomacy as a Provincial State-Building project: The Case of Yunnan's Relations with the Greater Mekong Subregion. *Foreign Policy Analysis*, 13(4), pp.931-949.
[560] He, S.D. (2012). Yunnan's 20-Years Participation in GMS Cooperation: Review and Reflection [云南参与 GMS 合作 20 年：述评与思考]. *Journal of Kunming University of Science and Technology*, 12(4), pp. 11-18.
[561] Asian Development Bank, Operations Evaluation Department (2008). Transport and Trade Facilitation in the Greater Mekong Subregion-Time to Shift Gears. P63 file:///Users/yexjing/Desktop/sap-reg-2008-86.pdf
[562] Asian Development Bank, Projects, China: Yunnan Lincang Border Economic Cooperation Zone Development

supported by the ADB significantly facilitate the infrastructure construction in Yunnan province and thus helped local development and Yunnan's economic interactions with GMS states.

Its position in cooperating with GMS "differentiated Yunnan from other western provinces and motivated Beijing to back Yunnan's modernization."[563] As a result, Yunnan could not only obtain financial resources but also preferential policies offered by the central government. Although Yunnan did receive financial support from the ADB, the central and local government provided the lion's share of funding in Yunnan's infrastructure development projects.[564] Examples of such projects include: Yunnan Expressway, approved in 1994, costing USD 461.4 million, with USD 150 million from a ADB loan and USD 311.4 million from government.[565] There were 4 GMS-related transport projects in Yunnan province from 1992 to 2007, with a total cost of USD 2,361.7 million, with 35.1% contributed by the ADB and 56.5% by central and local government and the rest was co-financed by other organizations, like China development bank, domestic commercial bank, and the Asian Development Fund.[566] Central government also offered preferential policies for local enterprises in Yunnan to engage economic interactions with GMS states. Therefore, Yunnan's participation in the GMS showed an inward-oriented strategy, which enabled it to develop a relatively competitive position domestically, changing its position in the perception of central government.

GMS is a project-oriented mechanism and implementation of its projects could not occur without the participation and support of local government. In China, a majority of GMS-related projects were located in Yunnan, making the province a major implementer in the cooperative projects between China and other GMS states.[567] Through participation in various projects, Yunnan promoted its international

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Project. https://www.adb.org/projects/49310-002/main#project-pds

[563] Tubilewicz, C. (2017). Paradiplomacy as a Provincial State-Building project: The Case of Yunnan's Relations with the Greater Mekong Subregion. *Foreign Policy Analysis*, 13(4), pp.931-949.

[564] Ibid.

[565] Asian Development Bank, Operations Evaluation Department (2008). *Transport and Trade Facilitation in the Greater Mekong Subregion-Time to Shift Gears*. p.63 file:///Users/yexjing/Desktop/sap-reg-2008-86.pdf

[566] Ibid.

[567] Chen, D.Y. (2008). Yunnan and Greater Mekong Subregional Cooperation Mechanism[云南与大湄公河次区域经济合作机制]. *International Review*, (6), pp.16-21.

cooperation with GMS states in sectors prioritized by GMS, including agriculture, energy, environment, human resources development, telecommunications, tourism, trade and investment, and transport. The achievements in Yunnan province through the GMS projects significantly promoted local development and, more importantly, strengthened Yunnan's role as a gateway between China and neighbouring states. Firstly, GMS states became the major foreign trade market and overseas investment destination for Yunnan's enterprises (discussed in section 5.5). To promote the investment in GMS states, the Yunnan provincial government listed GMS states, including Vietnam, Laos, Myanmar and Thailand, as the first and second destinations for the 'going out' strategy in 2004 and developed specific funding to encourage local enterprises to invest in the GMS region in 2005.[568] The second achievement in the GMS projects for Yunnan lies in transportation construction. For example, road construction in Yunnan formed a 4-out structure: Kunming-Hekou-Hanoi, Kunming-Mohan-Laos-Bangkok, Kunming-Ruili-Rangoon, and Kunming-Tengchong-Myitkyina-India.[569] The improvement in transportation between Yunnan and GMS states further promoted foreign trade and investments in the subregion, in accordance with the GMS idea of transforming the transport corridor to economic corridor. Furthermore, the improved transportation network and the important location of Yunnan in the network strengthened Yunnan's role as a grand route-way connecting China and Southeast Asia.

Energy development cooperation was another important topic under the GMS. For example, Yunnan endeavoured to promote cooperation with GMS in electricity and became an important electricity supplier for GMS states. Yunnan provided electricity to Vietnam from 2004 and until 2016 – the accumulated electricity sent to Vietnam reached 31.29 billion kilowatts.[570] Energy development projects in the GMS programme also provided opportunities for local enterprises to conduct business and investment in the region (see section 5.2). Yunnan was also active in GMS agriculture and tourism cooperation projects. Yunnan signed numerous agreements or

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[568] Chen, D.Y. (2008). Yunnan and Greater Mekong Subregional Cooperation Mechanism[云南与大湄公河次区域经济合作机制], *International Review*, (6), pp.16-21.

[569] He, S.D. (2012). Yunnan's 20-Years Participation in GMS Cooperation: Review and Reflection [云南参与GMS 合作 20 年：述评与思考]. *Journal of Kunming University of Science and Technology*, 12(4), pp.11-18.

[570] Liu, Z & Lu, G.S. eds (2017). *Report on the Development of the Lancang-Mekong Cooperation* [澜沧江-湄公河合作发展报告 2017]. Social Science Academic Press. p.127.

memorandums of understanding with GMS states to open new tourist routes, launch border tours, hold tourism festivals and train tourism managers.[571] Regarding agricultural cooperation, Yunnan developed agriculture demonstration parks in Vietnam, Cambodia, Laos, and Myanmar.[572] The cooperation in drug control was another important project implemented by Yunnan province. Yunnan not only cooperated with GMS states in the law enforcement of drug abuse, but also implemented a poppy substitution project in neighbouring states.[573] By implementing serious GMS-related projects, Yunnan enhanced interactions and cooperation with neighbouring states and became an important actor in China-GMS cooperation.

A final point about Yunnan's participation in GMS to mention is that GMS projects have provided great opportunities for enterprises, both inside and outside the province. Firstly, the Yunnan provincial government formulated specific policies to facilitate investment in the GMS states under the strategy of going out. Moreover, the implementation of GMS projects led to cooperation between government and enterprises. The Yunnan government created productive coalitions with provincial SOEs, private enterprises, and business associations, as well as central ministries and national SOEs, in implementing GMS projects. Taking electricity development as an example, enterprises were the real actors in producing and conducting business with neighbouring states in relation to electricity; the Yunnan Power Grid Cooperation actively explored the electricity market in neighbouring states and built networks of power grids in Myanmar, Laos, Vietnam, and Thailand. Also, in the poppy substitution project, enterprises played an important role in the programme developed by Yunnan province: 198 Yunnan-based enterprises invested RMB 1.334 billion in crop substitution in northern Laos and northern Myanmar from 2005 to 2008.[574] Therefore, Yunnan's participation in GMS projects provided good opportunities for enterprises to conduct business in the subregion, which partly led to the increasing foreign trade and investment between Yunnan and neighbouring states, as discussed in section 5.5.

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[571] NDRC, Ministry of Foreign Affairs & Ministry of Finance (2008). *The Country Report on China's Participation in Greater Mekong Subregion.* https://en.ndrc.gov.cn/newsrelease_8232/200804/t20080430_1193888.html

[572] Ibid.

[573] Tubilewicz, C. (2017). Paradiplomacy as a Provincial State-Building project: The Case of Yunnan's Relations with the Greater Mekong Subregion. *Foreign Policy Analysis*, 13(4), pp.931-949.

[574] Summers, T. (2013). *Yunnan-A Chinese Bridgehead to Asia: A Case Study of China's Political and Economic Relations with its Neighbours*. Elsevier, P.166.

5.2.3 Yunnan's International Involvements: Serving China's Diplomacy

China's improved diplomatic relations with Southeast Asian states, its attention to neighbouring policy, as well as China's participation in the regional and subregional cooperation framework have all provided crucial platforms and opportunities for Yunnan to open up and promote international interactions. Yunnan has made use of international interactions promoted by regional and subregional platforms to serve local development. Simultaneously, Yunnan's international interactions, originating from and developing against the background of China's relations with Southeast Asia, could also serve China's neighbouring policy and help China to maintain a stable and secure environment in most cases. For example, Yunnan's involvements in GMS followed the central neighbouring policy of fostering an amicable, stable and prosperous neighbourhood.[575] Through GMS projects, Yunnan not only promoted economic cooperation with involved states but also introduced advanced knowledge and technology to the neighbouring states, such as agricultural cooperation. As a result, Yunnan's participation helped China to develop a positive image and thus served relations between China and neighbouring states.

Moreover, the barter trade in the border area between Yunnan and neighbouring states could also strengthen the mutual communication and understanding between residents in different states and thus has been helpful for border stability and improved bottom-up bilateral relations. China has attached great importance to improving and maintaining diplomatic relations with neighbouring states and thus providing a stable border environment for domestic development. Southeast Asian states are important targets of China's neighbouring diplomacy and thus Yunnan's international involvement, concentrated on Southeast Asia, is a crucial component of China's diplomatic relations with neighbour states. For Yunnan province, serving the grand diplomacy of the central government and promoting good neighbour policy were listed as major goals for local foreign affairs.[576] Thus, Yunnan provincial government endeavoured to promote interactions and mutual understanding with Southeast Asian states in different ways, such as through the establishment of sister city relations and

[575] He, S.D. (2012). Yunnan's 20-Years Participation in GMS Cooperation: Review and Reflection [云南参与GMS 合作 20 年：述评与思考]. *Journal of Kunming University of Science and Technology*, 12(4), pp.11-18.
[576] It could be found in the foreign affairs record in Yunnan's Yearbooks that serving neighbouring diplomacy became a frequently mentioned discourse in Yunnan's foreign affairs from the early 1990s.

frequent mutual governmental visits. Such activities conducted by Yunnan province reflect an evident Southeast Asia-orientation, which in return served China's neighbouring policy.

5.2.3.1 Yunnan's Sister-City Relations with Southeast Asia

Chapter 3 discussed sister-city relations, which originated from Sino-Japan interaction and then became an institutionalized platform for SNGs in China to interact with their counterparts around the world.[577] Like other provinces in China, Yunnan provincial government and local governments have developed sister-city relations with their counterparts from different states. By 2015, Yunnan province (including prefectures and counties) had developed 59 pairs of sister-city relations with counterparts in foreign states, of which 12 sister-city relations were developed by the provincial government, shown in Table 5-2.[578] The origin of sister-city relations was closely related to the improvement of Sino-Japan relations, which were also reflected in Yunnan province. The first sister-city relationship was developed by Kunming with Fujisawa, Japan in 1981.[579] However, sister cities from Southeast Asian states make up a large proportion for Yunnan province. By 2018, Yunnan province (including prefectures and counties) had established sister-city relations with 37 local governments from Southeast Asian states, around 40% of its total sister-city relationships.[580]

Table 5-2 shows the sister cities of the provincial government by 2015: Yunnan developed sister-city relations with four SNGs from Southeast Asian states, one third of the total. Yunnan province developed the second largest number of sister-city relationships with Southeast Asian states among all the provinces in China, after

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[577] See chapter 3, section 2.2 for more information.

[578] Li, X.L. eds (2016). *A Special Report on China Urban Competitiveness (1973-2015)* [中国城市竞争力专题报告（1973-2015）]. China Social Science Press, pp. 402-405. It was explained in Chapter 4, section 4.2.2 that data in this book collected from CIFCA is used for the comparison and consistency of statistics. The data collected from Yunnan's yearbook is a little different. Accordingly, 67 pairs of sister-city relations were developed, of which 15 was developed by provincial government. According to Zhang, M.G. & Li, C.L. eds (2019). *Yunnan Almanac 2019* [云南年鉴 2019]. House of Yunnan Almanac, pp.110-111, sister-city relations developed by Yunnan, including both provincial and lower level governments, reached 93 couples, of which 20 sister-city relations were developed by the provincial government by the end of 2018. However, this little difference in the data from two sources does not change the conclusion given out in this chapter. The number of sister cities in Southeast Asia states occupied the largest proportion.

[579] Ibid.

[580] Calculated by author according to data from Zhang, M.G. & Li, C.L eds (2019). *Yunnan Almanac 2019* [云南年鉴 2019]. House of Yunnan Almanac, pp.110-111.

Guangxi province, which also neighbours the region. For other provinces that developed their largest number of sister-city relationship with foreign SNGs, such as Jiangsu, Shandong, Guangdong and Zhejiang, their sister cities in Southeast Asia made up less than 10%.[581] This phenomenon was caused by insufficient economic motivation produced by this kind of relationship with Southeast Asian states for these provinces.[582] However, Yunnan province not only shares a similar culture and ethnicity with these states, but has also developed close economic interactions with them, which has led to an increasing number of sister cities. By developing friendship relations, Yunnan province further improved interactions with partners in culture and personnel and promoted mutual understanding, which served the national relations in a bottom-up way.

Table 5-2: Sister City Relationships by Yunnan Provincial Level

Foreign SNG	**Country**	**Date Established**
Sikasso Region	Mali	1990-11-26
Texas	US	1992-09-10
Chiang Rai Province	**Thailand**	**2000-09-27**
Lodi Province	Italy	2002-06-08
Blekinge	Sweden	2002-09-06
Bali	**Indonesia**	**2003-11-22**
Siem Reap	**Cambodia**	**2006-04-21**
Banteay Meanchey	**Cambodia**	**2011-12-06**
River Region	Chile	2012-04-01
Hauhang Province	Mongolia	2014-10-17
County Clare	Ireland	2015-05-20
Olomouc	Czech Republic	2015-06-26

Source: Li X.L. eds (2016). *A Special Report on China Urban Competitiveness* (1973-2015) [中国城市竞争力专题报告（1973-2015）]. China Social Science Press, p. 403.

[581] Li, J. (2017). The Analysis on Current Situation of Sister Cities between China and Southeast Asia [中国与东南亚国家友好城市关系缔结现状]. *Around Southeast Asia*, (4), pp.39-48.
[582] Ibid.

5.2.3.2 Frequent Governmental Visits between Yunnan and Southeast Asia

Yunnan province also made use of official visits to promote relations with Southeast Asian states. Mutual visits conducted by government leaders provided opportunities for leaders from different states to express their idea directly and thus reduce the opportunity for misunderstandings and help maintain good relations. Like other provinces, Yunnan also made good use of leaders' visits to find opportunities to promote cooperation in the economy and other local development-related issues. Meanwhile, Yunnan provincial leaders took advantage of mutual visits to serve China's diplomacy, especially neighbouring diplomacy with Southeast Asian states. Before the 1990s, no clear idea was developed by Yunnan province to serve China's neighbouring diplomacy through local foreign affairs.[583] This was partly caused by Yunnan not developing a clear strategy of opening up before the 1990s and also because China had not developed neighbouring policy. But since the 1990s, both central and Yunnan provincial government have increasingly emphasized relations with Southeast Asian states. As noted in Yunnan's Yearbook, foreign affairs with neighbouring states entered a new stage, from neighbouring states to ASEAN states like Thailand, Singapore and Indonesia, in 1991.[584] In 1992, actively promoting friendly and cooperative relations with neighbouring states was a key part of local foreign affairs.[585] These changes manifested in mutual visits to and by Yunnan province.

Table 5-4 shows that, in 1985 and 1990, visits conducted by Yunnan provincial leaders to Southeast Asian states did not stand out. However, it shows the increasing number of visits taken by provincial leaders and other governmental officers to Southeast Asian states. Since the 1990s, Yunnan province and leaders from Southeast Asian states frequently visited each other and important guests from Southeast Asia made up the largest proportion. For example, six out of eight groups of national level guests visited Yunnan province from Thailand and Laos in 1995.[586] Official visits from Yunnan province (including both provincial and lower level leaders) to Southeast Asian states made up 45.5% of Yunnan's total.[587] Also for example, 15 groups of Yunnan provincial

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[583] Argument based on the discourse used in Yunnan's Yearbooks, in which there was little discourse about neighbouring relations before the 1990s.

[584] Wu, G.F. eds. (1992) *Yunnan Almanac 1992* [云南年鉴 1992]. House of Yunnan Almanac, p.67.

[585] Wu, G.F. eds. (1993) *Yunnan Almanac 1992* [云南年鉴 1993]. House of Yunnan Almanac, p.70.

[586] He, X. eds (1996) *Yunnan Almanac 1996* [云南年鉴 1996]. House of Yunnan Almanac, p.75.

[587] He, X. eds (1996) *Yunnan Almanac 1996* [云南年鉴 1996]. House of Yunnan Almanac, p.75.

leaders visited foreign states in 2014, 12 of whom visited neighbouring states, ASEAN and South Asian states.[588] Through frequent visits to and receiving large number of visitors from Southeast Asia states, Yunnan was able to discuss pragmatic cooperation with these states conveniently. As mentioned in the GMS section above, Yunnan provincial leaders made visits to all the GMS states in 2007 and 2012, which allowed them to significantly promote economic cooperation with these states.[589]

Mutual visits between Yunnan and Southeast Asia also served to maintain China's diplomatic relations with these states. Firstly, provincial government leaders not only introduced policies and information about Yunnan province to these foreign leaders, but also expressed the neighbouring policy of the central government through visits to Southeast Asian states. Moreover, visitors coming to Yunnan province in some cases were not invited by the provincial government, but by the central government. Thus, trips to Yunnan province were only part of a whole trip to China. For example, a Thai princess and Laotian president were invited by the central government to visit Yunnan province in 1995.[590] Based on the information from Yunnan's Yearbook, numerous visitors to Yunnan in the 1980s and 1990s were invited by the central government. Therefore, central government offered Yunnan opportunities to express itself and in return Yunnan's active role in serving these important guests helped the central government to show friendship to these states. Additionally, the Yunnan provincial government sometimes accompanied central government leaders in visiting Southeast Asian states, which could partly be explained by the close relationship between Yunnan and its neighbours. For example, the Yunnan provincial governor accompanied the prime minister on a visit to Myanmar in 2010.[591] In 2017, the Yunnan provincial secretary accompanied president Xi to Vietnam and Laos.[592] The central government leaders sometimes made use of Yunnan's familiarity and frequent interactions to serve the central diplomacy. Yunnan's interactions with Southeast Asian states could serve both the local development and China's neighbouring policy.

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[588] Yang, S.J. & Zhang, M.G. eds (2015). *Yunnan Almanac 2015* [云南年鉴 2015]. House of Yunnan Almanac, p.112.
[589] See section 2.2.2 for more information.
[590] He, X. eds (1996). *Yunnan Almanac 1996* [云南年鉴 1996]. House of Yunnan Almanac, pp.75-76
[591] Li, C.R., Tong, Z.Y. & Yang, S.J. eds (2011). *Yunnan Almanac 2011* [云南年鉴 2011]. House of Yunnan Almanac, p.96.
[592] Zhang, M.G. & Zhang, X.W. eds (2018). *Yunnan Almanac 2018* [云南年鉴 2018]. House of Yunnan Almanac, p.121.

Table 5-3: Important Foreign Visitors to Yunnan Province

1985	Chairman of the Foreign Affairs Committee of the Bundestag of German Federal Republic; **Thai Princess**; **Executive Chairman of Presidium of the People's Congress of Myanmar**; Vice Chairman of the Minister Council of German Democratic Republic; **Thailand's Chairman of the Congress**; **Thailand's Second Deputy Speaker of House of Commons**; Former Secretary of State of the US; **Singapore's First Vice Prime Minister**
1990	**Member of Political Bureau of The Lao People's Revolutionary Party and Vientiane Municipal Party Secretary**; **Technology & Energy Committee Delegation of Thailand House of Commons**; **Thai Princess**; **Education Committee Delegation of Thailand House of Commons**; Canada's Former Prime Minister; Member of Soviet Union Supreme Presidium; President of Cameroon Economic and Social Council; **Thailand Minister of Education Delegation**; Leader of UN Institute of Disarmament Research
1995	Eight groups of national level guests; 16 groups of vice-minister level; 28 groups of civil friendly visitors Prime Minister of Croatia; **Thai Princess; Thailand President of Senate; Thailand Congress President; Laos Congress President; Laos President; Sudan President; Laos Prime Minister** Other important visitors listed in the yearbook include: **Thailand (8); Laos (8); Myanmar (3); Malaysia (2); Vietnam/Singapore; Cambodia**/Sweden/Iran/Peru/Eritrea/Djibouti/World Bank/ADB/Austria
2000	25 groups of more than 320 delegations; 50 groups of civil friendly personnel Indian President; **President of Laos**; Moldovan President; **Vice President of Myanmar State Peace and Development Council**; **Laos Congress Chairman/Vice Prime Minister; Thailand Vice Prime Minister; Thailand Second Deputy Speak of House Of Commons; Thailand Vice Foreign Minister**; UK International Development Secretary

2005	12 groups of state guests (including national leaders of GMS states coming for the second GMS summit), over 130 provincial and minister level visitors, 33 groups of 350 visitors of party representatives, 30 groups of 480 visitors of foreign civil friendship organizations Important visitors included: **Chairman of Laos People's Revolutionary Party; Laos Vice Prime Minister; Myanmar Commercial Minister**; Sweden Blekinge Governor; **Chairman of Vietnam Ha Giang Provincial People's Committee; Myanmar Culture and Sports Minister; Laos Vice Prime Minister; Thailand TCC president**
2010	128 groups of 1,221 visitors of state leaders, party representatives, local government leaders; 50 groups of 664 visitors of civil friendly personages (including HK and Macao) **General Secretary of Laos People's Revolutionary Party**; Prime Minister of Bangladesh; **Thai Princess**; Foreign Minister of India; **First Secretary-General Myanmar State Peace and Development Council**; President of Iceland; Vice Prime Minister and Foreign Minister of Nepal; **Vice Prime Minister of Vietnam**
2015	Over 110 high level foreign groups of 1,200 visitors **General Secretary of Vietnam Communist Party; President of Laos; President of Myanmar**; Prince William of the UK; Vice Chairman of Korean Congress; US Ambassador; President of Israel Chemicals; Leader of Caribbean Ruling Party; **Myanmar Democratic League Delegation; Chairman of Myanmar Union Solidarity and Development Party**

Sources: Ning, C. eds (1986). *Yunnan Almanac 1986* [云南年鉴 1986]; Wu, G.F. eds. (1991). *Yunnan Almanac 1991* [云南年鉴 1991]; He, X. eds (1996). *Yunnan Almanac 1996* [云南年鉴 1996]; Che, Z.M., Zhu, P.L. & Yao, Y.Y. eds (2001). *Yunnan Almanac 2001* [云南年鉴 2001]; He, X. eds (2006). *Yunnan Almanac 2006* [云南年鉴 2006]; Li, C.R., Tong, Z.Y. & Yang, S.J. eds (2011). *Yunnan Almanac 2011* [云南年鉴 2011]; Li, C.R., Tong, Z.Y. & Yang, S.J. eds (2016). *Yunnan Almanac 2016* [云南年鉴 2016]. House of Yunnan Almanac.

Table 5-4: Important Visits Conducted by Yunnan Provincial Leaders

1985	Vice Governor led a group to visit Norway and Sweden
1990	Provincial Secretary visited North Korea; Provincial Governor visited Japan; Vice Governor visited Japan; Vice Governor visited Mali (establishment of friendship city relationship); Economic delegation led by vice governor visited the UK, France and Italy; **Education and Technology Delegation visited Thailand**; Deputy Chairman of the Provincial Political Consultative Committee visited HK
1995	**Groups sending to neighbouring states and other Southeast Asian states 45.5%** (including provincial leaders and other lower level groups); Yunnan delegation to Paris applying for World Horticultural Expo 1999; Other group to neighbouring states
2000	33 group led by government leaders visited the US, Canada; Australia; New Zealand; the UK; Germany; France; Japan; India; **Cambodia; Thailand; Vietnam**
2005	34 provincial leaders made visits to foreign states, **seven leaders' trips to neighbouring states** A group led by Provincial Governor visited Japan, attending the second World Heritage Congress in Aomori City An agricultural group led by the Vice Secretary visited Egypt and South Africa; China Literature and Arts Association Delegation led by Yunnan Literature Association President visited Hungary, Czech Republic and Poland; Deputy Secretary of Yunnan province led an education delegation to India
2010	**A group led by Secretary of Provincial Committee visited Laos, Myanmar and Vietnam** **Provincial Governor accompanied Prime Minister to Myanmar** A group led by Provincial Governor visited Bangladesh, Sri Lanka and the Maldives
2015	**Provincial leaders took full-coverage visits to Southeast and South Asian states**

	A group led by provincial governor, Chen Hao, visited the Maldives and India; group led by Secretary of a Provincial Party Committee visited Czech Republic and Israel; **group led by Vice Governor visited Myanmar** and participated the 12th BCIM conference

Sources: Sources: Ning, C. eds (1986). *Yunnan Almanac 1986* [云南年鉴 1986]; Wu, G.F. eds. (1991). *Yunnan Almanac 1991* [云南年鉴 1991]; He, X. eds (1996). *Yunnan Almanac 1996* [云南年鉴 1996]; Che, Z.M., Zhu, P.L. & Yao, Y.Y. eds (2001). *Yunnan Almanac 2001* [云南年鉴 2001]; He, X. eds (2006). *Yunnan Almanac 2006* [云南年鉴 2006]; Li, C.R., Tong, Z.Y. & Yang, S.J. eds (2011). *Yunnan Almanac 2011* [云南年鉴 2011]; Li, C.R., Tong, Z.Y. & Yang, S.J. eds (2016). *Yunnan Almanac 2016* [云南年鉴 2016]. House of Yunnan Almanac.

5. 3 Reform and Opening Up in Yunnan Province

As discussed earlier, the reform and opening up policy established by the central government at the end of the 1970s was a major force that led to the international involvements of SNGs, especially in the economic sphere. Firstly, the domestic fiscal decentralization that began in the 1980s provided incentives and autonomy for SNGs to develop the local economy and made SNGs undertake the major responsibilities for local development and administration.[593] Secondly, the opening up policy pushed SNGs to engage in global or regional economy to serve local development.[594] These two forces of decentralization and internationalization together pushed SNGs to actively develop international interactions. This argument also fit with the story of Yunnan province, whose international involvements were also greatly promoted by the reform and opening up policy. However, the reform and opening up policy was not equally applied to each province, as discussed in Chapter 3. The opening up of Zhejiang province started much earlier and enjoyed preferential policies from the beginning of reform period, which enabled it to become involved in the global economy quicker than Yunnan.[595] Yunnan lagged behind in the process of opening up as a result of deliberate arrangements by the central government, which to some extent negatively affected the foreign trade or FDI inflow of Yunnan province. Against this background, Yunnan provincial government endeavoured to change the unfavourable situation by repositioning itself in China's strategy, which significantly influenced Yunnan's international interaction in but not limited to the international economic sphere. This part explores how the opening up policy functioned in Yunnan and the response of the provincial government.

5.3.1 Policy Development during Yunnan's Opening Up

5.3.1.1 Border Trade Policy

Like other provinces in China, government policies at both central and provincial levels in the reform period greatly influenced the international involvement of Yunnan. One of the areas influenced by the policy transformation was the border trade development in Yunnan province. In the pre-reform period, the opening up of border areas

[593] See Chapter 3, section 3.1 for detailed information on fiscal decentralization.
[594] See Chapter 3, section 3.2 for detailed information on the opening up policy.
[595] See Chapter 4, section 3 for detailed information on Zhejiang's opening up.

experienced two different stages.[596] In the 1950s, China actively promoted the border area to conduct border trade and to develop international interactions with neighbouring states, especially with North Korea, the Soviet Union and some Southeast Asia states.[597] But in the 1960s, China changed its border policy as a result of a worsening international environment, such as the deterioration in Sino-Soviet relations.[598] Therefore, international interactions were very limited after the 1960s in consideration of national security. Change came after the launch of reform and opening up policy, which made domestic economic development the dominant mission for the central government and SNGs. The recovery of border trade in Yunnan in the 1980s was a response to this policy change. Border trade was the major form of international economic interaction for border provinces during the 1980s as the central government used coastal area as experiments in opening up.

Therefore, border trade policy at the central level in the 1980s and the 1990s was crucial for the border provinces, including Yunnan. Table 5-5 shows the policy of border trade developed by both central and provincial government in the reform period. Central government developed various specific policies for managing border trade, which provided guaranteed autonomy for provincial governments to facilitate border trade. Interim regulations issued in 1984 authorized border provinces (or autonomous regions) to administer border trade.[599] Meanwhile, provincial governments were allowed to decide the quota of barter trade between border residents.[600] The policy from central government officially promoted the development of border trade in Yunnan province. However, the policy was not always helpful to the growth of border trade; instead, government policy sometimes constrained border trade development. For example, the Chinese government introduced a strict approval system and quota restrictions from

[596] Huo, Q. (2020). Process and Practice Logic of Border Opening Up and Development since the Establishment of PRC [新中国成立以来沿边地区开发开放的演进历程与实践逻辑] *Reformation & Strategy*, 36(21), pp.36-43; Sun, J.W. & Jiang, Z. (2019) The Retrospect and Prospect of Opening-Up in Border Areas for 70 Years [沿边地区对外开放 70 年的回顾与展望]. *Economic Geography*, 39(11), pp.1-8.

[597] Sun, J.W. & Jiang, Z. (2019) The Retrospect and Prospect of Opening-Up in Border Areas for 70 Years [沿边地区对外开放 70 年的回顾与展望]. *Economic Geography*, 39(11), pp.1-8.

[598] Huo, Q. (2020). Process and Practice Logic of Border Opening Up and Development since the Establishment of PRC [新中国成立以来沿边地区开发开放的演进历程与实践逻辑] *Reformation & Strategy*, 36(21), pp.36-43.

[599] Minister of Foreign Trade and Economic Cooperation (1984). *Interim Regulation on Small-Scale Border Trade* [边境小额贸易暂行管理办法] https://baike.baidu.com/item/边境小额贸易暂行管理办法/18561139?fr=aladdin

[600] Ibid.

1994 to 1997 as rapid border trade development resulted in various negative impacts.[601] The border trade document issued in 1996 established a half-tax free policy for imported goods to replace the previous tax-free policy.[602] These policies negatively influenced the growth of border trade.[603] These changes reflected the importance of the policy on the development of border trade.

Table 5-5: Border Trade Policy Development

Year	**Policy Issued**
1980	Yunnan provincial government decided to recover border trade with Myanmar. Provincial Government issued ***Administrative Measurements of Sino-Myanmar* and *Sino-Laos border residents barter trade & Administrative Measurements of Sino-Myanmar Small-Scale Border Trade.***
1984	State Council issues the ***Interim Regulation on Small-Scale Border Trade.***
1985	Yunnan provincial government issues the ***Interim Regulation on Border Trade of Yunnan Province*** based on the 1984 document of state council, further relaxing border trade constraints.
1991	State Council issued ***Opinions on Actively Developing Border Trade and Economic Cooperation to Promote Border Prosperity***. Yunnan provincial government issues ***Several Supplemental Provisions of Developing Border Trade***.
1996	MOFTEC and General Administration of Customs issued ***Management Regulations on Small-Scale Border Trade and Foreign Economic and Technology Cooperation of Border Area***. Provincial Government issued ***Administration Regulations on Border Economic and Trade of Yunnan Province***.
1998	MOFTEC issues ***Notification of Supplement Regulations on Further Developing Border Trade***.

[601] Zhang, L.J., Tao, T.T. & Zheng, Y.C. (2011). The Evaluation and Rethinks on the Effect of Chinese Border Opening-up Policies [中国延边开放政策实施效果评价及思考]. *Ethno-National Studies*, (2), pp.10-20
[602] Ibid.
[603] See section 4.1 for statistics about border trade.

2003	***Foreign Exchange Administration of Border Trade*** issued.

Sources: Chen, T.J. (2015). *30 years Border Opening Up Process, Achievements and Experiences of Yunnan Province* [云南 30 年的沿边开放历程、成就与经验]. Social Science Academic Press; Wu, L. & Cao, F.Y. (2018). Yunnan's Opening up to the Outside World: Historical Perspective, Bottlenecks and Solutions [云南对外开放的历史透视、问题与出路]. *The Ideological Front*, 44(3), pp.83-93.

5.3.1.2 Opening Up Policy beyond Border Trade

The border trade development during the 1980s laid a solid foundation for the policy to further open up established in the 1990s, and these policies in return promoted the development of border trade.[604] 1992 saw an important step in China's reform and opening up when central government officially expanded the range of opening up from coastal to border areas (Table 5-6)– thus preferential policies that formerly applied in the coastal cities or development zones could now be applied to some border cities. In Yunnan province, the capital city of Kunming was authorized by the central government to enjoy such preferential policies. Meanwhile, three border cities in Yunnan – Ruili, Wanding and Hekou – were established as border opening up cities and were allowed to develop border economic cooperation zones. However, attention to central government really shifted to border and inland areas at the end of the 1990s with the establishment of the 'developing the west region' strategy, which was aimed at alleviating the gap between regions in the east and west. Additionally, central government paid particular attention to the border area by putting forward the policy of 'action to prosper the border and enrich the people.'

These two policies shown in Table 5-6 were not just about the issue of opening up or international interaction, but they did influence international interactions in related areas. The two policies did not apply to the same geographic range, with the first concerned with the border area (not the whole Yunnan province) while the latter referred to 14 provinces in the region.[605] The OBOR initiative established in 2013 (see Table 5-6) was another important central strategy that attached great importance to Yunnan province. A Vision and Action Document of OBOR issued in 2015 put forward

[604] Zhang, L.J, Tao, T.T. & Zheng, Y.C. (2011). The Evaluation and Rethinks on the Effect of Chinese Border Opening-up Policies [中国延边开放政策实施效果评价及思考]. *Ethno-National Studies*, (2), pp.10-20.
[605] The 14 provinces involved in the developing the west region strategy were Chongqing, Sichuan, Guizhou, **Yunnan**, Tibet, Shaanxi, Gansu, Ningxia, Qinghai, Xinjiang, Inner Mongolia and Guangxi.

roles for numerous province, cities, and regions. For Yunnan province, the document set out the following:

> We should make good use of the geographic advantages of Yunnan province, advance the construction of an international transport corridor connecting China with neighbouring states, develop a new highlight of economic cooperation in the GMS, and make the region a pivot of China's opening-up to South and Southeast Asia.[606]

In reality, it was difficult to distinguish the influences of these policies (or strategy) on Yunnan as they shared similarities and were always interwoven with each other. The implementation of one policy always involved another during the process.

Table 5-6: Important Policies during the Reform Period Related to Yunnan

Opening up Border Area *(yan bian kai fang)*	
1992	1992, Central government decided to further open up, from coastal provinces to border area (*yan bian kai fang*)
2007	2007, 17th CCP National Congress ***Improving the Level of Border Opening Up***
2008	Yunnan provincial government issued ***Several Opinions on Further Expanding Opening up*** ***Reply of State Council to the Issue of Developing Economic and Trade in Border Area*** Sino-Myanmar Ruili-Jiegao Transborder Economic Cooperation Zone
2012	Yunnan provincial government issued ***Several Opinions on Speeding up the Establishment of Border Economic Cooperation Zone***
2013	Third Plenary Session of the 18th Central Committee of CCP agreed on ***Decision of Central Committee of CCP about Several Important Issues of Deepening Reform Comprehensively*** State Council issued ***Several Opinions on Speeding Up the Opening up and Development of Border Area***

[606] NDRC, Ministry of Foreign Affairs &Ministry of Commerce with State Council Authorization (March 2015). *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road* http://www.chinese-embassy.org.uk/eng/zywl/t1251719.htm

Developing the West Region ***(xi bu da kai fa)***	
1999	1999, "Developing the West Region" developed
2000	***Advantageous Industry Category for Foreign Investment in Middle and West region***, listing 14 types in Yunnan province; revised in 2004, 2008, and 2013 ***Notification of State Council About Several Policy Measurements of Implementing 'Developing the West Region' Strategy*** Provincial Government issued ***General Ideas of Yunnan's Action Plan under China's Developing the West Region Strategy***
2001	State Council Develop the West Region Office issued ***Implementation Opinion of Several Policy Measurements about Developing the West Region***
2002	2002, 2007, 2012, 2017, 10th/11th/12th/13th Five-Year Plan for Developing the West Region developed by the central government
2004	***Several Opinions of Further Promoting West Region Development***
2006	***Regulations of Yunnan province to Promote Foreign Investment***
2010	State Council issued ***Several Opinions about Deepening Developing the West Region Strategy***
2011	General Administration of Customs/Minister of Finance and State Administration of Tax issued ***Notification of Tax Policy related to Deepening the Strategy of Developing the West Region***
2014	NDRC issued ***Encouraged Industry Category in the West Region***, listing 33 categories for Yunnan province
Action for Prospering the Border and Enrich People *(xing bian fu min)*	
1999	1999, Central government implemented "action to prospering the border and enrich people" (*xing bian fu min*)
2007	Office of State Council issued ***11th Plan for Prospering the Border and Enriching People Action***
2011	Office of State Council issued ***Plan of Action to Prosper the Border and Enrich People (2011 to 2015)***
2017	Office of State Council issued ***13th Plan for Prospering the Border and Enriching People Action***

OBOR *(yi dai yi lu)*	
2013	OBOR initiative developed
2015	***Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road,*** which put forward clear mission for Yunnan Province

Sources: Wu, L. & Cao, F.Y. (2018), Yunnan's Opening up to the Outside World: Historical Perspective, Bottlenecks and Solutions [云南对外开放的历史透视、问题与出路]. *The Ideological Front*, 44(3), pp.83-93.; Song, H.Y. (2015). Revolution Analysis and Adjustment Strategy of developing the west region strategy [西部大开发政策演进分析与调整策略]. *Research of Development,* (5), pp.12-17

5.3.2 How Policies Shaped Yunnan's International Involvement

Central policies during the reform period significantly influenced the international involvements of Yunnan province. Firstly, as in other provinces in China, reform and opening up policy meant that the international involvements of Yunnan obtained a high economic profile and served the aims of the local economy. Secondly, as highlighted in Chapter 3, the reform and opening up process was not equally applied to every province. During the process, Yunnan lagged behind the coastal provinces in enjoying the preferential policies to promote foreign trade and investment. Yunnan started to enjoyed the policies in 1992 when the central government decided to open up the border area. It was after the establishment of the 'developing the west region' strategy that the central government offered more comprehensive policy support for Yunnan. As a result, the underdevelopment in Yunnan's international economic engagement could be seen.[607] Because of the huge gap between different regions in China, the central government started to emphasize the development of the less developed west region and promoted a series of policies, as shown in Table 5-6.

Under these policies and strategies, the central government provided lots of support to the underdeveloped provinces, including Yunnan. For example, under the strategy of 'developing the west region', the central government developed an advantageous industry category for investment in the middle and west regions with the aim of attracting more FDI to the region. The document issued in 2001 for 'developing the

[607] For detailed statistics relating to Yunnan's foreign trade, FDI and overseas investment, see section 4.

west region' put forward various preferential tax policies for both domestic and foreign enterprises investing in the encouraged category of industry in the region, such as 15% discount off corporate income tax during from 2001 to 2005, which continued in the following years.[608] These preferential policies became one of the factors to attract investment to the underdeveloped west region in the 2000s. Furthermore, central government also provided financial resources to the border area and west provinces, which could be used to improve the investment environment in the region. For instance, 'developing the west region' documents said that it would invest more financial construction funding in the west region and the central government would establish specific funding for major projects.[609] The updated document in 2004 put forward the idea of developing stable and long-term funding to advance the strategy.[610] The financial support and preferential policies put forward by the central government laid solid foundation for SNGs to promote international economic cooperation. Therefore, the policies developed at the different stages of opening up provided opportunities for Yunnan to go out and set up provincial government as important actors in the process.

5.3.2.1 The Proactive Role of Provincial Government

1) Yunnan's Active Response to the Policy

Central government in China is definitely the creator and major promotor of policies, which pushed SNGs to go out and develop international interactions. In other words, SNGs were the implementers of central policies during the process of opening up. Yunnan provincial government always followed the guidance of the central policies and developed specific regulations for the local. For example, after the central government established the 'developing the west region' strategy in 1999, Yunnan province created a research group led by the provincial leaders, incorporating 47 provincial departments and bureaus as well as seven democratic parties, which put forward an action plan for Yunnan to promote its own 'developing the west' strategy.[611] This plan illustrated three directions for Yunnan's development: promoting Yunnan to become a province for

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[608] State Council (2001), *Implementation Opinion of Several Policy Measurements about Developing the West Region* [国务院关于实施西部大开发若干政策措施的通知] http://www.gov.cn/gongbao/content/2001/content_60854.htm

[609] Ibid.

[610] State Council, *Several Opinions of Further Promoting West Region Development* [国务院关于进一步推进西部大开发的若干意见] http://www.gov.cn/gongbao/content/2004/content_62726.htm

[611] Zheng, W.C. (2008). *Conditions of Yunnan* [云南省情]. Yunnan People's Press, p.56.

green economy; as a province for ethnicity culture; and as a route-way for China to connect with Southeast and South Asia.[612] These ideas were developed based on the local advantages of Yunnan province. The strategy established by the central government offered an opportunity for Yunnan to promote local ideas that had existed previously. The OBOR initiative is one example: the position given by the central government to Yunnan province was a continuation of the previous goals developed by the provincial government in the 1990s. This to some extent reflected a strong degree of alignment between the national and provincial government, especially considering that Yunnan was invited by the NDRC to a seminar of OBOR in 2013.[613] The OBOR initiative provided provincial governments with opportunities "which they can use to make progress towards achieving their local objectives in the context of national strategy."[614] During the process, the objectives of SNGs and central government may not have been exactly the same, but they could work towards the same direction.

Yunnan province was "more than a passive reactor to the central initiative" during the process of reform and opening up.[615] The provincial government could develop regulations for the local by selectively following central policies. The policy of border trade is one example: the authority to administer border trade was devolved to provincial government according to a 1984 document. Development of border trade could not be achieved without the policy guide and support from the provincial government. In 1985, Yunnan provincial government developed regulations on border trade based on the 1984 file from the central government. The most important change in the regulation made by the provincial government was that it expanded the geographic range for border trade to all 26 border counties rather than an area 20 kilometres away from the border, as requested by central government.[616] Accordingly, SNGs governments did not always passively follow central policy, rather, they sometimes developed local policy based on the local facts and endeavoured to obtain support from central government. Yunnan provincial government adjusted the policy to

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[612] Zheng, W.C. (2008). *Conditions of Yunnan* [云南省情]. Yunnan People's Press, p.56.

[613] Summers, T. (2019). The Belt and Road Initiative in Southwest China: Responses from Yunnan Province. *The Pacific Review*, pp.1-24.

[614] Ibid.

[615] Li, M. (2014). Local Liberalism: China's Provincial Approaches to Relations with Southeast Asia. *Journal of Contemporary China*. 23(86), p292.

[616] Chen, T.J. (2015), *30 years Border Opening Up Process, Achievements and Experiences of Yunnan Province* [云南 30 年的沿边开放历程、成就与经验]. Social Science Academic Press.

expand the range to all border counties given the fact that there were few people and enterprises located within 20 kilometres of the border in Yunnan. With policy support from provincial government, border trade increased significantly during the 1980s. However, I argue that the most proactive role of Yunnan provincial government was reflected in the repositioning process discussed in section 5.3.2.2.

2) Yunnan's Active Role in Promoting International Economic Engagement

The opening up policy in China made the international interaction of SNGs become economy-orientated.[617] SNGs in China were motivated to promote international economic cooperation by improving the local business environment. More importantly, SNGs took advantage of international activities to promote foreign trade and improve foreign investment. Of course, Yunnan provincial government also followed the rules. Previous sections discussed Yunnan's participation in the GMS, which became an important platform to promote foreign trade as well as overseas investment in the subregion. Meanwhile, government visits (section 5.2.3) not only served China's diplomacy, but also helped local enterprises to find business opportunities. Therefore, the provincial government became an important promotor in international economic activities. In addition to the GMS or official visits mentioned above, another important activity was more commercial-oriented, frequently and regularly conducted or participated in by provincial government: expos and commercial fairs.

The expo and commercial fairs conducted in Yunnan province became an important stage for Yunnan to express itself and promote international cooperation. Kunming Import and Export Fair and the China-South Asia Expo are two of the most important events conducted in Yunnan. The former started in 1993, jointly convened by the Ministry of Commerce and six provinces in southwestern China: Yunnan, Sichuan, Chongqing, Guizhou, Guangxi, and Tibet. The China-South Asia Expo started in 2013 and was updated from the South Asia States Trade Fair. From 2013, the two events were held together in Kunming annually. These events provided Yunnan local enterprises to find business opportunities. For example, Yunnan reached a volume of USD 416 million foreign trade with South Asian states and USD 4,294 million with ASEAN

[617] See chapter 3, section 3.3 for more information.

states at the China-South Asia Expo.[618] Arguably, these events also strengthened Yunnan's role as the bridgehead between China and Southeast as well as South Asia. Through these events, not only Yunnan enterprises but also other domestic enterprise could take advantage to promote business with neighbouring states. The expo became a crucial brand for Yunnan both domestically and internationally.

5.3.2.2 How Yunnan Repositioned Itself during Opening Up

SNGs could not only selectively follow central policy, but could also "take very important initiatives and make big proposals and then lobby the central government for consent and support."[619] During the process of opening up, Yunnan provincial government endeavoured to improve the position of Yunnan in China, which could be best reflected in the initiative role of provincial government. At the beginning of the reform and opening up, Yunnan remained as a geographically distant province, peripheral in the policy arrangements of central government, which to a large extent made Yunnan fall behind in local economic and social development.[620] Furthermore, Yunnan province was disadvantaged in terms of transportation and lacked a good industrial foundation, which made its development and opening up even more difficult as it was unattractive to foreign investment. In other words, it was difficult for Yunnan to develop an opening up strategy as coastal provinces did, resulting in limited development in foreign trade and FDI in Yunnan province. In the process of opening up, the main task for the provincial government was to establish a suitable opening up strategy for Yunnan province based on local advantages.

In this regard, Yunnan provincial government started to frame the geographical advantages of Yunnan as a frontier to open up to Southeast Asia. Yunnan gradually shifted its focal point from developed Europe or America to neighbouring states, which enabled Yunnan to take advantage of geographical proximity, cultural and ethnic similarities as well as its historical interactions with neighbouring states. Therefore, Yunnan provincial government was able to "reposition from a periphery province in

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[618] Liu, J. (2014). *Commerce of Almanac of Yunnan Province* [云南商务年鉴]. Yunnan People's Press, p.170.
[619] Li, M. (2014). Local Liberalism: China's Provincial Approaches to Relations with Southeast Asia. *Journal of Contemporary China*. 23(86), p.292.
[620] Liu, Z. (2011). Yunnan's Position and Development in China's Neighbouring Security and Regional Cooperation [云南在中国周边安全与区域合作中的定位与发展]. Collected Paper for Southeast Asia Study Workshop.

China to the centre of various regional constructs which involved territories across the PRC' border, primarily in Southeast and South Asia."[621] During the process, the provincial government endeavoured not only to develop local strategy, but also to obtain the support from the central government. Yunnan began to rethink its strategy to open up in the early 1990s. Before then, Yunnan was more attentive to relations with America, Japan, HK and Macao while the fact that Yunnan was proximate to Southeast Asia and was the transit route to these states did not receive much attention.[622]

With the transformation in both international relations with neighbouring states and further opening up in China, Yunnan provincial government began to rethink the key point for Yunnan to open up in the early 1990s. Relations with southeast states started to catch the eyes of provincial elites. The process of Yunnan's repositioning is displayed in Table 5-7. The 5th Congress of Party Representatives convened in 1990 put forth the idea that Yunnan should not only continue to maintain friendly relations, economic and trade cooperation with states such as the EU, US, Japan and Australia, but also speed up to promote relations and economic cooperation with Southeast and South Asian states.[623] In 1992, the central government officially decided to further promote the opening up and expanded from coastal to border areas. Meanwhile, China's political relations with ASEAN states improved significantly. These domestic and international changes pushed Yunnan province to make its opening up strategy more explicit. In the same year, Yunnan developed its foreign strategy so that its opening up would rely on its southwestern part, centre on Kunming and take three border opening up cities as a frontier, with an emphasis on Southeast as well as South Asia before opening to the world.[624] It was the first time that Yunnan province formed its own foreign strategy.[625] In the following years, Yunnan province continued to promote international interaction with Southeast Asian states.

Ideas developed in the early 1990s only mentioned Yunnan's outward targets of opening

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[621] Summers, T. (2012). (Re) positioning Yunnan: Region and Nation in Contemporary Provincial Narratives. *Journal of Contemporary China*, 21(75). p.457.
[622] Shi, S. (1992). Thinking on Yunnan's Opening Up to Southeast Asia [云南对东南亚开放的思考]. *Southeast Asia,* (3), pp.15-18.
[623] Ibid.
[624] Ibid.
[625] Wu, L. & Cao, F.Y. (2018). Yunnan's Opening up to the Outside World: Historical Perspective, Bottlenecks and Solutions [云南对外开放的历史透视、问题与出路] *The Ideological Front*, 44(3), pp.83-93.

up, which was not a whole repositioning of the province. Later in the 1990s, Yunnan started to develop the idea to make the province a connection between China and Southeast Asia, which was a step towards not only changing Yunnan's internationalization, but also repositioning the province in China's opening up and China's relations with Southeast Asia. In 1996, the provincial government put forward the idea of constructing Yunnan as the international transit route for China to engage with Southeast and South Asia.[626] Moreover, the provincial government worked hard to insert local repositioning into China's central strategy. For example, the action plan for Yunnan to promote the 'developing the west region' strategy positioned construction of Yunnan as a grand route-way between China and its neighbouring states as one on the three major aims.[627] This proposal obtained support from the central government.[628] The idea from the provincial government was gradually inserted in the foreign strategy at the central level.

In 2009, President Hu Jintao made an inspection tour in Yunnan province, during which he suggested that Yunnan should take advantage of its geographical advantages and became the 'bridgehead' (*qiao tou bao*) between China and the neighbouring sub-region. Following this speech, the idea of a 'bridgehead' was taken up by the provincial government as a political tool to ask for preferential policies and financial support from the central government.[629] Moreover, Yunnan provincial government also endeavoured to lobby the central government to sell the idea of a gateway, which replaced the terminology of bridgehead as local elites realized the world 'bridgehead' may led to negative perceptions in the neighbouring states. In 2011, the proposal initiated by Yunnan provincial government finally became a national strategy and the state council issued *Suggestions of the State Council Regarding Supporting Yunnan's Efforts to Accelerate the Construction of an Important Bridgehead for Opening up towards Southwest Opening* and bridgehead construction became an objective of China's five-

[626] Wu, L. & Cao, F.Y. (2018). Yunnan's Opening up to the Outside World: Historical Perspective, Bottlenecks and Solutions [云南对外开放的历史透视、问题与出路] *The Ideological Front*, 44(3), pp.83-93.

[627] Zheng, W.C. (2008). *Conditions of Yunnan* [云南省情]. Yunnan People's Press, p.56.

[628] He, S.D. (2004). Economic Cooperation between Yunnan and Southeast Asia in Early 21st Century [21 世纪初云南与东南亚的经济合作]. *Thinking*, 30(2), pp.7-10.

[629] Summers, T. (2012). (Re) positioning Yunnan: Region and Nation in Contemporary Provincial Narratives. *Journal of Contemporary China*, 21(75), pp.445-459.

year plan. The process of repositioning Yunnan reflected the positive role played by the SNGs in China, which could make suitable strategy for the local and lobbied the central government for support.

Table 5-7: Process of Yunnan's Repositioning in the Reform Period

1990	Yunnan provincial government put forward the idea of speeding up to develop friendly interaction and economic cooperation with Southeast and South Asia
1991	Yunnan provincial government developed the idea of ***Opening the southern gate and engaging the Asia Pacific***
1996	Provincial government developed the idea of constructing Yunnan as the international transit route for China to engage with Southeast and South Asia
2000	Provincial government issued ***General Ideas of Yunnan's Action Plan under China's Developing West***, in which one of the objectives was making Yunnan an international transit route between China and South/Southeast Asia
2001	Yunnan's 7th Congress of CCP constructing Yunnan as the international transit route channel between China and Southeast and South Asia
2009	Hu Jintao took an inspection tour to Yunnan and suggested making Yunnan an important 'bridgehead' to open up facing to South West
2011	State Council issued ***Suggestions of the State Council Regarding Supporting Yunnan's Efforts to Accelerate the Construction of an Important Bridgehead for Opening up towards Southwest Opening***, making Yunnan's opening up a national strategy; the objective of constructing Yunnan as a 'bridgehead' entered China's 12th five-year plan; Yunnan established 'bridgehead' construction leading group and office to coordinate the construction
2012	State Council approved ***General Plan of Yunnan Province Speeding up to Construct the Important Bridgehead to Opening up facing to South***

	West
2015	Xi Jinping took an inspection tour in Yunnan province and developed the idea that Yunnan would be the **pivot centre** (*fu she zhong xin*) toward South and Southeast Asia

Sources: Chen, T.J. (2015). *30 years Border Opening Up Process, Achievements and Experiences of Yunnan Province* [云南 30 年沿边开放历程、成就与经验]. Social Science Academic Press; Wu, L. & Cao, F.Y. (2018), Yunnan's Opening up to the Outside World: Historical Perspective, Bottlenecks and Solutions [云南对外开放的历史透视、问题与出路]. *The Ideological Front*, 44(3), pp.83-93.

5.4 Yunnan's Engagement in the Global Economy

The opening up policy developed by the central government involved a desire to develop the domestic economy by re-engaging in the global economy. During this process, provinces in China endeavoured to promote foreign trade, to attract foreign investment as well as to facilitate overseas investment. Engagement in the global economy also became an important theme in Yunnan's international involvement. As argued in Chapter 3, section 4, diversity existed in the international economic activities of different provinces in China. The unequal process of the opening up, the different strategy developed by the provincial government, as well as the local features of the economy all led to different patterns of how SNGs chose to engage in the global economy. The development of foreign trade as well as the inflow and outflow of investment also showed special features as a result of the complex interactions of factors at different levels. The development of both central and provincial policies greatly influenced Yunnan's engagement in the global economy. For example, Yunnan's policy to open up to the Southeast Asia greatly shaped the major economic partners for the province as discussed in section 5.4.1.2. Moreover, the local conditions, such as industry development, could also play an important role in economic cooperation. Therefore, this part will illustrate how the factors at the different levels led to the specific pattern of Yunnan's engagement in the global economy.

5.4.1 Development of Yunnan's Foreign Trade

In the reform period, China's foreign trade increased rapidly as a result of re-engagement in the global economy and the resultant domestic reform in the foreign

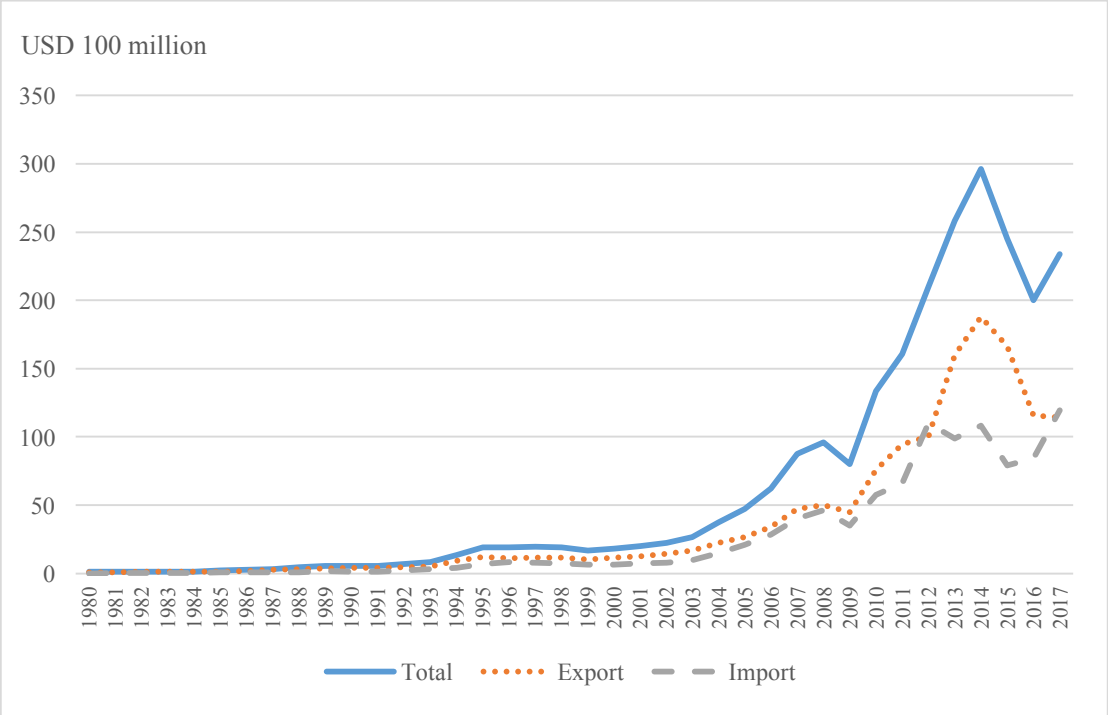
trade regime.[630] During the process, SNGs and local enterprises were greatly motivated by the decentralization of authority in both fiscal arrangement and foreign trade management. As a result, SNGs became important promotors in foreign trade. On the one hand, SNGs created favourable policies and promoted the local infrastructure construction to help local enterprises improve foreign trade. On the other hand, SNGs provided more opportunities for local enterprises through foreign interactions, such as sister-city relations, subregional cooperation platforms, governmental visits, or expos. These phenomena also manifested in Yunnan's foreign trade. Yunnan provincial government endeavoured to provide support for the local enterprises to develop foreign trade. During the reform period, the provincial government developed suitable policies for the local to promote foreign trade, such as the border trade policies discussed in section 5.3.1.1. Simultaneously, Yunnan's government also promoted foreign trade through various international interactions, for example, GMS cooperation became one of the important ways for Yunnan to facilitate foreign trade relations with involved states.[631] The transportation projects in the subregion in which Yunnan province was deeply involved further improved foreign trade flow in the subregion. Expos conducted by Yunnan province, such as China-South Asia Expo, are also important platforms for the local enterprises to promote foreign trade.[632] As a result, Yunnan's foreign trade developed significantly in the reform period.

Figure 5-1 shows the development of Yunnan's foreign trade in goods during the reform period. In 1978, the total volume of Yunnan's foreign trade was USD 104 million, which rose slightly in the following two years to USD 110 million in 1980.[633] With decades of reform and opening up, the volume of Yunnan's foreign trade reached USD 23,394 million in 2017, which was 225 times that in 1978.[634] The growth of Yunnan's foreign trade experienced different stages. According to Figure 5-1, the volume of Yunnan's foreign trade started to increase dramatically after the 2000s, caused by China choosing

[630] For information about foreign trade regime reform see Chapter 3, section 3.3.2.2; for data about China's foreign trade see Chapter 3, section 3.4.1.
[631] For information about GMS see Chapter 5, section 5.2.2.
[632] For expo information see Chapter 5, section 5.3.2.1.
[633] Data for 1978 collected from: Yunnan's Foreign Trade has increased 224 times in 40 years [云南外贸在 40 年中增长了 224 倍], http://yn.sina.com.cn/news/b/2018-11-27/detail-ihpevhck8851904.shtml; The data of 1980 collected from Statistical Bureau of Yunnan Province. *Yunnan Statistical Yearbook 2018*[云南统计年鉴 2018], China Statistics Press.
[634] Yunnan's Foreign Trade has increased 224 times in 40 years [云南外贸在 40 年中增长了 224 倍]; http://yn.sina.com.cn/news/b/2018-11-27/detail-ihpevhck8851904.shtml

to become further involved in the global economy by entry into the WTO in 2001. The total volume of China's foreign trade boomed as a result of WTO accession.[635] In Yunnan province, the volume of foreign trade was USD 1,989 million in 2001 – this increased to USD 13,368 million in 2010, with an annual average increase rate of 21%, which even exceeded China's average rate of 19.3%.[636] The engagement in the global economy significantly promoted foreign trade in Yunnan, but it also meant that the local economy was easily influenced by the global economy. For example, the financial crisis in 2008 led to a reduced volume in Yunnan's foreign trade. Since the 2010 establishment of CAFTA further promoted foreign trade in Yunnan province, Southeast Asia states became the major foreign trading partners of Yunnan.

Figure 5-1: Development of Yunnan's Foreign Trade in Goods



Source: Statistical Bureau of Yunnan Province. *Yunnan Statistical Yearbook 2018*, China Statistics Press.

Foreign trade in Yunnan province developed significantly during the reform period. However, the distribution of China's foreign trade was highly unequal, with coastal

[635] See Chapter 3, section 3.4.1 for data about China's foreign trade.
[636] Ren, J., Li, L. & Hu, X.W. (2012). Development of Yunnan's Foreign Trade and Economic Cooperation After China's Accession to the WTO [中国入世十年：云南对外经贸的发展]. *Southeast Asia and South Asia Study*, (1), pp.38-43.

provinces responsible for a large proportion of foreign trade.[637] Chapter 4 discussed the rapid development of Zhejiang province and the significant contribution of its foreign trade to its local economy and to China's total volume of foreign trade.[638] Unlike Zhejiang, foreign trade in Yunnan remained less developed considering the much lower foreign trade dependency ratio compared with the average level of China. According to Table 5-8, the foreign trade dependence ratio in Yunnan province was obviously below the average level in China. The foreign trade dependence ratio of China increased from 12.42% in 1980 to 35.8% in 2015, reaching a peak of more than 60% in 2005, which highlights the role of foreign trade in promoting the miraculous economic development of China.[639] In Yunnan province, the contribution of foreign trade to local GDP was much lower, with foreign trade dependence ratio rising from 1.95% in 1980 to 11.18% in 2015.[640] The underdevelopment of Yunnan's foreign trade was caused by poor local transportation and limited industrial development as a landlocked province on the one hand, and unequal policy arrangements on the other. Therefore, although Yunnan's foreign trade has experienced improvement in the last few decades, its contribution to local development remains limited.

Table 5-8: Foreign Trade Dependence Ratio of China and Yunnan

	China's Foreign Trade (USD 100 million)	**FT Dependence Ratio (China)**	**Yunnan's Foreign Trade (USD 100 million)**	**FT Dependence Ratio (Yunnan)**
1980	381.4	12.42%	1.1	1.95%
1985	696	22.7%	2.1	3.78%
1990	1,154.4	29.5%	5.48	5.84%
1995	2,808.6	38.3%	18.96	12.89%
2000	4,743	39.2%	18.13	7.46%
2005	14,219.1	62.4%	47.38	11.25%
2010	29,740	48.9%	133.68	12.55%

[637] See Chapter 3, section 3.4.1 for information about China's unequal foreign trade distribution.
[638] See Chapter 4, section 5.4.1 for data about Zhejiang's foreign trade.
[639] Calculated by author using data from National Bureau of Statistics of China (2018). *China Statistical Yearbook 2018* [中国统计年鉴 2018], China Statistics Press.
[640] Calculated by author using data from Statistical Bureau of Yunnan Province (2018). *Yunnan Statistical Yearbook 2018* [云南统计年鉴 2018], China Statistics Press.

2015	39,530.3	35.8%	245.27	11.18%

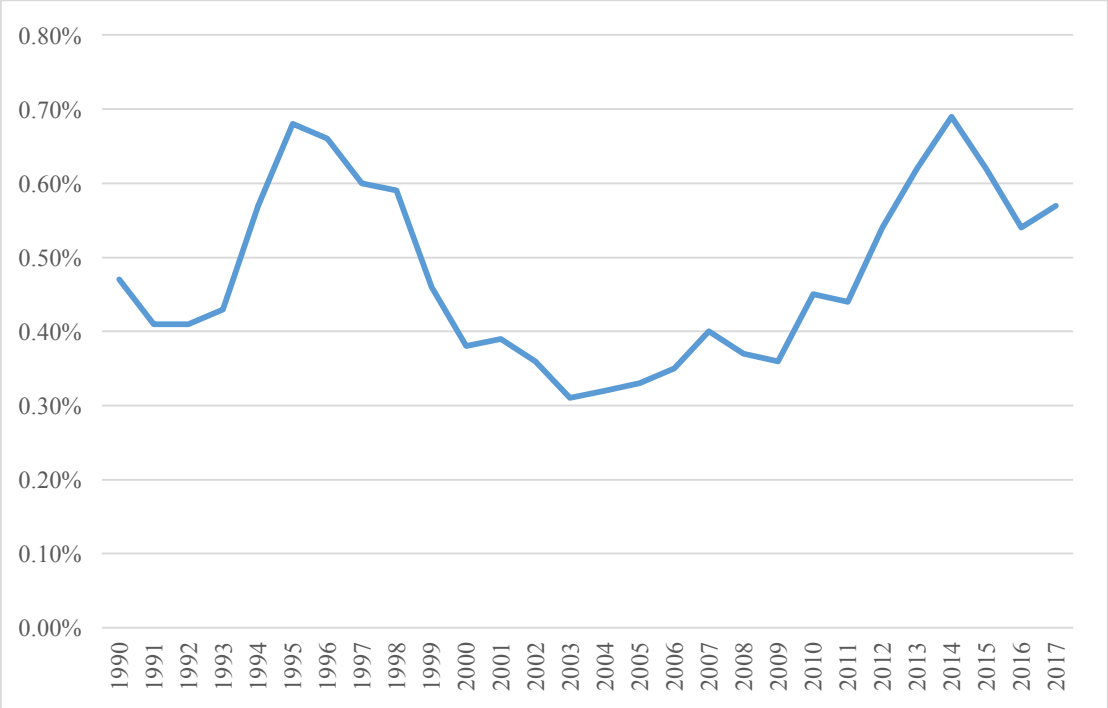
Source: Table created by author using data from National Bureau of Statistics of China (2018). *China Statistical Yearbook 2018* [中国统计年鉴 2018], China Statistics Press; Data of Yunnan Province was collected from Statistical Bureau of Yunnan Province (2018). *Yunnan Statistical Yearbook 2018* [云南统计年鉴 2018], China Statistics Press.

Moreover, underdevelopment of Yunnan's foreign trade could also be seen in its limited contribution to the total volume of China's foreign trade. Chapter 4 observed that the main contributors to China's foreign trade came from coastal areas, including Guangdong, Jiangsu, Shanghai, Zhejiang, Fujian, and Shandong. The total volume of foreign trade from these provinces exceeded half of China's total.[641] Compared with these provinces, the amount of foreign trade in Yunnan province was negligible. According to Table 5-8, the volume of foreign trade in China and Yunnan province was USD 38,140 million and 110 million in 1980, with Yunnan occupying only 0.3% of the total amount of China's foreign trade. Figure 5-2 displays the proportion of Yunnan's foreign trade in China's total from 1990 to 2017. Yunnan's foreign trade took up less than 0.7% of China's total volume of foreign trade during this period.[642] Therefore, although foreign trade in different provinces of China all improved since the launch of the reform and opening up policy, there was a distinct gap between different provinces, especially among those located in different regions. Furthermore, the diversity of foreign trade in different provinces was not only shown in the quantity, but also in the different forms of foreign trade, structure of goods, as well as the diverse types of enterprises involved in foreign trade. The different pattern of foreign trade development at the subnational level was induced by the different features inherent to the local situation and also shaped by governmental policies at both local and central levels. Yunnan developed its own pattern of foreign trade.

[641] For detailed data see Chapter 4, section 4.4.1.

[642] National Bureau of Statistics of China (2018). *China Statistical Yearbook 2018* [中国统计年鉴 2018], China Statistics Press; Statistical Bureau of Yunnan Province (2018). *Yunnan Statistical Yearbook 2018* [云南统计年鉴 2018], China Statistics Press.

Figure 5-2: Percentage of Yunnan's Foreign Trade in Goods in China's Total



Sources: Calculated by author based on data collected from Statistical Bureau of Yunnan Province. *Yunnan Statistical Yearbook 2018*; China Statistics Press & National Bureau of Statistics of China. *China Statistical Yearbook 2018*, China Statistics Press.

5.4.1.1 Structure of Different Modes in Yunnan's Foreign Trade

Chapter 3 discussed how the processing trade played an important role in promoting foreign trade development in the coastal area during the reform period.[643] Chapter 4 explored the different modes of foreign trade in Zhejiang province and discovered its different patterns compared to other coastal provinces, such as Jiangsu and Guangdong. General trade played the leading role in promoting Zhejiang's foreign trade development as a result of the proactive role of private enterprises.[644] Thus, different provinces in China showed diversity in the structure of foreign trade modes. Therefore, the structure of foreign trade modes in Yunnan province deserve analysis to develop a better understanding of the border province. Generally, there are three major modes of foreign trade in Yunnan province: general trade; border trade; and processing trade. According to Table 5-9, general trade occupied a dominant position in the volume of Yunnan's foreign trade in recent years. However, the structure of Yunnan's foreign trade

[643] See Chapter 3, section 3.4.1 for information about the processing trade.
[644] See Chapter 4, section 4.4.1 for information about Zhejiang's foreign trade mode structure.

modes went through different stages. In the 1980s and early 1990s, border trade played an important role in promoting Yunnan's foreign trade as well as maintaining its international interactions with neighbouring states Myanmar, Vietnam and Laos.

In 1980, Yunnan provincial government decided to recover border trade with Myanmar. In 1984, the central government issued an interim regulation on border trade, which devolved the authority for it to border provinces. During the 1980s and 1990s, both central and provincial government developed a series of policies to regulate and promote the development of border trade (section 5.3.1.1). The positive role of Yunnan province in promoting border trade deserves particular attention. For example, the provincial government selectively followed the central guideline and expanded the area for conducting border trade (section 5.3.2.1). As a result, border trade in Yunnan province grasped the opportunity to improve. According to Figure 5-3, the volume of border trade did not increase dramatically from 1985 to the early 1990s compared with the rapid growth in border volume in the 2000s. However, I argue that the importance of border trade during the 1980s to the early 1990s was more to do with its proportion in Yunnan's foreign trade during the period. From 1985 to 1990, the volume of border trade in Yunnan province increased from USD 44.62 million to USD 202.71 million, with an average growth rate of 35.3%.[645] In 1988, the percentage of border trade in Yunnan's total volume of foreign trade reached its highest level of 52.2%. It decreased in the following years, but remained at 34.3% and 33.9% of the total foreign trade of Yunnan province in 1992 and 1993 respectively.[646]

Furthermore, border trade played a dominant role in the trade between Yunnan and neighbouring states, with 90% conducted through border trade before the 1990s.[647] The volume of border trade decreased after 1994 as a result of more constrained governmental policy on border trade management and reduced the preferential policy of border trade taxes in both 1994 and 1996. Internationally, the strict border trade

[645] Chen, T.J. (2015). *30 years Border Opening Up Process, Achievements and Experiences of Yunnan Province* [云南 30 年沿边开放历程、成就与经验]. Social Science Academic Press, p.9.

[646] calculated by Author based on the data from Statistical Bureau of Yunnan Province (2018), *Yunnan Statistical Yearbook 2018* [云南统计年鉴 2018], China Statistics Press.

[647] Chen, T.J. (2015). *30 years Border Opening Up Process, Achievements and Experiences of Yunnan Province* [云南 30 年沿边开放历程、成就与经验]. Social Science Academic Press, p.12.

policy of neighbouring states response to China's policy and the Asian Financial Crisis in 1997 further worsened the border trade development.[648] These domestic and external changes together caused a decrease of both volume of border trade and its proportion in Yunnan's foreign trade. After 1998, with the export rebates and tax refund policy on some major items as well as the recovery from financial crisis, border trade in Yunnan province started to increase again.[649] The percentage of border trade increased from 8% to 17% in 1999 and 20% in 2000.[650] Since the 2000s, the border trade in Yunnan province rose significantly, but its proportion in the total volume of foreign trade (Figure 5-4) remained relatively stable between 10% and 20% as the result of the development of Yunnan's general trade.

General trade increased significantly since the 1990s and became the dominant mode contributing to the development of Yunnan's foreign trade. The reduced role of border trade in Yunnan's foreign trade since 1995 was closely related to the increasing proportion of general trade. The proportion of general trade in Yunnan's total volume of foreign trade in goods was 81.98% and 84.83% in 1996 and 1997, respectively.[651] The rate of general trade remained at a high level from the 2000s as shown in Table 5-9. Processing trade is another mode of Yunnan's foreign trade. Overall, the development of processing trade in Yunnan province remained at a low level as Yunnan experienced disadvantages in local transportation and qualified labour force to attract FDI, which played important role in facilitating processing trade in other provinces. Based on Table 5-9, the volume of Yunnan's processing trade fluctuated significantly, with the highest rate of 32.7% in 2012 and the lowest proportion of 3.4% in 2015. The structure of Yunnan's foreign trade mode was a result of local limitations and advantages. Its location as a border province neighbouring Myanmar, Laos, and Vietnam provided solid foundations for Yunnan to develop its border trade while its location on the periphery as a landlocked province constrained the development of processing trade.

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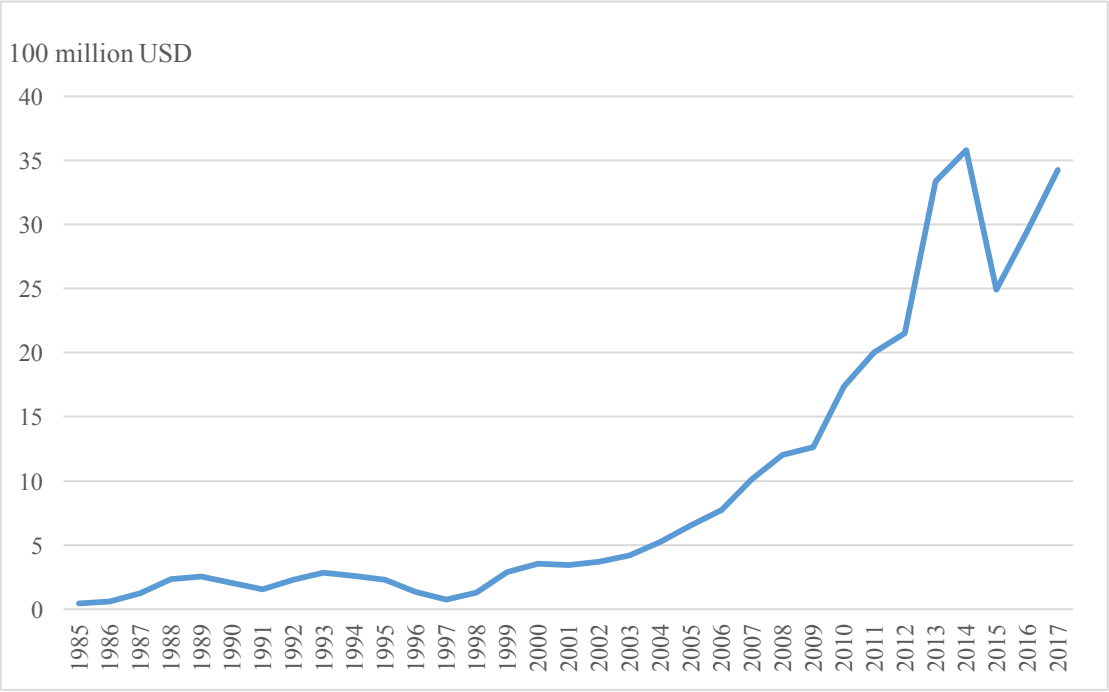
[648] Zhang, L.J. & Zheng, Y. (2014). Achievements, Problems and Countermeasures of Border Trade of Yunnan Province [云南边境对外贸易成就、问题与对策研究]. *Journal of Minzu University of China (Philosophy and Social Sciences Edition)*. 41(2), pp.43-51.

[649] Ibid.

[650] calculated by Author based on the data from Statistical Bureau of Yunnan Province (2018). *Yunnan Statistical Yearbook 2018* [云南统计年鉴 2018], China Statistics Press.

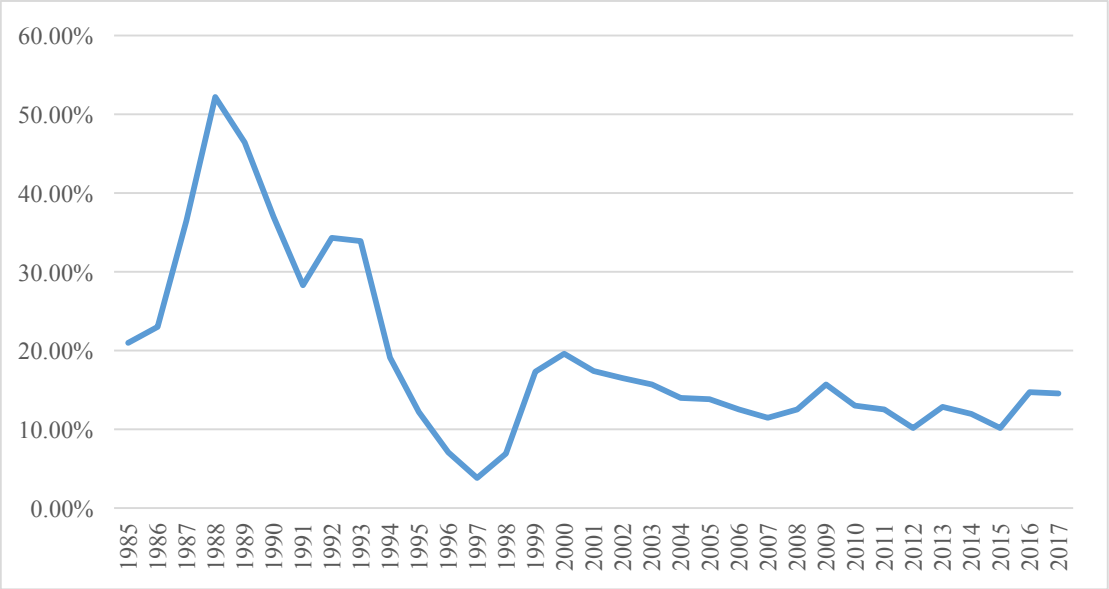
[651] He, X. eds (1997) *Yunnan Almanac 1997* [云南年鉴 1997]. House of Yunnan Almanac, p.244; He, X. eds (1998). *Yunnan Almanac 1998* [云南年鉴 1998]. House of Yunnan Almanac, p.243.

Figure 5-3: Border Trade of Yunnan Province (1985-2017)



Source: Statistical Bureau of Yunnan Province. *Yunnan Statistical Yearbook 2018* [云南统计年鉴 2018], China Statistics Press.

Figure 5-4: Percentage of Border Trade in Yunnan's Total Foreign Trade



Source: Calculated by author based on data from Statistical Bureau of Yunnan Province. *Yunnan Statistical Yearbook 2018* [云南统计年鉴 2018], China Statistics Press.

Table 5-9: Percentage of Different Modes of Yunnan's Foreign Trade in Goods

	General Trade USD 10000	**Percentage**	**Border Trade** USD 10000	**Percentage**	**Processing Trade** USD 10000	**Percentage**
2000	127600	70.37%	35600	19.65%	--	--
2005	334600	70.61%	65500	17.49%	--	--
2010	1117363	83.6%	173558	13%	45874	3.4%
2011	1328633	82.8%	200801	12.5%	75837	4.7%
2012	1202243	57.2%	200402	10%	687904	32.7%
2013	1751640	67.8%	333381	12.9%	497838	19.3%
2014	2121383	71.6%	357924	12.1%	447143	16.3%
2015	2067700	84.3%	249083	10.2%	135916	5.5%
2016	1531666	76.6%	294684	14.7%	173503	8.7%
2017	1349433	57.7%	342289	14.6%	294233	12.6%

Sources: Data for 2000 collected from Che, Z.M., Zhu, P.L. & Yao, Y.Y. eds (2001). *Yunnan Almanac 2001* [云南年鉴 2001]. House of Yunnan Almanac; data for 2005 collected from Che, Z.M. & Li, J. eds (2006). *Yunnan Almanac 2006* [云南年鉴 2006]. House of Yunnan Almanac; data for 2010 collected from Liu, W.S. eds (2011). *Commercial Almanac of Yunnan province (2011)* [云南商务年鉴]. Yunnan Ethnic Publishing House; data for 2011 to 2015 collected from Liu, J. (eds). *Commercial Almanac of Yunnan province (2012)(2013)(2014)(2015)(2016)* [云南商务年鉴 2012/2013/2014/2015/2016]. Yunnan Ethnic Publishing House; data for 2016 to 2017 from Chen, Y. eds. *Commercial Almanac of Yunnan province (2017) (2018)* [云南商务年鉴 2017/2018]. Yunnan Ethnic Publishing House.

5.4.1.2 Main Partners of Yunnan's Foreign Trade

The structure of Yunnan's foreign trade partners was greatly shaped by the opening up strategy developed by the provincial government. It was discussed in section 5.3.2.2 that Yunnan provincial government gradually shifted its focus of opening up to Southeast Asia from the 1990s. As a result, the provincial government took frequent governmental visits to the neighbouring states (section 5.2.3.2) and played an active role in regional cooperation through GMS (section 5.2.2.2). The policy transformation promoted by the provincial government significantly contributed to the foreign trade with Southeast Asia states, which caused the Southeast Asia to become the major

market for Yunnan's foreign trade. This transformation in Yunnan's foreign trade can be clearly told by the data collected. In the 1980s, Yunnan's foreign trade with Southeast Asia states was insignificant and only made up a small proportion of all foreign trade. From 1980 to 1985, Yunnan's exports to Southeast Asian markets was USD 21.69 million, making up only 4.3% of the total volume of Yunnan's exports.[652] In 1987, the proportion of Yunnan's foreign trade with Southeast Asia was still low at 3.3% of exports.[653] Thus, Southeast Asian states were not major foreign trade partners for Yunnan province.

The situation began to change when Yunnan realized geographical advantages and started to rethink its approach to opening up. In 1989, the Yunnan provincial government pivoted to developing economic and trade relations with neighbouring states and the provincial governor, He Zhiqiang, led a group to visit Myanmar, Thailand and Laos, which promoted foreign trade between Yunnan and Southeast Asia.[654] That year, Myanmar became Yunnan's primary export and import partner, with a percentage of 32.88% and 33.2% of the total volume of Yunnan's exports and imports respectively.[655] Meanwhile, Thailand was 10th among Yunnan's export partners, while Singapore and Laos ranked 10th and 12th.[656] Since then, foreign trade relations between Yunnan and Southeast Asian states began to change. From the 1990s, foreign trade between Yunnan and Southeast Asia further strengthened as Yunnan clearly developed its opening up strategy, which positioned it as a gateway between China and Southeast Asia.[657] Moreover, Yunnan's participation in the GMS programme and the establishment of CAFTA both provided more opportunities for Yunnan to further improve its foreign trade relations with Southeast Asian states. According to Figure 5-5, the volume of foreign trade between Yunnan and Southeast Asia rose significantly, from USD 364.23 million in 1998 to USD 13,090 million in 2017. Simultaneously, the large proportion of Yunnan-ASEAN foreign trade in the total volume of Yunnan's foreign trade since the 1990s clearly showed the importance of the ASEAN market for

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652 Wang, S.L. (1992). Study on the Economic Relations between Yunnan and Southeast Asia [云南与东南亚经济关系研究]. *Yunnan Social Science*. (4), 21-29.
653 Ning, C. eds (1988). *Yunnan Almanac 1988* [云南年鉴 1988]. House of Yunnan Almanac, p.517.
654 Wu, G.F. eds (1990). *Yunnan Almanac 1990* [云南年鉴 1990]. House of Yunnan Almanac, p.350.
655 Ibid.
656 Ibid.
657 See Chapter 5, section 5.3.2.2 for Yunnan's repositioning process.

the province. Figure 5-6 shows the proportion of Yunnan's foreign trade with ASEAN states remained at a high level of around 30%. The importance of the ASEAN market for Yunnan became increasingly evident after 2010 when the CAFTA was finally established. From 2012 to 2016, the percentage of foreign trade with ASEAN continued to rise, from 32.2% to a peak of 59.2% in 2016.[658] ASEAN was definitely the most important market for Yunnan province.

Among all the states from Southeast Asia, Yunnan's foreign trade with neighbouring states, namely Myanmar, Vietnam, and Laos, was most significant. Foreign trade with these three states made up a large proportion of Yunnan's trade with ASEAN. According to Figure 5-7, neighbouring states made up more than 60% of total foreign trade between Yunnan and ASEAN during the period 1998 to 2015, and in 2016 the proportion even reached over 80%.[659] Among neighbouring states, Myanmar was the most important foreign trading partner for Yunnan. Table 5-10 shows that Myanmar was the top foreign trade partner for Yunnan in most years from 2010 to 2017.[660] At least half of the top ten foreign trade partners of Yunnan came from Southeast Asia. Two other neighbouring states, Vietnam and Laos, also appeared on the top ten, especially Vietnam who became the second largest foreign trade partner from 2015 to 2017.[661] Foreign trade development with ASEAN states, especially with neighbouring states, enabled Yunnan to take advantage of its proximity to ASEAN markets and improved transportation as a result of GMS projects and China-ASEAN cooperation.

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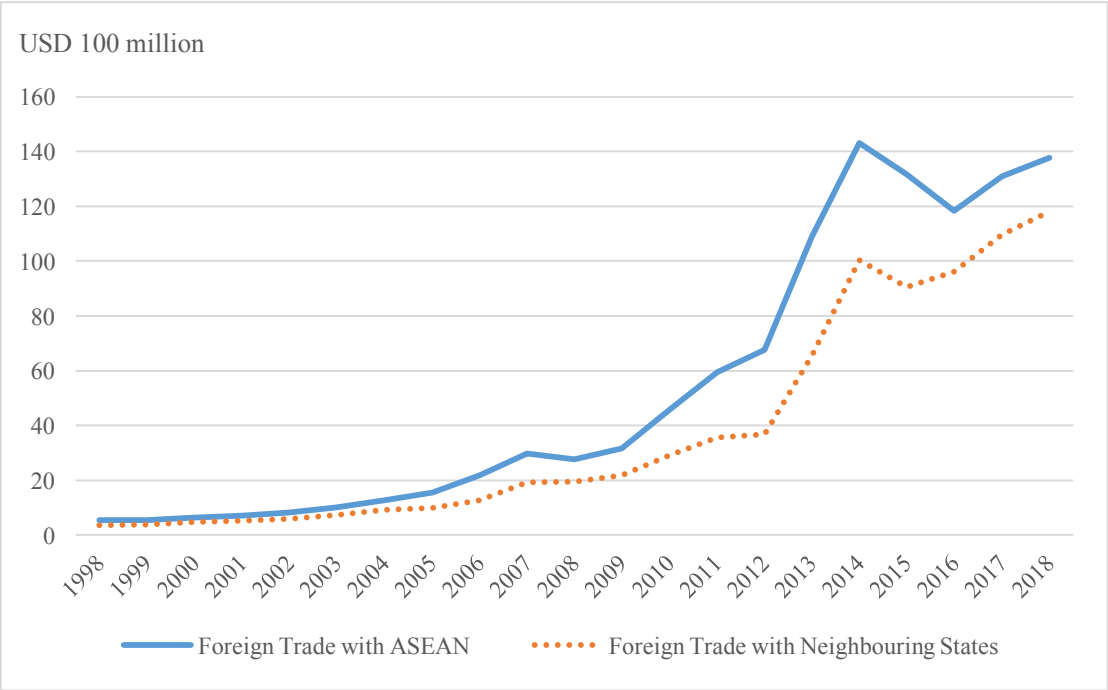
[658] Statistical Bureau of Yunnan Province (2018). *Yunnan Statistical Yearbook 2018* [云南统计年鉴 2018]. China Statistics Press.

[659] Ibid.

[660] Data for 2010 from Liu, W.S. eds (2011). *Commercial Almanac of Yunnan province (2011)* [云南商务年鉴]; data for 2011 to 2015 collected from Liu, J. (eds). *Commercial Almanac of Yunnan province (2012)(2013)(2014)(2015)(2016)* [云南商务年鉴 2012 / 2013/2014/2015]; data for 2016 to 2017 from Chen, Y. eds. *Commercial Almanac of Yunnan province (2017) (2018)* [云南商务年鉴 2017/2018]. Yunnan Ethnic Publishing House.

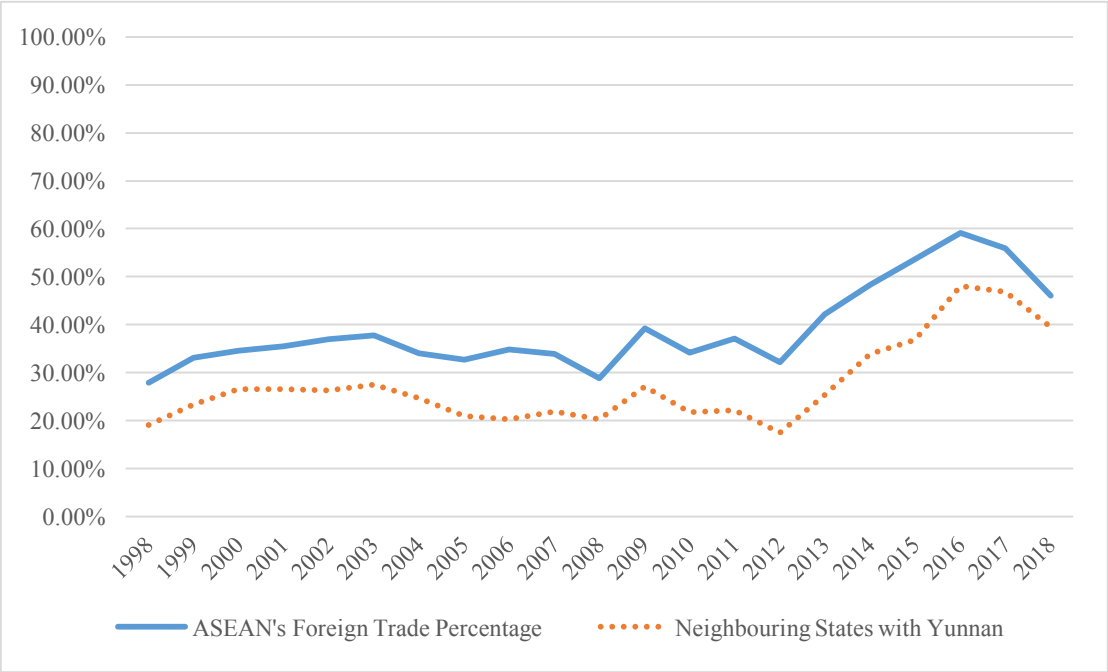
[661] Data for 2015 from Liu, J. (eds). *Commercial Almanac of Yunnan province* [云南商务年鉴 2016]; data for 2016 to 2017 from Chen, Y. eds. *Commercial Almanac of Yunnan province (2017) (2018)* [云南商务年鉴 2017/2018]. Yunnan Ethnic Publishing House.

Figure 5-5: Yunnan's Foreign Trade with ASEAN and Neighbouring States



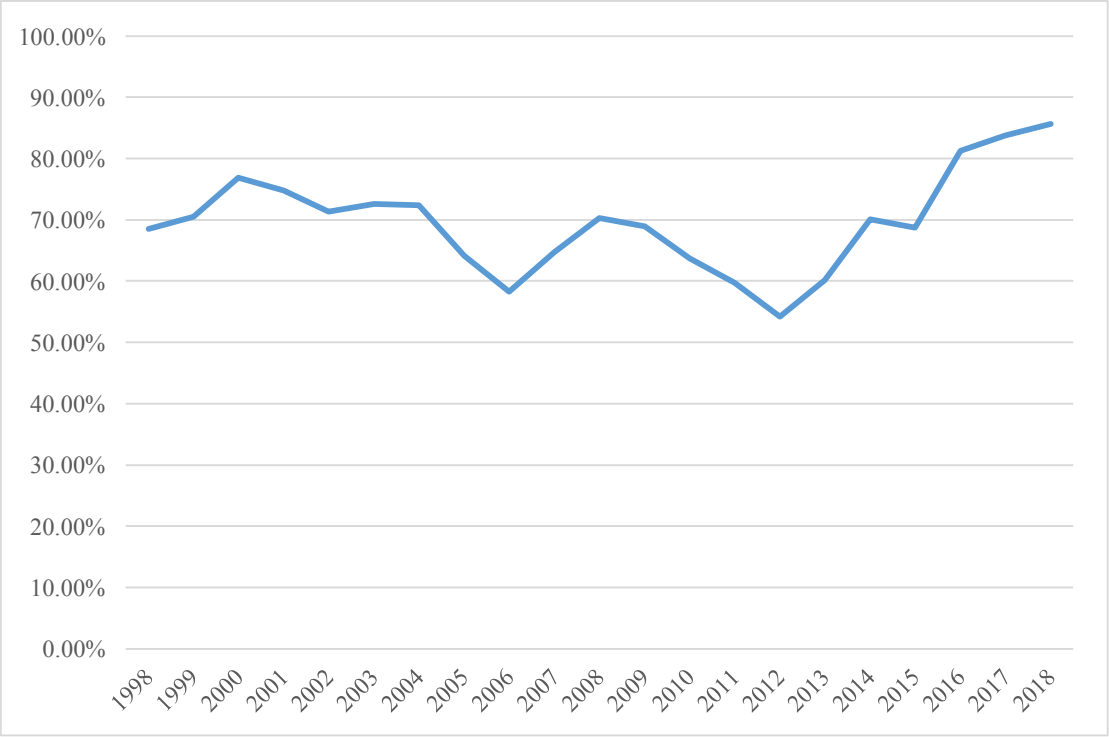
Source: Statistical Bureau of Yunnan Province (2019). *Yunnan Statistical Yearbook 2019* [云南统计年鉴 2019], China Statistics Press.

Figure 5-6: Percentage of Yunnan's Foreign Trade with ASEAN & Neighbouring States



Source: Statistical Bureau of Yunnan Province (2019). *Yunnan Statistical Yearbook 2019* [云南统计年鉴 2019], China Statistics Press.

Figure 5-7: Proportion of Trade with Neighbouring States in ASEAN Total



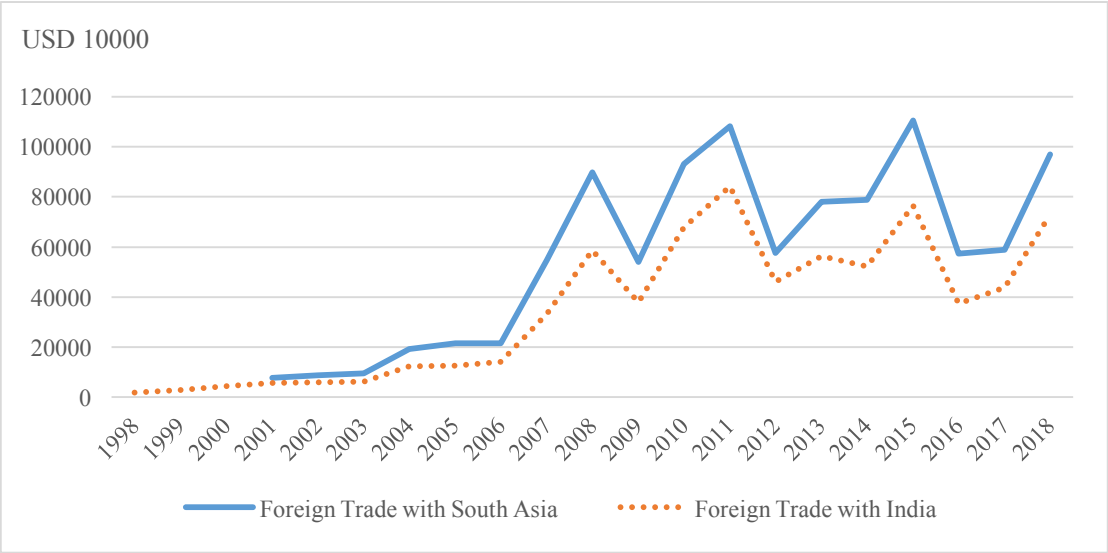
Source: Statistical Bureau of Yunnan Province. *Yunnan Statistical Yearbook 2019* [云南统计年鉴 2019], China Statistics Press.

Also worthy of mention are the foreign trade relations between Yunnan and South Asian states as Yunnan provincial government also incorporated South Asia into its strategy during the process of repositioning.[662] Furthermore, Yunnan is responsible for hosting the China-South Asia Expo.[663] Thus, Yunnan had favourable conditions for promoting foreign trade with South Asia. Figure 5-8 shows the foreign trade between Yunnan and Southeast Asian states. The volume of Yunnan's foreign trade with these states increased significantly from USD 78 million in 2001 to USD 970.7 million in 2018.[664] According to Figure 5-9, Yunnan's foreign trade with India occupied more than 60% of Yunnan's foreign trade with South Asia, and in 2012 the proportion reached 80%. However, the foreign trade development between the two sides fluctuated significantly during the period, which implies the existence of instabilities in Yunnan and South Asia's foreign trade relations.

662 See Chapter 5, section 5.3.2.2 for Yunnan's repositioning process.
663 See Chapter 5, section 5.3.2.1 for information about the China-Southeast Asia Expo.
664 Statistical Bureau of Yunnan Province (2019). *Yunnan Statistical Yearbook 2019* [云南统计年鉴 2019], China Statistics Press.

Furthermore, the economic interaction between Yunnan and South Asia was much less developed than its foreign trade with ASEAN. The proportion of trade with South Asia in terms of the total volume of Yunnan's foreign trade was much lower than that with ASEAN, at less than 10% (Figure 5-10).[665] India, the biggest foreign trade partner of Yunnan province in South Asia, only began to appear in the list of Yunnan's main import partner in the late 1990s. In 1998, India was the 10th biggest import market for Yunnan, with an import volume of USD 13 million, or 1.68% of Yunnan's total import.[666] The proportion of India's foreign trade with Yunnan was much lower than that of some major ASEAN foreign trade partners. Table 5-10 shows that India only showed up four times on the list of Yunnan's top ten foreign trade partners from 2010 to 2017. The highest proportion for India in the total volume of Yunnan's foreign trade appeared in 2010, ranking fourth with 5.1% of total foreign trade.[667] At the same time, Myanmar and Vietnam occupied the first and second largest proportions of Yunnan's foreign trade. Unstable bilateral relation between China and India could to some extent explain the fluctuating foreign trade relations between Yunnan and South Asia.

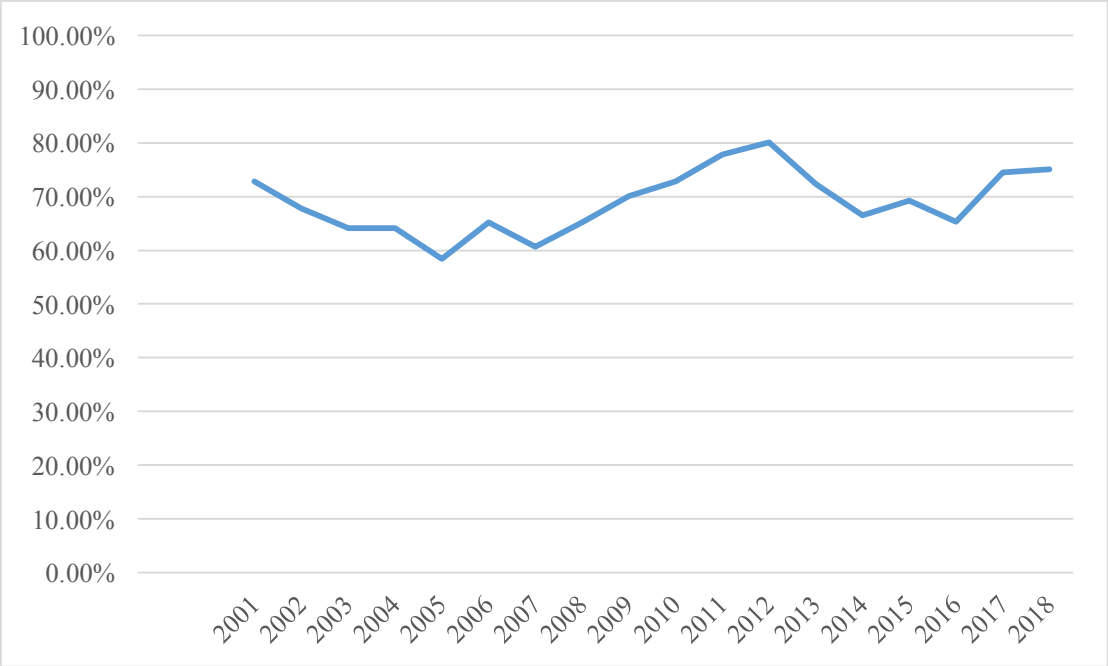
Figure 5-8: Yunnan's Foreign Trade with South Asia and India



Source: Statistical Bureau of Yunnan Province (2019). *Yunnan Statistical Yearbook 2019* [云南统计年鉴 2019], China Statistics Press.

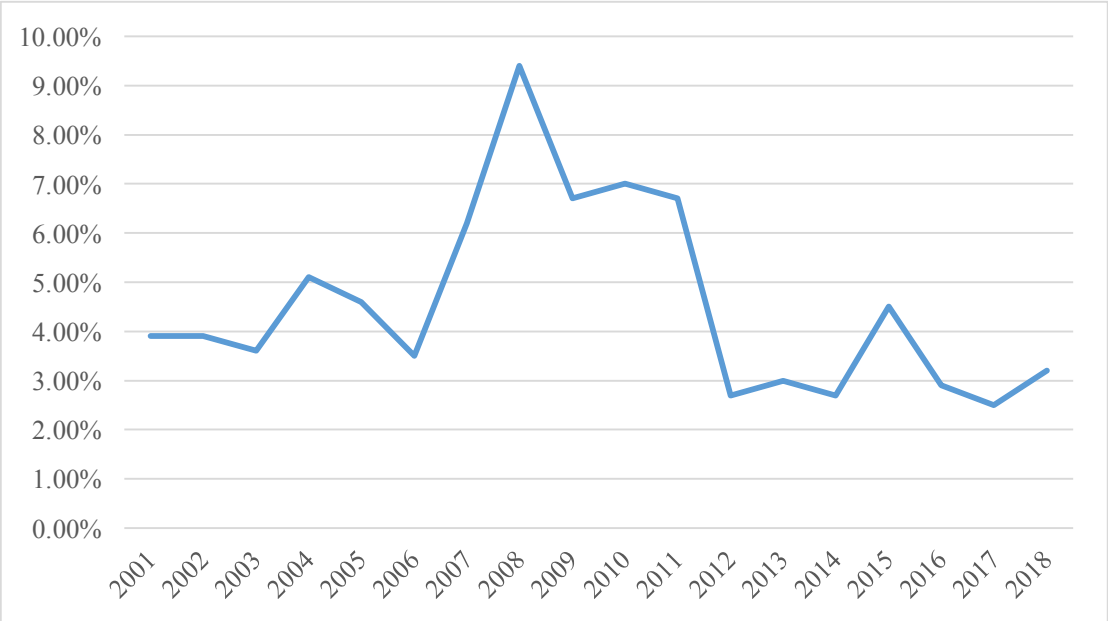
[665] Statistical Bureau of Yunnan Province (2019). *Yunnan Statistical Yearbook 2019* [云南统计年鉴 2019], China Statistics Press.
[666] Yao, Y.Y. (1999). *Yunnan Almanac 1999* [云南年鉴 1999]. House of Yunnan Almanac, p.288.
[667] Liu, W.S. eds (2011). *Commercial Almanac of Yunnan province (2011)* [云南商务年鉴]. Yunnan Ethnic Publishing House.

Figure 5-9: Percentage of Yunnan's Foreign Trade with India



Source: Statistical Bureau of Yunnan Province (2019). *Yunnan Statistical Yearbook 2019* [云南统计年鉴 2019], China Statistics Press.

Figure 5-10: South Asia's Proportion of Yunnan's Foreign Trade



Source: Statistical Bureau of Yunnan Province (2019). *Yunnan Statistical Yearbook 2019* [云南统计年鉴 2019], China Statistics Press.

Table 5-10: Top 10 Foreign Partners of Yunnan Province and Percentage of Yunnan's total Foreign Trade

	No.1	**No.2**	**No.3**	**No.4**	**No.5**	**No.6**	**No.7**	**No.8**	**No.9**	**No.10**
2017	Myanmar 27%	Vietnam 16%	HK 8%	Laos 4%	Thailand 4%	Saudi Arabia 4%	US 3%	Indonesia 2%	Brazil 2%	Peru 2%
2016	Myanmar 30.3%	Vietnam 13.4%	HK 12.6%	Thailand 5.7%	US 4.6%	Laos 4.3%	Indonesia 2.2%	Australia 1.7%	Malaysia 1.9%	India 1.9%
2015	Myanmar 23.8%	Vietnam 9.5%	HK 7.7%	Thailand 6.9%	US 6.2%	Laos 3.6%	Malaysia 3.4%	Indonesia 3.2%	India 3.1%	Singapore 2.3%
2014	Myanmar 23.8%	HK 11.1%	USA 6.1%	Vietnam 5.3%	Laos 4.6%	Indonesia 4.4%	Malaysia 4.2%	Thailand 3.6%	Korea 3.2%	Singapore 1.9%
2013	Myanmar 16.2%	HK 14.8%	Malaysia 5.9%	Vietnam 5.2%	US 4.8%	Indonesia 4.8%	Taiwan 4.3%	Thailand 4.1%	Laos 4.1%	Korea 3.9%
2012	HK 26.1%	Myanmar 10.6%	South Africa 6.8%	Indonesia 5.4%	Vietnam 4.9%	Malaysia 4.9%	Peru 3.4%	Thailand 3.3%	Australia 3.3%	US 2.5%
2011	Myanmar 12.9%	Vietnam 7.6%	US 6.3%	Malaysia 5.7%	India 5.2%	Thailand 4.6%	HK 3.8%	Australia 3.7%	Indonesia 3.3%	Brazil 3.2%
2010	Myanmar 13.2%	Vietnam 7.1%	Peru 5.2%	India 5.1%	Australia 4.7%	US 4.4%	Malaysia 4.2%	Thailand 3.5%	Japan 3.4%	Indonesia 3.3%

Sources: *Commercial Almanac of Yunnan province (2010-2017)*. Yunnan Ethnic Publishing House.

5.4.1.3 The Product Structure of Yunnan's Foreign Trade

The product structure of foreign trade for a specific province was mainly decided by local industry development. During the reform period, one of the biggest changes in China was the progress of industrialization, reflected in the rising proportion of manufactured goods in foreign trade. This change also occurred in Yunnan province. In 1985, primary goods occupied more than half of the total volume of Yunnan's exports, at 59.7%.[668] The situation changed in 1990 when the proportion of primary goods in Yunnan's total export fell to 41.5% while manufactured goods exceeded half of all exports.[669] The gap between proportion of manufactured and primary goods continued to grow in the following years. In 2000, the volume of exported manufactured goods was USD 955 million, making up 81.3% of Yunnan's exports.[670] The leading role of manufactured goods continued in the following years. The growth of manufactured goods in exports was a common phenomenon in China, with slightly differences in the time when the growth began in different provinces. Clear diversity can be seen in the specific product structure of different provinces, implying that different provinces in China relied on different types of goods to promote foreign trade.

The specific product structure of foreign trade was closely related to the advantageous industry of each province, which relied on the local advantages of natural resources, labour quality or existing industries. Therefore, evident differences can be seen between Zhejiang and Yunnan provinces in terms of product structure.[671] Generally, the product categories of Yunnan's foreign trade became increasingly diverse in the last a few decades. But some types of products still made a crucial contribution to Yunnan's foreign trade development. Traditional advantageous products contributed greatly to Yunnan's foreign trade, including cigarettes and tobacco, phosphorus chemistry products, and non-ferrous metals. In 1985, the major products Yunnan exported were cigarettes, pure tin, soldering tin, and black tea, making up more than half of Yunnan's total exports. The role of these products to some extent shows the importance of local advantages in promoting international economic cooperation. For example, Yunnan had clear advantages in its abundant natural resources, especially its non-ferrous metals and

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[668] Ning, C. eds (1986). *Yunnan Almanac 1986* [云南年鉴 1986]. House of Yunnan Almanac, p.302.
[669] Wu, G.F. eds (1991). *Yunnan Almanac 1991* [云南年鉴 1991]. House of Yunnan Almanac, p.360.
[670] He, X. eds (1996). *Yunnan Almanac 1996* [云南年鉴 1996]. House of Yunnan Almanac, p.256.
[671] See Chapter 4, section 4.4.1.3 for information about Zhejiang's foreign trade product structure.

mineral resources. 61 types of mineral stocks in Yunnan province ranked in the top ten in China and 25 types of these mineral stock ranked top three among all the provinces in China , such as lead, zinc, tin, and phosphorus.[672] As a result, resource-oriented products became important contributors to Yunnan's foreign trade.

Planting acreage and output of flue-cured tobacco in Yunnan province ranked number one in China, occupying 30% of total output.[673] As a result, the product structure of Yunnan province was significantly affected by local industry development. Secondly, the product structure of Yunnan's foreign trade experienced an important transformation. The priority of resource-oriented products was gradually replaced by technology-oriented and labour-intensive products. Table 5-11 shows that the volume of electrical and mechanical product exports increased significantly, from 11.4% in 1995 to 26.7% in 2015. Moreover, the structure of products also influenced Yunnan's choices of foreign trade partners. For example, Australia appeared several times in the top ten foreign trade partners of Yunnan province from 2010 to 2017 as shown in Table 5-10. Indeed, the important role of Australia in Yunnan's foreign trade was largely due to Yunnan's importing of metal resource from Australia.[674] According to Table 5-12, the largest proportion of Yunnan's import came from the demand for metal resources. The products that Yunnan is able to produce and desires to purchase can bring influences to the foreign market for the local enterprises. This interaction further affected the strategy of the international interactions for the provincial government, which should serve to expand foreign trade market.

[672] Official Website of People's Government of Yunnan Province, General Information of Yunnan (云南概况), http://www.yn.gov.cn/yngk/gk/201904/t20190403_96264.html

[673] Zhang, M.G. eds (2017). *Yunnan Economic Yearbook (2017)* [云南经济年鉴 2017]. Yunnan People's Press, p.36.

[674] Du, Q. & Liang, P. eds (2012). Analysis on the Effectiveness of Yunnan's Foreign Trade Since the Accession to the WTO [加入 WTO 以来云南对外贸易绩效分析]. *Inquiry into Economic Issues,* (5), pp.185-190.

Table 5-11: Main Categories of Products in Yunnan's Exports (USD 10000)

	Electrical and Mechanical Products	**Agricultural Products**	**Phosphorus Chemical Industry**	**Textiles and Clothing**	**Electricity**	**Non-ferrous Metals**
1985	Cigarettes, pure tin, soldering tin and black tea together had an export value of over USD 10 million, occupying half of the total exports of Yunnan province					
1995	Cigarettes and Tobacco (34100/25.6%); Mechanical and Electrical Products (15900/**11.9%**); non-ferrous alloys (20700/15.6%)					
2005	34700/7.3%	48100/10.2%	50300/10.6%	10400/2.2%	**Fertilizer** 23500/5%	57100/12.1%
2010	172003/ 22.6%	135175/17.8%	114660/15.1%	70173/9.2%	28688/3.8%	24482/3.2%
2011	202755/21.4%	175726/18.6%	149441/15.8%	71824/7.6%	30610/3.2%	34486/3.6%
2012	166697/16.6%	203927/20.4%	105146/10.5%	47370/4.7%	17152/1.7%	10778/1.1%
2013	507497/31.8%	240726/15.1%	105652/6.6%	131421/8.2%	21933/1.4%	25423/1.6%
2014	617814/32.9%	289277/15.4%	105352/5.6%	162902/8.7%	15876/0.8%	15705/0.8%
2015	443102/26.7%	405530/24.4%	191361/11.5%	130468/7.8%	13481/0.8%	24798/1.5%

Sources: Ning, C. eds (1986). *Yunnan Almanac 1986* [云南年鉴 1986]. House of Yunnan Almanac, p.302; He, X. eds (1996). *Yunnan Almanac 1996* [云南年鉴 1996]. House of Yunnan Almanac; Che, Z.M. & Li, J. eds (2006). *Yunnan Almanac 2006* [云南年鉴 2006]. House of Yunnan Almanac; Liu, W.S. eds (2011). *Commercial Almanac of Yunnan province (2011)* [云南商务年鉴]; data for 2011 to 2015 collected from Liu, J. eds. *Commercial Almanac of Yunnan province (2012) (2013) (2014) (2015)* [云南商务年鉴 2012/2013/2014/2015]. Yunnan Yunnan Ethnic Publishing House.

Table 5-12: Main Categories of Products in Yunnan's Imports (USD 10000)

	Metal Raw Material	**Agricultural Products**	**Electrical and Mechanical Products**	**Non-metal raw material**	**Wood**
1985	Machinery, mechanical equipment, complete equipment, and instrument occupying 53%; industrial materials like steel, chemical fibre occupying 20%				
2005	Metal Ore (75600/36.1%); Mechanical and Electrical Products (36800/17.5%); Aluminium Oxide (19400/9.25); Wood (17000/8.1%); Sulphur (15100/7.2%); Plastic raw material (11500/5.5%)				
2010	269199/46.7%	87100/15.1%	84161/14.6%	24782/4%	17853/3.1%
2011	265207/40.3%	108203/16.4%	79912/12.1%	39065/6%	22112/3.4%
2012	333669/30.4%	158142/14.4%	83309/7.6%	Sulphur 32861/3%	28604/2.6%
2013	211030/37.5%	150526/26.7%	200891/35.7	13662/2.4%	62065/11%
2014	217303/20.1%	145207/13.4%	168250/15.5%	29505/2.7%	-------

Sources: Ning, C. eds (1986). *Yunnan Almanac 1986* [云南年鉴 1986]. House of Yunnan Almanac, P302; Che, Z. M. & Li, J. eds (2006). *Yunnan Almanac 2006* [云南年鉴 2006]. House of Yunnan Almanac; Liu, W.S. eds (2011). *Commercial Almanac of Yunnan province (2011)* [云南商务年鉴 2011]; data for 2011 to 2015 collected from Liu, J. eds. *Commercial Almanac of Yunnan province (2012) (2013) (2014) (2015)* [云南商务年鉴 2012/2013/2014/2015]. Yunnan Yunnan Ethnic Publishing House.

5.4.1.4 Enterprise Structure of Yunnan's Foreign Trade

Foreign trade in China in the early stages of reform was mainly conducted by government-controlled foreign trade enterprises. With the reform in foreign trade, increasing types of enterprise were allowed to conduct foreign trade directly.[675] Foreign-invested enterprises and private enterprises were later authorized to conduct foreign trade, which led to the current structure of enterprise types in foreign trade. Generally, the enterprises for foreign trade in Yunnan province became much more diverse compared with the situation in the 1980s, with SOEs and private enterprises being the major forces in promoting foreign trade in the province. Simultaneously, the contributions made by different types of enterprises changed significantly. Firstly, SOE were a dominate power in Yunnan's foreign trade development. Yunnan's industry structure, such as its advantages in the resource-oriented and tobacco industries, strengthened the role of SOEs in foreign trade development. The close linkage between SOEs and SNGs, discussed in Chapter 3 (section 3.3.1.1), strengthen the role of Yunnan provincial government in the development of foreign trade. According to Table 5-13, SOEs still produced the largest proportion of foreign trade for Yunnan province in 2009, at 48.3%. However, the proportion of foreign trade produced by SOEs was exceeded by private enterprises in 2010.[676] The percentage of SOE's foreign trade fell to the lowest level of 18.6% in 2014 before recovering to 30.2% in 2017.[677] The decrease of SOE's proportion in foreign trade was to a large extent caused by its reduced contribution to exports, rather than imports. During the period 2009 to 2017, the exports produced by SOEs in Yunnan province decreased from 38.5% to 14.09% while imports remained at a high rate of 45.61%.

Accompanying the reduced contribution of SOEs in Yunnan's foreign trade was the dramatic development of private enterprises' foreign trade volume. Participation of private enterprises in foreign trade occurred much later than both SOEs and foreign-invested enterprises. In 1999, three private enterprises were allowed by the government to conduct foreign trade, which marked the beginning of private enterprises conducting

[675] See Chapter 3, section 3.3.2.2 for information about foreign trade reform.
[676] Liu, W.S. eds (2011). *Commercial Almanac of Yunnan province (2011)* [云南商务年鉴 2011]. Yunnan Ethnic Publishing House, p.172.
[677] Liu, J. eds (2015). *Commercial Almanac of Yunnan province(2015)* [云南商务年鉴 2015], p.212; Chen, Y. eds, *Commercial Almanac of Yunnan province (2018)* [云南商务年鉴 2018]. Yunnan Ethnic Publishing House, p.262.

foreign trade.[678] Private enterprises developed in foreign trade rapidly, reflected not only in the numbers of enterprises conducting foreign trade activities, but also in the volume of foreign trade they produced. The number of private enterprises conducting foreign trade increased quickly from three in 1999 to 270 in 2002.[679] Private enterprises have become the leading force in Yunnan's foreign trade. According to Table 5-13, private enterprises contributed 46.2% to the total amount of Yunnan's foreign trade, which increased to a peak of 79.2% in 2014, before dropping to 55.3% in 2017. Private enterprises' involvement in foreign trade was mainly caused by its growth in exports, reaching 90.6% of total exports in 2014 as shown in Table 5-13. Compared with SOEs and private enterprises, the contribution of foreign-invested enterprises to Yunnan's foreign trade was limited. Table 5-13 shows that the proportion of foreign trade produced by foreign-invested enterprises accounted for less than 5% in most years from 2009 to 2017. The limited development of the foreign trade produced by foreign-invested enterprises on the one hand can be explained by the small size of FDI coming to Yunnan. On the other hand, it was also caused by the underdevelopment of Yunnan's processing trade as a result of poor local conditions in transport, labour force and later preferential policies.

Table 5-13: Enterprises Structure of Yunnan's Foreign Trade

Foreign Trade by Different Types of Enterprises (USD 10,000) **Percentage in Yunnan's Total Foreign Trade**						
	SOE	**Percentage**	**FIE**	**Percentage**	**Private**	**Percentage**
2009	387455	**48.3%**	43922	**5.5%**	371284	**46.2%**
2010	539905	**40.4%**	64499	**4.8%**	732391	**54.8%**
2011	623382	**38.8%**	74846	**4.7%**	907043	**56.5%**
2012	982871	**46.8%**	62140	**3.0%**	906078	**50.2%**
2013	525910	**20.4%**	84438	**3.3%**	1064299	**76.4%**
2014	550035	**18.6%**	64736	**2.2%**	2347461	**79.2%**
2015	529814	**21.6%**	50367	**2.1%**	1872518	**76.3%**

[678] Zhu, P.L. eds (2000). *Yunnan Almanac 2000* [云南年鉴 2000]. House of Yunnan Almanac, p.266.

[679] Che Z.M., Li, C.G. & Pu, Y.H. eds (2003). *Yunnan Almanac 2003* [云南年鉴 2003]. House of Yunnan Almanac, p.219.

2016	720726	**36%**	48739	**2.4%**	1230388	**61.5%**
2017	706600	**30.2%**	43903	**1.9%**	1294495	**55.3%**
Exports by Different Types of Enterprises (USD 10000) Percentage in Yunnan's Total Export						
2009	173708	38.5%	27565	6.1%	250369	55.4%
2010	209684	27.6%	33003	4.3%	517881	68.1%
2011	280515	29.6%	35972	3.8%	630790	66.6%
2012	256196	25.6%	34029	3.4%	711560	71%
2013	199599	12.5%	37184	2.3%	1359068	85.2%
2014	142148	7.6%	37120	1.8%	1704124	90.6%
2015	175505	10.6%	32186	1.9%	1454920	87.5%
2016	186359	16.1%	34956	3.0%	936869	80.9%
2017	161004	14.09%	31052	2.72%	910354	79.64%
Imports by Different Types of Enterprises (USD 10000) Percentage in Yunnan's Total Foreign Trade						
2009	213748	60.9%	16356	4.7%	120915	34.4%
2010	330221	57.3%	31496	5.5%	214510	37.2%
2011	342867	52.1%	38874	5.9%	276253	42%
2012	726675	66.1%	38857	2.6%	275323	31.3%
2013	326311	33.1%	47254	4.8%	350810	62.2%
2014	407887	37.7%	30804	2.8%	643337	59.5%
2015	354309	44.8%	18181	2.3%	417598	52.9%
2016	534367	63.5%	13783	1.6%	293519	34.9%
2017	545596	45.61%	12851	1.07%	384141	32.11%

Sources: Data for 2009 and 2010 collected from Liu W.S. eds (2011). *Commercial Almanac of Yunnan province (2011)* [云南商务年鉴]. Yunnan Ethnic Publishing House; data for 2011 to 2015 collected from Liu, J. (eds). *Commercial Almanac of Yunnan province (2012)(2013)(2014)(2015)(2016)* [云南商务年鉴 2012/2013/2014/2015/2016]. Yunnan Ethnic Publishing House; data of 2016 to 2017 from Chen, Y. eds, *Commercial Almanac of Yunnan province (2017) (2018)* [云南商务年鉴 2017/2018]. Yunnan Ethnic Publishing House.

5.4.2 Development of FDI in Yunnan

Attracting foreign investment was a major aim for China in developing the opening up

policy. In the reform period, central government gradually devolved authority to manage foreign investment to SNGs and also provided preferential policies for foreign enterprises, which led to the development of China's FDI in the reform period.[680] In Yunnan province, the volume of FDI also grew during the reform period as a result of FDI regime reform and the proactive role of the provincial government. The efforts of provincial government to promote Yunnan to the gateway (section 5.3.2.2) between China and Southeast Asia could attracted more FDI to the local, especially those aimed at the Southeast Asia market. Moreover, the active role of the government to improve the transportation, for example through the GMS project, also promoted the FDI development. Therefore, it can see an evident growth of FDI in Yunnan province according to the data collected.

The utilization of FDI in Yunnan began in 1984 when the first FDI-invested enterprise was established.[681] But FDI coming to Yunnan did not increase much before 1992. The accumulated volume of FDI flowing into Yunnan between 1984 and 1991 was only USD 24 million.[682] Yunnan's inflow of FDI increased from 1992 when the central government decided to expand the range of opening up from coastal to border areas.[683] However, according to Figure 5-12, the rapid growth of Yunnan's FDI began in the 2000s, caused by the launching of the 'developing the west region' strategy and the resultant policies and funding support from the central government.[684] In 2006, Yunnan provincial government issued the *regulation to promote foreign investment in Yunnan province*, which led to a significant increase of FDI in Yunnan province. Furthermore, the establishment of CAFTA in 2010 strengthened Yunnan's position as a gateway between China and ASEAN and enabled Yunnan to attract FDI aimed at the ASEAN market. Therefore, after 2010 the FDI increased more quickly, as shown in Figure 5-11, which also shows that the volume of Yunnan's FDI increased from USD 302 million in 2006 to USD 2992 million in 2015.[685] Thus, the FDI in Yunnan did improve significantly during the reform period.

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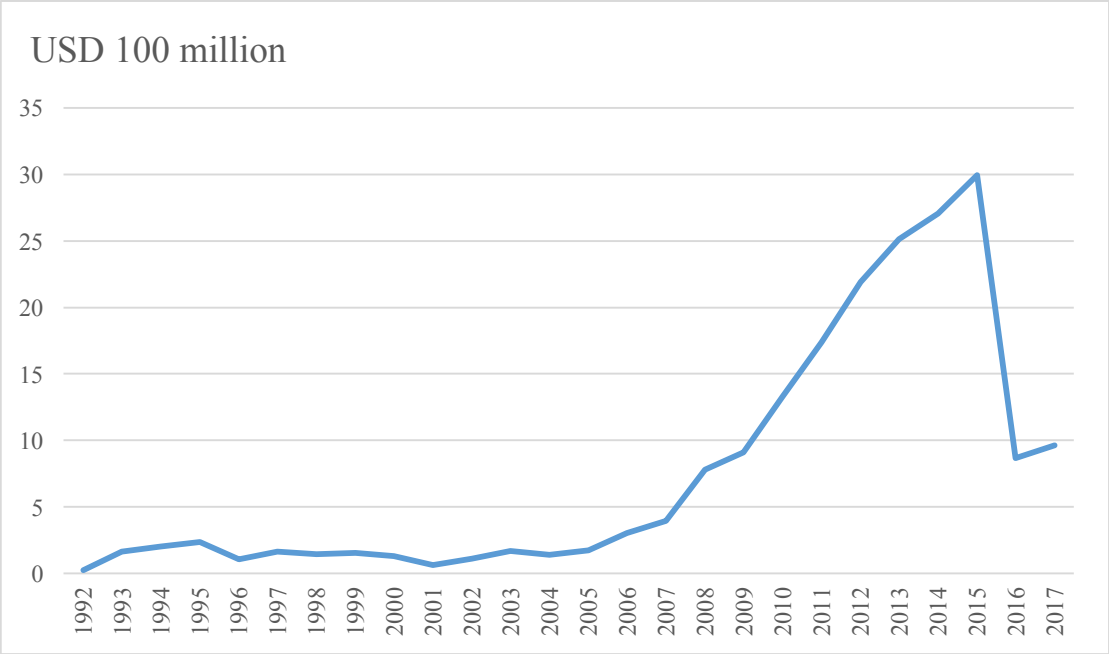
[680] See Chapter 3, section 3.3.2.2 for information of FDI policy reform.
[681] Chen, T.J. (2015). *30 Years Border Opening Up Process, Achievements and Experiences of Yunnan Province* [云南 30 年的演变开放历程、成就和经验]. Social Science Academic Press, p.173.
[682] Che, Z.M & Li, J. eds (2006). *Yunnan Almanac 2006* [云南年鉴 2006]. House of Yunnan Almanac, p.244.
[683] See Chapter 5, section 5.3.1.1 for information about opening up in border areas.
[684] See Chapter 5, section 5.3.2.2 for information about developing the west region and other related policies.
[685] According to Yunnan Statistical Yearbook 2018, data for 2016 and 2017 was calculated by new standards and thus there was a rapid decrease in volume.

However, the development of Yunnan's FDI remained at a low level compared with the Chinese average. The underdevelopment of Yunnan's FDI can be explained by the local disadvantages in infrastructure development and human resources on the one hand. On the other hand, the peripheral position of Yunnan in China's opening up policy before the 2000s was also responsible for the low volume of the province's FDI. I argue that the two reasons are interwoven. As a result, Yunnan's FDI only occupied a very limited proportion of China's total FDI. As shown in Figure 5-12, the percentage of Yunnan's FDI occupied less than 1% in most years from 1992 to 2017. Moreover, the source of Yunnan's FDI, according to Table 5-14, was highly unbalanced, concentrated on HK. But some ASEAN states, such as Singapore, the Philippines and Malaysia, appeared on the list of Yunnan's major FDI sources, which I believe was related to Yunnan's opening up policy, which focused on Southeast Asia.[686] Finally, the manufacturing and energy producing sector attracted the largest proportion of FDI to Yunnan (Table 5-15). The FDI coming to the manufacturing sector, to some extent, caused by the gateway strategy developed by the provincial government. As a result, FDI made use of the special position of Yunnan and then exported to the Southeast Asia states. But FDI in Yunnan also experienced changes. For example, some tertiary sectors, such as real estate, became increasingly important in attracting FDI to the province.

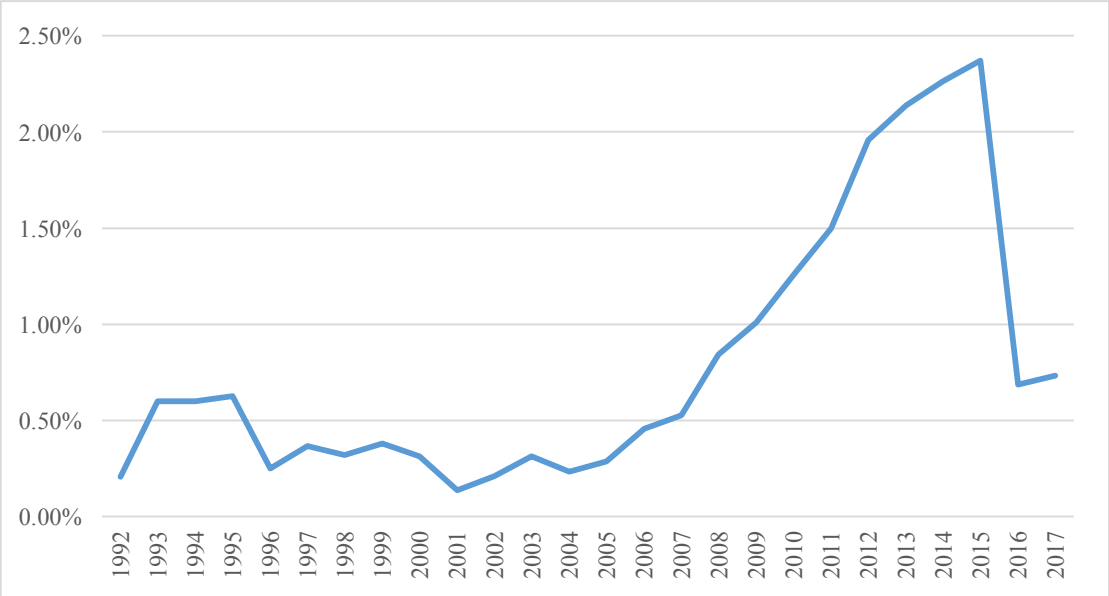
[686] See Chapter 5, section 5.3.2.2 for Yunnan's opening up strategy.

Figure 5-11: Development of Yunnan's Actual Utilization of FDI



Sources: Data for 1992 to 2005 collected from Che, Z.M & Li, J. eds (2006). *Yunnan Almanac 2006* [云南年鉴 2006]. House of Yunnan Almanac; data for 2006 from Che, Z.M & Li, J. eds (2007). *Yunnan Almanac 2007* [云南年鉴 2007]. House of Yunnan Almanac; data for 2007 to 2009 collected from the relevant *Yunnan Almanac*; data for 2010 to 2017 from Statistical Bureau of Yunnan Province (2018). *Yunnan Statistical Yearbook 2018* [云南统计年鉴 2018], China Statistics Press.

Figure 5-12: Percentage of Yunnan's FDI against China's FDI



Source: Calculated by author based on data from China Statistics Press & National Bureau of Statistics of China, *China Statistical Yearbook 2018*. China Statistics Press; data from Figure 5-11.

Table 5-14: Major FDI Sources of Yunnan Province and the Volume of FDI from Each Source (USD 10000)

	No.1	No.2	No.3	No.4	No.5	No.6	No.7	No.8	No.9	No.10
1998	HK 6115	Singapore 1539	UK 1503	Virgin 1206	Japan 1076	Taiwan 983	Malaysia 579	Myanmar 448	Germany 460	Macao 379
2000	HK 7531	Thailand 1362	Singapore 1359	US 790	Philippines 400	Virgin 275	Germany 253	Taiwan 194	Netherlands 180	Japan 148
2005	HK 5945	Virgin 3545	Singapore 1094	Thailand 737	UK 694	Japan 666	US 665	Taiwan 492	Netherlands 390	Canada 365
2010	HK 73847	Virgin 20997	Singapore 7739	US 5006	Switzerland 4096	Philippines 3952	Canada 2857	Macao 901	Taiwan 779	Japan 672
2015	HK 208100	UK 8600	Singapore 8100	Virgin 6900	Malaysia 3200	Switzerland 2300	Spain 1500	Germany 1300	Myanmar 1300	Netherlands 900
2016	HK 24300	UK 10200	Spain 3300	Germany 900	Singapore 700	Japan 600	Australia 300	US 100	Virgin 100	--
2017	HK 82400	Virgin 2100	Singapore 2000	US 700	Macao 300	UK 200	Denmark 100	--	--	--

Sources: Statistical Bureau of Yunnan Province, *Yunnan Statistical Yearbook 1999; 2001; 2006; 2011; 2016; 2017 & 2018* [云南统计年鉴 1999/2001/2006/2011/2016/2017/2018]. China Statistics Press.

Table 5-15:Industry Distribution of Yunnan's FDI Volume (USD 10000)

	1998	2000	2005	2010	2015	2016	2017
Farming, Forestry, Animal Husbandry & Fishery	388	477	588	1657	2800	2595	1504
Mining and Quarrying	26	206	2228	7954	7400	7	0
Manufacturing	5833	2840	6344	25942	46600	43518	37987
Production and Supply of Electricity, Gas & Water	1234	1269	1100	15861	60800	13651	10834
Construction	34	--	175	29555	6100	0	0
Geological Prospecting & Water Conservancy	--	2	--	--	--	150	2062
Transport, Storage, Post and Telecommunication Services	--	--	--	--	--	2763	3603
Wholesale and Retail Trade & Catering Services	50	139	2486	16807	30400	11501	3622
Real Estate Trade	3432	743	1211	10952	87800	7049	13471
Social Services	1344	5213	3012	22250	57200	--	--
Leasing and Commercial Services	--	--	--	--	--	4178	12326
Accommodation and Catering Services	--	--	--	--	--	107	2010

Sources: Statistical Bureau of Yunnan Province, *Yunnan Statistical Yearbook 1999; 2001; 2006; 2011; 2016; 2017 & 2018* [云南统计年鉴 1999/2001/2006/2011/2016/2017/2018]. China Statistics Press.

5.4.3 Development of Yunnan's Overseas Investment

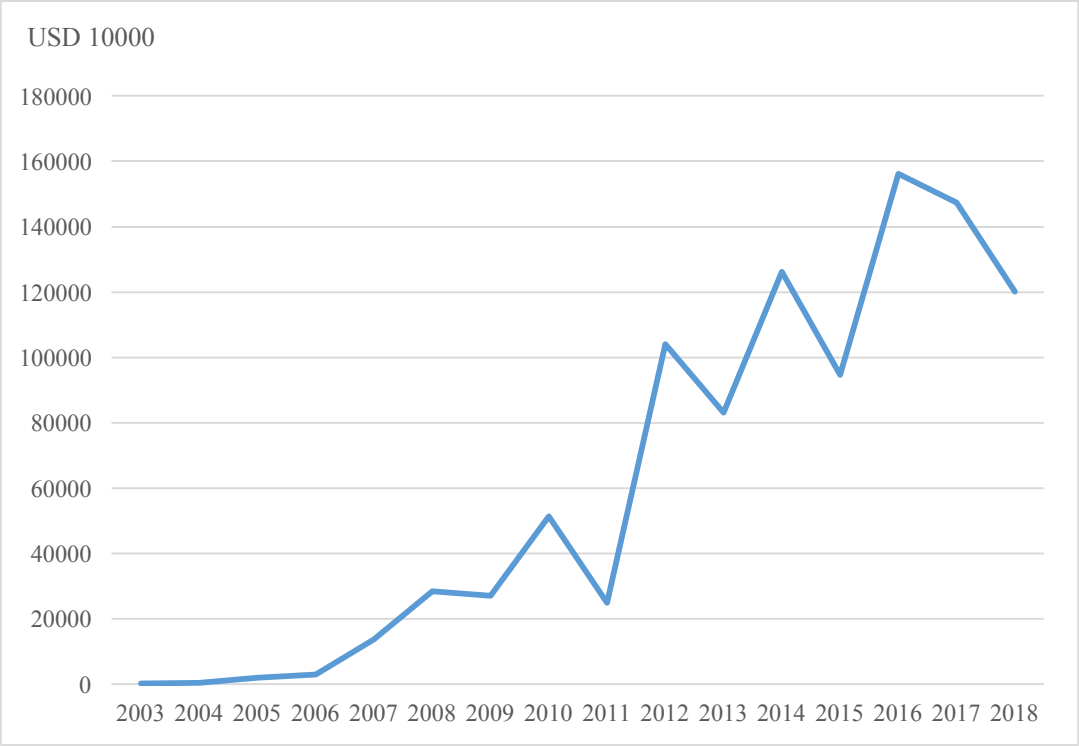
This final section explores Yunnan's engagement in the global economy through the promotion of overseas investment of local enterprises. Chinese central government launched the 'going global strategy' in the early 2000s to encourage domestic enterprises to conduct overseas investment.[687] During the process, central government gradually adjusted policies related to overseas investment and devolved the authority to manage overseas projects to the subnational level. Provincial government take the responsibility to administer the overseas projects, which simplifying the procedures and motivated the local enterprises to go overseas for investment. As a result, China's overseas investment, including Yunnan province, developed rapidly after the 2000s.[688] Figure 5-13 shows the development of Yunnan's non-financial investments from 2003: the volume increased significantly during this period, although with some fluctuation. However, it should be recognized that the development of Yunnan's overseas investment was still limited. The contribution of Yunnan's overseas investment to China's total volume of non-financial investment remained low. Figure 5-14 shows that the percentage of Yunnan's non-financial investment accounted for less than 1.4% during the period of 2003 to 2017.

Yunnan's overseas investment was also greatly influenced by its opening up strategy and its participation in the GMS programme. Neighbouring states became the dominant destination of Yunnan's overseas investment. According to Table 5-16, the overseas investment to three neighbouring states exceeded half of Yunnan's total overseas investment in most years from 2005 to 2017. The highest proportion of overseas investment in neighbouring states was 75.6% in 2011. The geographic distribution of Yunnan's overseas investment can be explained by the opening up strategy developed by the province. Moreover, Yunnan's participation in the GMS project (section 5.2.2) further promoted local enterprises to invest in the subregion. On the one hand, foreign trade and investment cooperation was one of the major priorities of the GMS projects. On the other hand, the cooperation between Yunnan and GMS states in electricity development, agriculture, or poppy substitution projects, all provided opportunities for Yunnan's local enterprises to conduct overseas investment in the subregion. According

[687] See Chapter 3, section 3.3.2.2 for information about the going global strategy.
[688] See Chapter 3, section 3.4.2.1 for information about China's overseas investment.

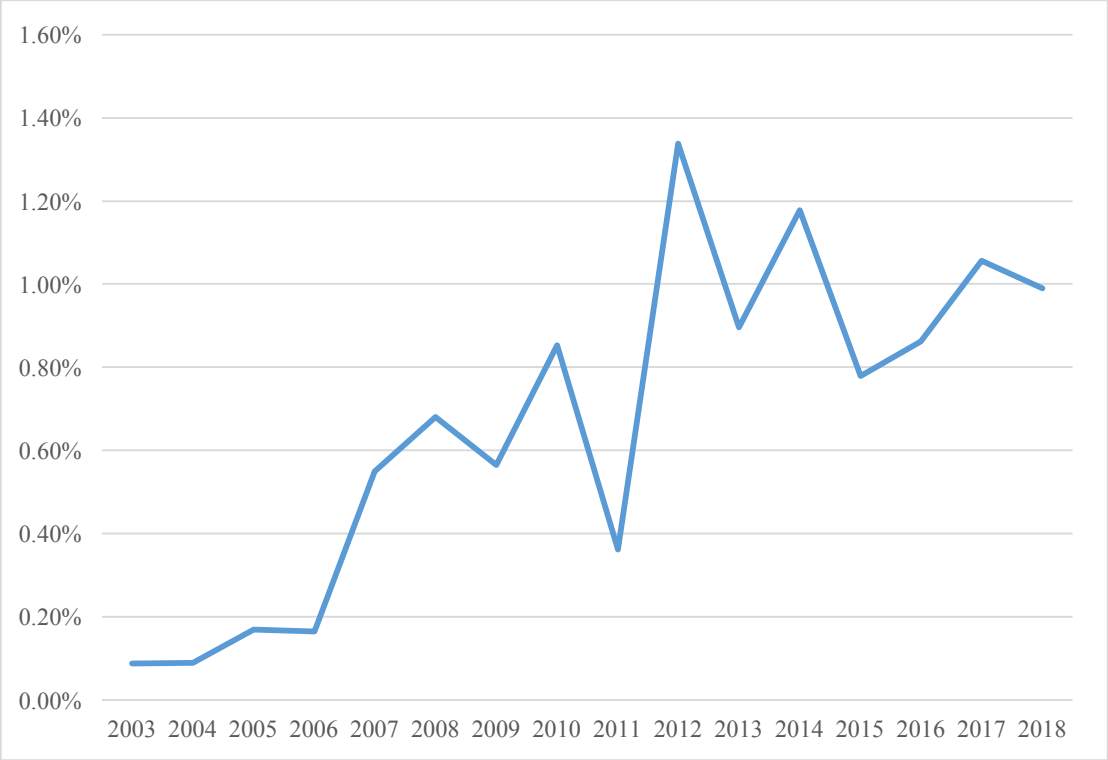
to Table 5-17, Yunnan's overseas investment in the electricity industry increased significantly from 2008 to 2017, the largest proportion of overseas investment in most years in that period. The electricity and energy cooperation between Yunnan and GMS states particularly provided opportunities for SOEs to have a role to play in the overseas investment for SOEs controlled these sectors in China. In return, this importance role of SOE in Yunnan's overseas investment strengthen the government's role provided the close relationship between SOEs and provincial government. Therefore, Yunnan's overseas investment was different from Zhejiang where private enterprises played a dominant role in promoting overseas investment.

Figure 5-13: Non-Financial Overseas Investment of Yunnan Province



Sources: Data before 2018 collected from Ministry of Commerce, National Bureau of Statistics and State Administration of Foreign Exchange. *2017 Statistical Bulletin of China's Outward Foreign Direct Investment*. China Commerce and Trade Press, p.57; Data for 2018 collected from *2019 Statistical Bulletin of China's Outward Foreign Direct Investment*, p.63.

Figure 5-14: Percentage of Yunnan's Non-Financial Investment in China's Total



Source: Calculated by author based on data collected from the same sources as Figure 5-13.

Table 5-16: Yunnan's Overseas Investment in Neighbouring States (USD 10,000)

	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Myanmar	760	1108	6781	7378	8572	20585	33018	12731	11601	12981	14776	21925	27069
Laos	615	1370	1308	2672	9669	6309	6137	16104	32645	54067	61185	22491	32499
Vietnam	433	956	391	649	2041	3531	3971	2335	2524	217	1413	468	562
Total	1808	3434	8480	10699	20282	30425	43126	31170	46770	67265	77374	44884	60130
Percentage	41.4	78.7	71.7	44.7	75.1	64.2	75.6	43.9	57.0	65.2	57.6	27.8	33.0

Source: Data for 2005 to 2010 collected from Yunnan Commerce Development Report, 2005 to 2010, Quoted in Chen, T.J. (2015). *30 years Border Opening Up Process, Achievements and Experiences of Yunnan Province*. [云南 30 年沿边开放的历程、成就和经验]. Social Science Academic Press, p.164; data for 2010 to 2017 was collected from Department of Commerce of Yunnan Province Commerce Almanac Editorial Committee, Commerce Almanac of Yunnan Province from 2011 to 2018, Yunnan People's Press.

Table 5-17: Amount of Yunnan's Overseas Investment Going to Different Sectors (USD10,000)

	2008	2010	2012	2014	2016	2017
Farming & Forestry	2511	2460.95	7172.91	10553.7	23262	15033
Mining and Quarrying	10682	16967.5	6937.5	19365.9	8845	15712
Manufacturing	5833	602	6204.8	10213.9	4260	12478
Construction	1000	2402	7903.1	16047.4	888	6918
Electricity	9015	21947	39377.3	17348.8	53654	73249
Transport, Storage, Post	--	--	--	--	151	19683
Wholesale and Retail Trade & Catering Services					582	154
Real Estate Trade					8831	723
Scientific Research and Polytechnic Services					4587	2242
Leasing and Commercial Services					48582	26204

Source: Data for 2008 from Tong Z.Y., Li, C.R. & Yang, S.J. eds (2009). Yunnan Almanac (2009) [云南年鉴 2009]. House of Yunnan Almanac, p.259; other data from Liu, W.S. eds (2011). *Commercial Almanac of Yunnan province (2011)* [云南商务年鉴]; Liu, J. (eds). *Commercial Almanac of Yunnan province (2013)(2015)* [云南商务年鉴 2013/2015]; data for 2017 from Chen, Y. eds. *Commercial Almanac of Yunnan province (2018)* [云南商务年鉴 2018]. Yunnan Ethnic Publishing House.

5. 5 Changing Security Concept and Expanding Agenda of Yunnan's International Involvement

Chapter 3 illustrated the changing priority of the Chinese central government, which expanded the security range from traditional military and political security to non-traditional security concerns.[689] As a result, there was a possibility for SNGs to become involved in international security cooperation to deal with the emerging non-traditional security issues. This phenomenon was especially evident in a border province like Yunnan, which easily encountered various security issues along its border. As a result, Yunnan province naturally became an important participator in Sino-ASEAN security cooperation to deal with those non-security issues challenge the province. Both China and ASEAN states were disturbed by non-traditional security issues and willing to promote bilateral and multilateral cooperation in handling them. The initiation of the 'new security concept' (NSC) by China's central government was closely related to the China-ASEAN interaction. In 1996, China first illustrated the idea of NSC at the Asian Regional Forum (ARF) meeting. In 2002, China's foreign minister issued a position paper to the ARF foreign ministerial meeting to further explain the NSC and expressed the wish to promote cooperation with ASEAN states in non-traditional security issues.[690] China's idea for the NSC was parallel to ASEAN's security concerns and thus non-security cooperation gradually became an important part of China-ASEAN cooperation.[691] Also in 2002, the two sides issued the *Joint Declaration of China and ASEAN on Cooperation in the Field of Non-traditional Security*. According to this statement, China and ASEAN would emphasize cooperation on issues including the drug trade, illegal immigration, piracy, terrorism, weapons smuggling, money laundering, international economic crime, and cyber-crime.[692] Since then, China and ASEAN have maintained comprehensive cooperation in non-traditional security issues.

One example of a non-traditional security issues that has troubled both China and ASEAN is drug, and they have worked together to develop a cooperation framework

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[689] See Chapter 3 section 3.5 for more information.
[690] China's Position Paper on the New Security Concept, https://www.fmprc.gov.cn/ce/ceun/eng/xw/t27742.htm
[691] Arase, D. (2010). Non-Traditional Security in China-ASEAN Cooperation: The Institutionalization of Regional Security Cooperation and the Evolution of East Asian Regionalism. *Asian Survey*, 50(4), pp.808-833.
[692] Ministry of Foreign Affairs website, *Joint Declaration of China and ASEAN on Cooperation in the Field of Non-traditional Security* [中国与东盟关于非传统安全领域合作联合宣言]. 2002-11-04 https://www.fmprc.gov.cn/web/gjhdq_676201/gjhdqzz_681964/lhg_682518/zywj_682530/t10985.shtml

around drug prohibition. In 1990, the Chinese Ministry of Public Security sent a delegation to Myanmar and Thailand to discuss transnational drug crime.[693] In 1993, China, Myanmar, Laos, and Thailand signed a memorandum to deal with issues related to drugs. Later in 1995, the first GMS ministerial meeting involving drug prohibition was convened and two documents, *Beijing Statement* and Action Plan for *Attacking Dangerous Drugs*, were issued to promote cooperation in the drug issue among GMS states. In 2003, China and GMS states including Laos, Myanmar and Thailand organized a joint action group to conduct research into drug issues along the Mekong river towards developing an action plan. The severe drug problem in the region could also lead to other security issues. For example, a severe crime occurred on the Mekong river in which 13 Chinese sailors were killed by a drug dealer in 2011. Yunnan local police cooperated with Myanmar, Laos, and Thailand to establish a joint patrol mechanism to guarantee the security of the river.[694] Non-traditional issues faced by both China and Southeast Asian states have produced transnational effects and thus it has been important for both sides to cooperate.

In China-ASEAN non-traditional security cooperation or under the GMS mechanism, the role of Yunnan province should not be neglected. Located at the southwestern border of China, Yunnan was significantly troubled by the non-traditional security issues mentioned in the China-ASEAN statement. The provincial government could not ignore these issues as they negatively influenced local stability and development. Therefore, Yunnan' s involvement in the China-ASEAN non-security cooperation was unavoidable. For example, the Gold Triangle located at the border of Thailand, Myanmar and Laos is a key location for drug production. The Yunnan border neighbours these states and became a major route for drug smuggling, threatening the stability of Yunnan more widely.[695] Thus, Yunnan provincial government proactively participated in international cooperation with GMS states to take various measures to handle the drug issue, such as cracking down on drug trafficking, training drug control

[693] Wang, H. (2010). Analysis on China-ASEAN Drug Prohibition Cooperation Mechanism Construction [浅析中国—东盟禁毒合作机制建设]. *Journal of Capital Normal University (Social Sciences Edition)*, (3), 137-143.
[694] Li, M. (2014). Local Liberalism: China's Provincial Approaches to Relations with Southeast Asia. *Journal of Contemporary China*, 23(86), 275-293.
[695] Wang, H. (2010), Analysis on China-ASEAN Drug Prohibition Cooperation Mechanism Construction [浅析中国—东盟禁毒合作机制建设]. *Journal of Capital Normal University (Social Sciences Edition)*, (3), 137-143.

personnel, and becoming involved in opium substitution work.[696] In 1996, Yunnan together with Thailand, Myanmar, and Laos assigned narcotic liaison officers to engage in drug enforcement action, exchange information, and promote drug treatment projects.[697] Moreover, Yunnan province was the major implementer of the poppy substitution project conducted in northern Laos and Myanmar.[698] The Yunnan provincial government encouraged local enterprises to undertake poppy substitution in the neighbouring states: 170 enterprises took part in 2011.[699] Through cooperation with GMS states, Yunnan province could create a more secure and stable border environment for local and even national development. Compared with Zhejiang, Yunnan province, in the border area, was more easily influenced by such non-security issues. Therefore, the international involvement of Yunnan province posed a more complex agenda than that of Zhejiang.

Furthermore, it deserves to be mentioned that the security concerns of the central government were used by SNGs to serve local interests. Yunnan's exploitation of the central government's energy security concern is a good example. The dramatic economic growth of China led to a huge increase in energy demand. China was traditionally self-sufficient in oil but became a net importer between 1993 and 2003, exceeding Japan as the second largest importer of oil in the world.[700] That most of China's oil imports depended on the sea route through the Malacca Strait caused anxiety for the central government, who were concerned about the possibility of attacks in the straits by non-state actors such as terrorists, and the possibility that other states, such as the US, would endeavour to control the waterway, which could greatly influence the supply of oil and thus negatively affect China's economic development and regime stability.[701] In 2003, President Hu first coined the "Malacca Dilemma" to illustrate the

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[696] Chen, Z.M.; Jian, J.B. & Chen, D.Y. (2010). The Provinces and China's Multi-Layered Diplomacy: The Cases of GMS and Africa. *The Hague Journal of Diplomacy*, 5(4), pp.331-356.
[697] Wang, H. (2010). Analysis on China-ASEAN Drug Prohibition Cooperation Mechanism Construction [浅析中国—东盟禁毒合作机制建设]. *Journal of Capital Normal University (Social Sciences Edition)*, (3), pp.137-143.
[698] A professor from Yunnan University, interviewed in July 2019, thought highly of the role Yunnan played in the poppy substitution project.
[699] Liu, J. eds. *Commercial Almanac of Yunnan province (2012)* [云南商务年鉴 2012]. Yunnan Ethnic Publishing House, p.266.
[700] Cheng, J. Y. (2008). A Chinese View of China's Energy Security. *Journal of Contemporary China*, 17(55), pp.297-317.
[701] Lanteigne, M. (2008). China's Maritime Security and the "Malacca Dilemma". *Asian Security*, 4(2), pp.143-161.

energy security issue faced by China due to its increasing dependence on oil imports.[702] Thus, the Chinese central government was in desperate need of finding alternative routes for oil imports and reducing the dependence on the Malacca Strait.

Against this background, Yunnan provincial government made efforts to persuade the central government to approve the construction of the pipeline between Yunnan and Myanmar by exploiting the central concern of energy security. Firstly, the idea of the Malacca Dilemma was raised by local elites in Yunnan province before President Hu officially expressed this idea. Early in the 1990s, A Chinese People's Liberation Army (PLA) General Wang Zuxun, stationed in Yunnan, raised the idea of the Yunnan Pathway to deal with the possible blockage of Chinese shipping by the US.[703] Another senior scholar and governmental official of Yunnan province, Che Zhimin, expressed the similar idea.[704] Moreover, Yunnan academics made a proposal for the construction of a pipeline from Myanmar to Kunming and submitted it to the State Council through the provincial government one year after Hu's speech.[705] Simultaneously, the Yunnan provincial government lobbied the central government for agreement of the proposal and also formed a powerful coalition with China National Petroleum Corporation.[706] As a result, Chinese NDRC finally approved the idea from Yunnan province, which set up Yunnan as China's new oil base in 2006.[707] The construction of the Yunnan-Myanmar pipeline clearly showed that SNG was able to take advantage of the security concerns of the central government to pursue local interests. The construction of the pipeline could further improve Yunnan's role in China's energy strategy and enabled Yunnan to obtain benefits from the central government. However, the local concern was not always beneficial to diplomatic relations between states. The pipeline construction in reality caused friction between China and Myanmar.[708] Therefore, changing security

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[702] Lanteigne, M. (2008). China's Maritime Security and the "Malacca Dilemma". *Asian Security*, 4(2), pp.143-161.
[703] You, J. (2007). Dealing with the Malacca Dilemma: China's Effort to Protect Its Energy Supply. *Strategic Analysis*, 31(3), pp.467-489.
[704] Che, Z.M & Zhou, N.G. eds (1992). *Yunnan's External Infrastructure Routes and Ports* [云南对外通道及口岸]. Yunnan People's Press.
[705] Wong, A. (2018). More than Peripheral: How Provinces Influence China's Foreign Policy. *The China Quarterly*, (235), pp.735-757.
[706] Ibid.
[707] Kong, B. (2010). The Geopolitics of the Myanmar-China Oil and Gas Pipelines. *Pipeline Politics in Asia*, pp.55-66.
[708] Wong, A. (2018). More than Peripheral: How Provinces Influence China's Foreign Policy. *The China Quarterly*, (235), pp.735-757.

concerns not only expanded the international agenda of SNGs' international involvements, but could also be used by SNGs as a way of promoting local interests.

5.6 Conclusion

This chapter explored the international involvements of Yunnan province in detail. Generally speaking, Yunnan's international involvement has been shaped by determinants originated at the national level, which induced the complex interactions between national and subnational level and finally influenced the international involvements of Yunnan province. Firstly, China's diplomatic relations with Southeast Asian states and its emphasis on neighbouring policy greatly influenced Yunnan's international involvements. Improved diplomatic relations between China and Southeast Asian states created a stable context for Yunnan to open up. More importantly, the improved diplomatic relations at the central level made it possible for Yunnan to shift its focal point to Southeast Asia. Moreover, China's attention to regional cooperation with ASEAN provided Yunnan with a platform to engage with neighbouring states, such as participation in the GMS programme. In return, Yunnan's close relations and frequent interactions with Southeast Asian states in different aspects served China's neighbouring policy.

Secondly, national policies during the reform period greatly affected Yunnan's international involvements. On the one hand, the decentralization and internationalization during the reform period significantly promoted Yunnan to develop international interactions, especially in the economic sphere. On the other hand, China's opening up policy deliberately favoured some coastal provinces and cities and made Yunnan province peripheral to the central policy. Therefore, Yunnan lagged behind during the process of opening up, which was reflected in the limited development of Yunnan's foreign trade, FDI, and overseas investment. The disadvantages in the national policy in return pushed the provincial government to rethink the local strategy of opening up. Thirdly, the changing security approach of the central government led to Yunnan becoming an important participator in the security cooperation between China and ASEAN states, expanding Yunnan's foreign agenda. Yunnan's international involvements not only served its economic development, but also helped to develop a secure border environment.

More importantly, Yunnan provincial government did not passively follow national policy. Instead, the provincial government endeavoured to develop a suitable strategy for Yunnan to open up and become involved in the global economy. Since the 1990s, the provincial government has repositioned Yunnan in China's opening up policy and constructed Yunnan as the gateway between China and Southeast as well as South Asia. This process greatly changed Yunnan's position domestically and enabled Yunnan to obtain support from the central government. Of course, Yunnan's repositioning also greatly influenced its international involvements, which mainly targeted Southeast and South Asia. The opening up brought Yunnan into the global economy. The development of Yunnan's foreign trade, FDI, and overseas investment to some extent reflected the complex interactions of the factors on central and subnational levels. The policies during the reform period promoted Yunnan to develop international economic cooperation but its unfavourable position in the opening up before the 2000s led to the underdevelopment of Yunnan's involvements into global economy. Southeast Asian states, especially neighbouring states, became the main economic partners for Yunnan province, which implied the policy choice of the provincial government. Yunnan's local inherent limitations and advantages greatly shaped its foreign trade structure as well as foreign investment projects. Thus, the international economic activities engaged in by Yunnan illustrate the complex central-subnational interactions according to the specific variables obtained by the province.

Chapter 6:
Diversity of SNG's International Involvements: Comparison between Zhejiang and Yunnan

6.1 Introduction

Chapters 3 and 4 explored the international involvements of Zhejiang and Yunnan, discussing the underpinning factors inducing and affecting the international involvements of both provinces in the reform period. The international involvements of the two provinces were affected by the factors from the national level and the resultant central-provincial interactions. At the central level, I argue that three important factors were influential for the international involvements of the province. Firstly, the changing diplomatic relations and foreign policy perception of the central government have greatly influenced international involvements at the provincial level. On the one hand, improving diplomatic relations with foreign states has laid solid political foundations for the provinces to open up. More importantly, the foreign concerns of the central government have provided institutionalized international platforms for provinces to promote international interactions, such as sister-city relations or the subregional cooperation mechanism like GMS. In return, international interactions at the provincial level have served to maintain diplomatic relations and pursue foreign policy aims at the central level.

Secondly, the decentralization and internationalization induced by the reform and opening up policy on the national level has played a dominant role in changing central-local relations, which has provided provinces with both autonomy and motivation to promote international interaction, mainly with the aim of helping the local to become involved in the global economy and thus promote the local development. In this process, provinces have not passively followed national policies developed by the central government. Rather, provinces have also developed policies for the local based on general guidelines from the centre. More importantly, provincial governments have also proactively worked out suitable strategies for the local to open up based on local advantages and lobbied the central government for support. In other words, the inherent conditions of the local, such as geographical location, international linkage, could be strategically used by provinces during the process of opening up. The complex

interactions can clearly be seen in the process of involving in the global economy in both provinces. As a result, two provinces have developed different patterns in involving into the global economy.

Thirdly, the Chinese central government has developed a changing concept of security, which has enabled the provinces to play a role in security cooperation with foreign states as shown in Yunnan's case.[709] All of these three aspects of transformations originated from the central level have greatly influenced the central-subnational interactions in terms of international involvements. However, it was highlighted several times in the thesis that factors at the national level did not equally influence each province. Zhejiang and Yunnan province varied in geographic location, international linkage as well as resources for economic development, which greatly affected their positions in the central policies and their response to central policy. As a result, two provinces display the diversity in their international involvements. This chapter will compare the international involvements of two provinces according to the with-in case analysis in chapter 4 (Zhejiang) and chapter 5 (Yunnan) to determine how the transformations acted on them differently. The comparison of two provinces is able to reveal a better understanding of the diversity existed in the two provinces.

6.2 Diverse Influences of Central Diplomatic Relations

6.2.1 Relations with Different States Affecting the Provinces

Chapters 4 and 5 discussed how the changing diplomatic relations between China and foreign states at the central level greatly influenced the international involvements of Zhejiang and Yunnan province, respectively.[710] The improved diplomatic relations provided a stable international environment for the two provinces to open up. However, I argue that China's diplomatic relations acted differently on the two provinces and in return, their international involvements served different aspects of China's diplomacy and foreign policy aims. In the case of Zhejiang, the improved relations with developed industrialized relations in the 1970s, such as the US and Japan, provided Zhejiang with a solid political foundation to open up with the aim to serve local development. The

[709] See Chapter 5, section 5.5 for more information.
[710] See Chapter 4, section 4.2 and Chapter 5, section 5.2 for more detailed discussion of how central diplomacy and foreign policy affected Zhejiang and Yunnan, respectively.

opening up of Zhejiang province began at the end of the 1970s. Without the improved relations with those states, it would have been significantly difficult for Zhejiang to promote opening up given that those states were the major economic partners for the province in the reform period.[711] But for Yunnan province, the story was quite different.

China's relations with neighbouring states in Southeast Asia greatly influenced the international involvements of Yunnan. Firstly, border trade was the dominant way for Yunnan to interact with its neighbouring states before the 1990s, which was greatly affected by the changes of China's relations with the three neighbouring states.[712] For example, Yunnan's border trade with Vietnam was significantly influenced by unstable Sino-Vietnam relations. The deterioration of Sino-Vietnam relations in the late 1970s led to a dramatic decrease and even stagnation of trade in 1979.[713] As a result, there was only limited barter trade between residents along the border before 1988.[714] After the normalization of Sino-Vietnam relationship in 1991, bilateral border trade recovered and improved significantly. Myanmar, another neighbouring states along Yunnan's border was able to recover border trade with Yunnan in 1980 as a result of improved bilateral relations in the 1970s. It is reasonable to say that border trade was difficult without a stable and secure border environment.

The 1990s saw the most crucial change in diplomatic relations between China and Southeast Asian states, which provided Yunnan a much better international surrounding to open up. As mentioned in Chapter 5, the Chinese central government had finally developed or normalized diplomatic relations with all ASEAN states by the early 1990s.[715] The central government regarded Southeast Asia as an important region in

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[711] See Chapter 4, section 4.4.1.5 for more information on Zhejiang's foreign trade partners.
[712] See Chapter 5, section 5.4.1.1 for detailed statistics on Yunnan's foreign trade.
[713] Lu, G. (2009). The Border Trade and Economic Cooperation along the Border Section between Yunnan of China and Vietnam [中越边界云南段沿线地区的边境贸易与经济合作]. *Journal of Yunnan Normal University (Philosophy and Social Science Edition)*, 41(1), pp.1-10; Hu, J.M. & Zhao, X.A (2005). Analysis of the History, Status Quo and Future Development of China-Vietnam Economic Cooperation [试论中国与越南经贸关系的历史沿革、现状及发展趋势]. *Academic Forum*, (8), pp.119-123; Nong, L.F. (2000). Retrospect and Development Suggestion of Sino-Vietnam Border Trade [中越边境贸易回顾及发展建议]. *Around Southeast Asia (Supplement Issue)*, pp. 46-51.
[714] Bian, X. (1994). The Status Quo and Prospect of Border Trade Between Yunnan and Vietnam [滇越边境贸易的现状与前景]. *Yunnan Academic Exploration*, (5), pp.62-64.
[715] See Chapter 5, section 5.2.1 for more information about the development of Sino-ASEAN states.

foreign policy with the purpose of mitigating the negative impacts brought about by the Tiananmen Square Incidents. The improved diplomatic relations offered a solid political environment for Yunnan to open up after the central government decided to further open up the border area in 1992. More importantly, the fact that the central government attached great importance to the neighbouring states in foreign strategy since the 1990s also gave Yunnan a better political foundation to re-position itself in the central strategy. As a result, the provincial government framed the special location of Yunnan province, which is proximate to Southeast Asia, to re-position itself and shifted its emphasis on opening up to Southeast Asian states.[716] The policy changes on the provincial level greatly influenced the international involvements of Yunnan province in the following years. If the central government had not improved its relations with Southeast Asian states in the early 1990s and had not attached great importance to neighbouring relations, it would have been difficult for Yunnan to make use of the repositioning to obtain the benefits it wanted from the central government.

6.2.2 Importance of Different Platforms for the Provinces

The interactions between the Chinese central government and foreign states provided important platforms for the two provinces to become involved in the international arena, as discussed in Chapters 3 and 4.[717] The provinces established sister-city relations, developed relations with foreign embassies and consulates, received foreign guests, and participated in transborder cooperation mechanisms to promote international interactions. However, the platforms were of different importance to each province, with sister-city relationship being a good illustration of this. Zhejiang was one of the leading provinces in the establishment of sister-city relationships: by the end of 2015, it had established 99 pairs of sister-city relationships with foreign local governments on both provincial and lower levels. On the provincial level, there were around 15 pairs between Zhejiang and its counterparts in foreign states.[718] The sister-city relationship

[716] See Chapter 5, section 5.3.2.2 for detailed discussion about Yunnan's repositioning process.
[717] See Chapter 4, section 4.2.2 and 4.2.3 as well as Chapter 5, section 5.2.2 for detailed discussion.
[718] It was explained that the data of sister-city relationship of two provinces used for comparison collected from Li, X.L. eds (2016). *A Special Report on China Urban Competitiveness (1973-2015)* [中国城市竞争力专题报告（1973-2015）]. China Social Science Press, pp. 326-414. This data is different from the data collected from Zhejiang's yearbook although the differences did not affect the results of comparison. According to Zhejiang's yearbook, by the end of 2017, Zhejiang had established 416 pairs of sister-city relationships with foreign local governments on both provincial and lower levels. On the provincial level, there were around 70 pairs between Zhejiang and its counterparts in foreign states.

was the most important institutionalized platform for the provincial government to promote international interactions and cooperation with their counterparts in foreign states.[719] Thus, the provincial government maintained frequent interactions with its sister cities through mutual visits between government leaders every year, especially with some of the traditional key sister cities according to records found in Zhejiang's almanacs.

Sister-city relationships in Yunnan developed much slower than in Zhejiang.[720] Zhejiang developed the first provincial sister-city relationship with New Jersey in 1981, it was not until 1990 that Yunnan developed its relationship with the Sikasso Region of Mali. Quantitatively, the total of Yunnan's sister-cities was much smaller than Zhejiang. Yunnan developed 59 pairs of sister-city relations on both provincial and lower level, among which 12 were developed by the provincial government by the end of 2015.[721] Thus, Yunnan remained much less developed in terms of sister-city relations compared to Zhejiang province. More importantly, Yunnan provincial government also did not attach enough attention to sister-city relations. According to Yunnan's almanacs, the provincial government did not maintain frequent interactions with sister cities compared to Zhejiang. Only a few years saw the mutual visits between government leaders from Yunnan and its sister-cities. In 2005, the provincial governor of Blekinge in Sweden led an entrepreneur delegation and the governor of Chiang Rai province in Thailand visited Yunnan.[722] In 2006, the Yunnan provincial governor visited Blekinge to discuss bilateral cooperation in environmental protection, education, culture, and health care.[723] In 2012, the vice chairman of the provincial National People's Congress Standing Committee (NPCSC) visited Blekinge.[724] And in 2016, the governor of Chiang Rai visited Yunnan to talk about cooperation in the economy, agriculture, tourism, and teenage communication.[725] Other years only saw the establishment of

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[719] See Chapter 4, section 4.2.2 for statistics and information related to Zhejiang's sister-city relationships.

[720] See Chapter 5, section 5.2.3.1 for statistics and information related to Yunnan's sister-city relationships.

[721] Li, X.L. eds (2016). *A Special Report on China Urban Competitiveness (1973-2015)* [中国城市竞争力专题报告（1973-2015）]. China Social Science Press, pp. 326-414.

[722] He, X. eds (2006). *Yunnan Almanac 2006*[云南年鉴 2006]. House of Yunnan Almanac, p.97.

[723] Che, Z.M. & Li, J. eds (2007). *Yunnan Almanac 2007*[云南年鉴 2007]. House of Yunnan Almanac, p.107.

[724] Wang, X.M., Yang, S.J. & Zhang, M.G. eds (2013). *Yunnan Almanac 2013*[云南年鉴 2013]. House of Yunnan Almanac, p.109.

[725] Zhang, M.G. eds (2017). *Yunnan Almanac 2017*[云南年鉴 2017]. House of Yunnan Almanac, p.119.

sister-city relations through visit but no further information was provided.

The underdevelopment of sister-city relationships in Yunnan province on the one hand was related to fewer economic incentives for foreign SNGs to promote interactions with Yunnan. On the other hand, I argue that the transborder cooperation mechanism, mainly reflected in GMS, provided a more convenient and institutionalized platform for the province to become involved internationally. Since the 1990s, Yunnan gradually shifted its focus of opening up to the Southeast Asian states, which made interactions with ASEAN states the most important aspect of Yunnan's foreign affairs. The launch of GMS in the 1990s provided a timely platform for Yunnan to promote interactions and cooperation with the involved states. Under the GMS, the Yunnan provincial government also developed bilateral cooperation frameworks with Myanmar, Thailand, Vietnam, and Laos.[726] The GMS projects also conformed with local development needs, such as the transportation projects emphasized in the GMS cooperation. Through the GMS programme, Yunnan could not only achieve local goals through international cooperation with involved states and but it could also obtain support from international organizations, such as ADB. It also enabled Yunnan province to gain financial and policy support from the central government, which further improved Yunnan's position in terms of central policy. Thus, the GMS mechanism better served the purpose of Yunnan province and was most emphasized by the provincial government. The specific geographical location of Yunnan provided it with a specific platform for international involvements, which Zhejiang lacked.

6.2.3 Influences of SNGs' International Involvements on Diplomacy

Chapters 4 and 5 explored how the international involvements of the two provinces not only served local development, but also diplomatic and foreign policy at the central level.[727] For Yunnan province, it is clear that local foreign affairs showed a strong preference for relations with Southeast Asia as a result of the local strategic arrangement during the process of opening up. The provincial government also highlighted that local foreign affairs should serve China's neighbouring diplomacy. Receiving important foreign guests, especially national leaders of foreign states, was

[726] See Chapter 5, section 5.2.2.2 for detailed discussion about Yunnan's participation in GMS.
[727] See Chapter 4, section 4.2.4 and Chapter 5, section 5.2.3 for detailed discussion.

an important way for the provinces to serve diplomacy. According to the discussion in Chapter 5, a large proportion of foreign guests coming to Yunnan were from Southeast Asian states.[728] Simultaneously, provincial leaders frequently visited these states in previous years. Moreover, the number of sister cities in the Southeast Asian states accounted for a larger proportion of Yunnan's total at the provincial level although Yunnan remained less developed in terms of sister-city relations than Zhejiang.[729] Both the provincial government and the central government positioned Yunnan as an important part of China-ASEAN relations. Therefore, it is unsurprising that the international involvements of Yunnan province served the neighbouring diplomacy most.

In the case of Zhejiang province, the story was quite different. Zhejiang, like Yunnan, received a large number of foreign guests every year. But according to the discussion in Chapter 4, there was neither a specific category of foreign state that occupied a significant proportion of these visits, nor in terms of Zhejiang's interactions with foreign embassies and consulates.[730] Sister-city relations were the most important and regular way for Zhejiang to promote international relations. Promoting mutual communication through culture and personnel exchange was and remains one of the purposes of the establishment of sister-city relations, which served to maintain diplomatic relations at the grassroots level. As noted in Chapter 5, the majority of foreign states that developed more than one sister-city relationship at the provincial level were with developed industrialized states. Simultaneously, Zhejiang provincial government also maintained frequent interactions with some of the traditional sister cities from these states, such as Shizuoko, Indiana, West Australia, Pearson.[731] Thus, Zhejiang's sister-city relationships served to maintain China's relations with these states, although economic incentives played an important role in the establishment of sister-city relations. Therefore, the international involvements of Zhejiang and Yunnan served to maintain diplomatic relations between China and different states.

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[728] See Chapter 5, section 5.2.3.2 for more data about foreign visitors.
[729] See Chapter 5, section 5.2.3.1 for more data about Yunnan's sister-city relations.
[730] See Chapter 4, section 4.2.3 and section 4.2.4 for more information about these activities in Zhejiang.
[731] See Chapter 4, section 4.2.2 for more information.

6.3 The Uneven Process of Reform and Opening Up

6.3.1 Different Positions of Two Provinces in Reform and Opening Up

Chapter 3 discussed how the decentralization and internationalization process under the reform and opening policy greatly changed central-subnational relations in China.[732] As a result, provinces in China obtained both autonomy and incentives to promote international involvements with the purpose of facilitating local economic development. However, the reform and opening up policy was unequally applied to different regions and provinces in China. The policy from the central government was developed based on "notions of comparative advantages and regional division of labour."[733] The coastal regions and provinces in China, which were equipped with seaports and good industrial foundations, were positioned to develop an export-oriented economy. As a result, the opening up policy in the 1980s, guided by the "coastal development policy", offered priority to the coastal provinces.[734] Various policies in finance, investment and foreign trade were provided to coastal provinces to create a more decentralized and open environment for them to become involved in the global economy.[735] The biased policy in the reform period enabled coastal provinces to enjoy a pre-emptive opportunity to promote foreign trade and attract FDI. Zhejiang and Yunnan represented two provinces that occupied significantly different positions against the national policy.

As discussed in Chapter 4, Zhejiang province was one of the provinces that opened up and became involved in the global economy at the early stages of the reform period.[736] As a result, Zhejiang was able to enjoy preferential policies in foreign trade and FDI from the early 1980s, which put the province in an advantageous position during the process of opening up. However, Yunnan lagged behind in the opening up.[737] It was not until 1992 that the central government decided to extend the opening up policy from coastal to inland and border provinces. Indeed, it was after the establishment of the 'developing the west' strategy at the end of the 1990s that the central government really

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[732] See Chapter 3, section 3.3.2.1 for the process of opening up.
[733] Fan, C. C. (1995). Of Belts and Ladders: State Policy and Uneven Regional Development in Post-Mao China. *Annals of the Association of American Geographers*, 85(3), pp.425.
[734] Rui, H. & Zheng, W. (2010). Fundamental Causes of Inland–Coastal Income Inequality in Post-reform China. *The Annals of Regional Science*, *45*(1), pp.181-206.
[735] Wei, Y. D. (2001). Decentralization, Marketization, and Globalization: The Triple Processes Underlying Regional Development in China. *Asian Geographer*, *20*(1-2), pp.7-23.
[736] See Chapter 4, section 4.3.1 for Zhejiang's opening up.
[737] See Chapter 5, section 5.3.1 for Yunnan's opening up.

shifted its attention to the vast inland and border areas. Thus, Yunnan province occupied a disadvantageous position in terms of the national policy: "The sequence and time flag of policy implementation of opening up caused [Zhejiang] to go head of [Yunnan]."[738] As mentioned previously, the dominant purpose of opening up was to promote foreign trade and attract FDI to serve domestic development. The uneven policy arrangements of the central government first led to different international economic involvements, manifested in the unequal distribution of FDI and foreign trade in different regions and provinces. The large gap in foreign trade and FDI development can be seen in Zhejiang and Yunnan, which are compared in section 6.4. Moreover, the uneven policies at the central level differently motivated the international interactions of the two provinces. The rapid development of foreign trade and FDI in the coastal province of Zhejiang caused local economic development to become increasingly interdependent with the global economy. Thus, the provincial governments were more motivated to promote international interactions with foreign actors with the purpose of serving the local economy from the early stage of opening up. More importantly, the large gap caused by the national policy also induced the provincial governments to develop different local strategy to further open up, which affected the following international involvements of two provinces.

6.3.2 Different Responses from Provincial Governments

The opening up policy established by the central government pushed provinces to become involved in the global economy with the purpose of promoting their local economies: "The reform has empowered [provinces] to seek economic growth and fiscal responsibility, and made the economic growth as the priority of local governance."[739] However, as repeated in the previous chapters, provinces did not passively follow national policy. Instead, in the reform period provinces obtained a certain degree of autonomy and authority to make decisions about local issues, especially in the economic sphere, as a result of inter-governmental decentralization. Therefore, in most cases, "the central government laid down the broad outline of policy,

[738] Rui, H. & Zheng, W. (2010). Fundamental Causes of Inland–Coastal Income Inequality in Post-reform China. *The Annals of Regional Science*, *45*(1), p.193.
[739] Wei, Y. D. (2007). Regional Development in China: Transitional Institutions, Embedded Globalization, and Hybrid Economies. *Eurasian Geography and Economics*, 48(1), p.21.

with the provinces adopting specific local measures for implementation."[740] This process was not a simple top-down method of decision-making in which the central government dictated everything. Instead, it involved central-provincial interaction and more importantly, "allowed for considerable variation in local policy and initiative."[741] Moreover, the uneven process of reform and opening up favoured several coastal provinces and enlarged the regional disparity, which in return led to interior provinces rethinking their manner of opening up and economic development. On the one hand, interior provinces showed dissatisfaction with the uneven arrangement of the national policy. As a result, they lobbied the central government to extend the preferential policies to interior and border areas.[742] On the other hand, those provinces that lagged behind in the process of reform and opening up endeavoured to develop local measurements to change their disadvantageous position. The positive and sometimes imitative roles of provinces further complicated central-subnational relations and thus brought more possibilities for international involvements at the provincial level.

Through the case studies, I argue that the different positions of Zhejiang and Yunnan to some extent led to different responses at the provincial level and thus diverse approaches towards opening up. The reform and opening up policy enabled Zhejiang to obtain a more favourable institutional foundation to develop its export-oriented economy, which greatly promoted local development. In the reform period, the main task for the provincial government was to make use of local advantages under the existing national policy arrangements. For example, Zhejiang provincial and local government supported the development of its private economy, which in the end significantly contributed to rapid development in foreign trade and the local economy.[743] Although the initial support to the development of private economy did not totally conform with the national attitude, it did not fundamentally changed the current position of Zhejiang in the national policy. For Yunnan, it was important for the provincial government to lobby the central government for preferential policies which were previously applied to coastal provinces. In other words, Yunnan wished to change

[740] Goodman, D. S., & Segal, G. eds. (1994). *China Deconstructs: Politics, Trade and Regionalism*. Routledge Press, p.13.
[741] Ibid, p.13.
[742] Wei, Y. D. (2001). Decentralization, Marketization, and Globalization: The Triple Processes Underlying Regional Development in China. *Asian Geographer*, *20*(1-2), 7-23.
[743] See Chapter 4, section 4.3.3 for Zhejiang's private economy.

the peripheral position in the central policy and to reposition itself in the process of opening up. It was also important to differentiate itself from other border provinces so that it could obtain more benefits from the central government. Thus, the Yunnan provincial government started to reposition the province as the gateway between China and Southeast and South Asian states beginning in the 1990s.[744] Through strengthening relations with Southeast Asia, Yunnan successfully changed its periphery status in the central policy, which in return shaped its international involvements in the following years, with evident emphasis on the interaction with Southeast Asia. To some extent, the local strategy of Yunnan in the process of opening up showed an inward-looking characteristic. But for Zhejiang, the opening up of the province was clearly outward-looking, aiming to promote its export-oriented economy.

Therefore, I suggest that the different strategic thinking and aims of the two provinces has affected their international interactions. For example, I found that the Zhejiang provincial government attached greater importance to developing direct interaction with foreign enterprises. As shown in Chapter 4, leading staff from foreign enterprises became one of the most frequent categories of foreign visitors invited to Zhejiang and received by the local foreign office and government leaders.[745] However, Yunnan provincial government did not maintain such frequent direct interaction with foreign enterprises as Zhejiang. There is only a few staff of foreign enterprises invited to Yunnan according to the information from Yunnan's yearbook. In 2005, the Chairman of TCC group from Thailand and the Head of Citibank Shanghai Branch visited Yunnan and communicated with the Yunnan governor and vice governor respectively.[746] TCC group was the foreign enterprise that maintained relatively frequent interactions with Yunnan – its leadership visited Yunnan several times in 2014, 2016 and 2017. Other trips by foreign enterprises to Yunnan province are shown in Table 6-1.

The number of visits by foreign enterprises to Yunnan was much smaller than those to Zhejiang. The latter's provincial government put a high value on relations with foreign enterprises and received numerous visitors from the early 1990s. For example, Zhejiang

[744] See Chapter 5, section 5.3.2.2 for detailed information about Yunnan's repositioning process.
[745] See Chapter 4, section 4.3.2.2 for Zhejiang's direct interaction with foreign enterprises.
[746] He, X. eds (2006). *Yunnan Almanac 2006* [云南年鉴 2006]. House of Yunnan Almanac, p.97.

provincial foreign office received many guests from foreign enterprises in 1995, including Kodak, Motorola, Merck, TCC, Shell, and ITOCHU Corporation.[747] The limited interactions with foreign enterprises by Yunnan province on the one hand was related to Yunnan being less attractive for foreign investment, caused by the less favourable local conditions and policies for FDI. On the other hand, Yunnan's local concern to improve its position in terms of central policy could be achieved through its active role in the GMS, or in the security cooperation with ASEAN states. In other words, regional economic involvement was not the only aim or method for Yunnan, which led to less importance being placed on its relationships with enterprises.[748] But for Zhejiang province, economic aims were the most outstanding in the process of opening up, which made relationships with foreign enterprises an important component of local foreign affairs. It is possible that some of the meetings with foreign enterprises were not recorded in Yunnan's Yearbooks. However, I argue that any lack of recording would illustrate the lack of importance the provincial government gave to such events.

Table 6-1: Visitors by Foreign Enterprises to Yunnan Province

Time	Enterprises
2012	Chief Executive Officer (CEO) of Starbucks in Asia-Pacific and Great China; Vice-CEO of Microsoft
2013	Chief Technology Officer (CTO) of Microsoft Vice CEO of Microsoft Vice CEO of Nestlé
2014	Chairman of TCC Executive Director of Standard Chartered Bank
2015	Chairman and CEO of Israel Chemistry Group
2016	Deputy Chairman of TCC
2017	Senior Chairman of TCC
2018	Chief Content Officer of Time Inc. CEO of Fortune; CEO of CMC Inc.

[747] Jiang, J.F. & Zhang, R.G. eds (1996). *The Almanac of Zhejiang 1996* [浙江年鉴 1996]. House of Zhejiang Almanac, p.147.

[748] Interview, June 2019, in Kunming. The scholar interviewed argued that it is hard to distinguish which was the most important aim for Yunnan in terms of developing interaction with Southeast Asia.

	Chairman of PICCINI Italy Chairman of Panasonic

Sources: House of Yunnan Almanac. *Almanac of Yunnan*. From 2013 to 2019, data for 2012 collected from Almanac of Yunnan 2013, with data for subsequent years taken from relevant Almanacs.

6.4 Diverse Patterns of Involvements in the Global Economy

This section compares each province's involvements in the global economy. Chapter 1 observed that international involvement in the global economy in the context of China is not merely an economic issue conducted by commercial actors (section 1.3.3). Instead, it involves complex interactions between economics and politics. Both central and provincial governments played an important role in the process of involvement in the global economy. The two provincial governments not only put forward various policies for the economic activities and improved investment environment for the local, but also provided information and business opportunities for the local enterprises through governmental interactions internationally. As a result, it can see the evident development of foreign trade, FDI and overseas investment in two provinces. However, the inherent conditions of the two provinces, such as geographical location or industrial development, have greatly affected the policy choices and influenced the capability of their involvement in the global economy. Thus, the international economic involvements of the two provinces reflect the complex interactions at both central and subnational levels, resulting in significant variety in the two provinces. Previous chapters showed that the reform and opening up policy ensured that international involvements had the purpose of serving the local economy through promoting foreign trade, attracting FDI, or facilitating overseas investment. It would only be telling a partial story of provincial international involvements without paying attention to provincial level involvement in the global economy. The provinces showed clear differences in their involvement in the global economy as a result of both central and local factors.

6.4.1 Extent of Involvement in the Global Economy

The reform period witnessed the increasing involvement in the global economy of both provinces, reflected in their growing volumes of foreign trade, FDI, and overseas investment. However, as argued in Chapter 3, the foreign trade, FDI and overseas

investment was distributed unequally in different regions of China, with a dominant proportion taken up by coastal provinces.[749] The case of Zhejiang and Yunnan provinces clearly illustrate this disparity, with Zhejiang showing a much greater level of open economy. The favourable national policy at the early stage of reform and opening up formed a virtuous circle with the local advantages of Zhejiang, which produced the rapid development of its export-oriented economy in the reform period.[750] Yunnan, which had disadvantages in both aspects, remained less developed in the process of involvement in the global economy.

Regarding foreign trade, both provinces remained underdeveloped in the pre-reform period, with Zhejiang's volume of foreign trade in goods of USD 70 million and Yunnan's USD 104 million in 1978. With decades of development, the volume of Zhejiang's foreign trade was over 16 times that of Yunnan in 2017, with Zhejiang accounting for 12.7% of China's total volume of foreign trade and Yunnan less than 1%.[751] Development of FDI also showed a growing gap between the two provinces in the reform period. The accumulative FDI from the period 1984 to 1991 in Zhejiang and Yunnan was USD 282 million and USD 24 million, respectively. The uneven process of opening up enabled Zhejiang to develop more rapidly in FDI from the 1980s. The advantages of Zhejiang in FDI attraction grew in the following decades. In 2017, the volume of Zhejiang's FDI increased to USD 17,902 million, 18.6 times that of Yunnan's FDI.[752] Thus, Zhejiang was much more involved in the global economy and its local development was more interdependent with the global economy compared with Yunnan province. The high level of interdependent of Zhejiang's economy with global economy in return pushed the provincial government to strengthen international governmental interaction to serve the local development.

6.4.2 Different Patterns of Foreign Trade Development

The large disparity in the volume of foreign trade was the most important difference between the two provinces. However, there were also big differences in foreign trade

[749] See Chapter 3, section 3.4.1 for information about China's unequal distribution.
[750] Hao, R. (2008). Opening up, Market Reform, and Convergence Clubs in China. *Asian Economic Journal*, 22(2), pp.133-160.
[751] For detailed statistics for Zhejiang's and Yunnan's foreign trade, see Chapter 4, section 4.4.1.1 and Chapter 5, section 5.4.1.
[752] See Chapter 4, section 4.4.1.2 for information and data for Zhejiang's foreign trade in different modes.

patterns, in terms of modes and partners, between the two provinces. These differences can be explained by the diversity of local limitations and advantages in promoting foreign trade. Firstly, the two provinces developed different modes of foreign trade. Zhejiang's foreign trade was made up of two major modes, including general and processing trade. As illustrated in Chapter 4, general trade played a dominant role in Zhejiang's foreign trade as a result of the province's rapid development of private economy. In the reform period, provincial government also played an important role in supporting the development of private economy even when the central government did not officially recognize the position of private economy (section 4.3.3.2), which led to the dominant role of private enterprises in Zhejiang's export-oriented economy. While in Yunnan, general and border trade played important roles in promoting the development of foreign trade in different periods.[753] Provincial government of Yunnan facilitate the border trade development by selectively followed the central policy (section 5.3.2.1) in the 1980s. The positive policies from both central and provincial government greatly promoted the border trade growth. Border trade was the most important component of Yunnan's foreign trade before the mid-1990s before general trade started to play an increasingly dominant role in the province.

Secondly, the different modes of foreign trade in the provinces implied a different structure of enterprises in promoting foreign trade. In Zhejiang, the proportion of private enterprises continued to grow from the end of 1990s and has become a leading force in its foreign trade. Conversely, the proportion of SOEs in foreign trade continued to decrease and played a limited role. Foreign trade produced by foreign-invested enterprises occupied a relative stable proportion of trade but with a gradual decrease as a result of the quick development of private enterprises.[754] In Yunnan, there was a decreasing role for SOEs in promoting foreign trade and an increasing role for private enterprises. However, SOEs in recent years still occupy an important part of foreign trade, for example, the foreign trade produced by SOEs and private enterprises accounted for 36% and 61.5% of Yunnan's total foreign trade volume in 2017.[755] Thus,

[753] See Chapter 5, section 5.4.1.1 for more information and data about Yunnan's foreign trade in different modes.
[754] See Chapter 4, section 4.4.1.3 for data and discussion about Zhejiang's foreign trade by different types of enterprise.
[755] See Chapter 5, section 5.4.1.4 for data and discussion about Yunnan's foreign trade by different types of enterprise.

SOEs played a clearer role in the foreign trade development of Yunnan province than in Zhejiang. The important role of SOEs in Yunnan province on the one hand reflected the less marketization, and on the other hand, showed a relatively stronger role of government in the foreign trade provided the close relationship between SOEs and governments.

Thirdly, the two provinces also showed different structures in terms of foreign trade products. Generally, the proportion of manufactured goods in foreign trade increased in both provinces. However, the actual products exported to foreign states by the two provinces varied greatly. The industry structures that resulted from the local advantages can explain the difference: Zhejiang obtained a highly labour-intensive structure to export products, such as clothing and textile products.[756] Electrical and mechanical products increased to become the province's largest export category, but as argued in Chapter 4, Zhejiang's electrical and mechanical goods also demonstrated labour-intensive characteristics comparing to some other coastal provinces. Regarding Yunnan's exports, an increasing proportion of mechanical and electrical products could be seen in recent years. But different from Zhejiang, agriculture and resource-intensive products played an important role in promoting exports in Yunnan.[757] The product structure of Yunnan's exports derived from its advantages in resources and its emphasis on the plateau's agricultural development. It deserves to be mentioned that the developed tobacco industry in Yunnan also led to cigarettes and tobacco being important export products. A province's exports were highly dependent on what it could produce based on its natural and human resources.

Finally, the two provinces showed significant differences in terms of foreign trading partners. For Yunnan, the most important was ASEAN – the percentage of foreign trade with ASEAN has remained at more than 30% since the 1990s.[758] Myanmar emerged as the most important foreign trade partner for Yunnan province.[759] The close foreign trade with ASEAN states was a result of the repositioned opening up strategy by the provincial government, which enabled Yunnan to exploit its geographical advantages

[756] See Chapter 4, section 4.4.1.4 for data about Zhejiang's foreign trade product.
[757] See Chapter 4, section 5.4.1.3 for data about Yunnan's foreign trade products.
[758] See Chapter 5, section 5.4.1.2 for data and discussion about Yunnan's foreign trade partner.
[759] See Chapter 5, section 5.4.1.2, table 5-10 for more information about Yunnan's major foreign trade partners.

and its historic economic interactions with neighbouring states. Meanwhile, developed industrialized states like the US, Japan and the EU formed the major export markets for Zhejiang province.[760] Thus, I argue that Yunnan's foreign trade concentrated more on the regional level while Zhejiang became more globalized in this respect. Overall, the foreign trade development in two provinces showed diversity in various aspects discussed above. The diversity in foreign trade derived from the complex interactions between central and provincial levels, including both policy and inherent local natural conditions for development. In reality, the local conditions and governmental policies mutually affected and finally shaped the specific pattern of foreign trade development.

6.4.3 Different Patterns of FDI Development

The rapid development of Zhejiang's private economy greatly influenced its opening up economic model, which emphasized going out to seek markets. As a result, Zhejiang's inflow of FDI developed slower than other coastal provinces, such as Jiangsu.[761] However, the development of FDI in Zhejiang was still much quicker than in Yunnan and the two provinces showed a large disparity in terms of FDI inflow, as argued in section 6.4.1. HK was the most important FDI source for both provinces.[762] But for Yunnan province, Southeast Asia states appeared most frequently in lists of major sources of FDI, such as Singapore, Thailand, Myanmar, and the Philippines. Zhejiang province hardly exploited Southeast Asia as a source of FDI, except for Singapore. This difference to some extent reflects Yunnan's close economic interaction with Southeast Asian states as a result of government policy.

Moreover, the two provinces also showed different patterns of FDI utilization. FDI in Zhejiang firstly went to the manufacturing sectors before moving to the tertiary industry. Before 2013, FDI going to the manufacturing sector occupied the largest proportion.[763] This FDI going was mainly export-oriented, which exploited the cheap labour in the province before being re-exported. The declining proportion of FDI in the manufacturing sector after 2005 also led to the decreasing proportion of exports by

[760] See Chapter 4, section 4.4.1.5 for detailed data about Zhejiang's major foreign trade partners.
[761] See Chapter 4, section 4.4.2.1 for detailed data and discussion about Zhejiang's FDI development.
[762] See Chapter 4, section 4.4.2.1, table 4-8 and Chapter 5, section 5.4.2, table 5-14 for more data about the major FDI source of two provinces respectively.
[763] See Chapter 4, section 4.4.2.2 for data about Zhejiang's FDI distribution.

foreign-invested enterprises in Zhejiang's total volume of foreign trade.[764] With fewer advantages in terms of labour force and developed local markets in Zhejiang province, FDI also flowed out of manufacturing sectors into real estate, wholesale. In Yunnan, the sector distribution of FDI fluctuated greatly.[765] The two major stable sectors that attracted FDI were manufacturing and energy supply (electricity, gas and water). However, the manufacturing sector did not always attract the greatest proportion of FDI, which can be partly explained by Yunnan's disadvantages in terms of export-oriented FDI. FDI to the energy sector derived from Yunnan's advantages in energy production. Yunnan provincial government also made efforts to promoted the province to become the energy hub between China and Southeast Asia, which to some extent explained the FDI going to energy sector.

6.4.4 Different Patterns of Overseas Investment

Both provinces experienced significant development in overseas investment, especially after the 2000s with the establishment of the "going global strategy", but still showed significant disparity. In Zhejiang, accumulated non-financial investment before 2003 was USD 67.2 million and in 2003 the figure was USD 36.7 million, which had increased to USD 12,281 million by 2018.[766] In Yunnan province, accumulated overseas non-financial investment of local enterprises up to 2003 was USD 1.18 million and the amount for 2003 was USD 2.51 million, rising to USD 1,201 million in 2018.[767] Zhejiang was much more developed than Yunnan in terms of overseas investment, which showed different patterns in each province. Zhejiang's export-oriented economy grew out of its developed private economy, which made market-seeking overseas investment an important component.[768] The government policy of "two promotions" illustrated in Chapter 4 also showed a market-oriented characteristic of Zhejiang's overseas investment. As a result, Zhejiang's overseas investment greatly promoted the exports of the province. More recently, local enterprises in Zhejiang began to invest in foreign states with the aim to transfer industries, reflected in an increasing investment

[764] See Chapter 4, section 4.4.1.3, graph 4-7 for data.
[765] See Chapter 5, section 5.4.2, table 5-15 for detailed data.
[766] Ministry of Commerce of PRC, National Bureau of Statistics & State Administration of Foreign Exchange, *2003 Statistical Bulletin of China's Outward Foreign Direct Investment & 2018 Statistical Bulletin of China's Outward Foreign Direct Investment.*
[767] Ibid.
[768] See Chapter 4, section 4.4.3.2 for detailed information about overseas investment distribution of Zhejiang province.

in manufacturing sectors. During this process, private enterprises played a dominant role in Zhejiang's overseas investments. In Yunnan, majority of its overseas investment went to its neighbouring states.[769] Yunnan's cooperation with GMS states to some extent facilitate the overseas investment of local enterprises (5.2.2.3). Most investment flowed to electricity supply, construction, and mining, which showed a resource and energy oriented outlook.[770] The provincial government also desired to strengthen the energy cooperation with neighbouring states and thus improved Yunnan's position in the central perception. As a result, large SOEs played an important role in Yunnan's overseas investment.

6.4.5 Economy-Oriented Vs Strategy-Oriented Models

After comparing their involvement in the global economy, I observed that the two provinces showed different underpinning logics in the process of their involvement in the global economy. Zhejiang developed a significant economy-oriented approach, with a clear aim of promoting its export-oriented economy. The dominant role of private enterprises in the process also made profit-seeking stand out in the process. Zhejiang's overseas investment showed a clear economic logic of market-seeking and industry transfer based on its comparative advantages. But for Yunnan province, I argue that strategic or political concerns of provincial government played an important role in its involvement into the global or, more accurately, regional economy. Its close economic relations with Southeast Asian states was promoted by the repositioning process of provincial government, which did not make such a big contribution to local development, but can further strengthen Yunnan's position in China's foreign policy. Moreover, Yunnan's overseas investment also showed a preference for energy production and resource-seeking aims, which could emphasize Yunnan's role as an energy hub situated between China and ASEAN. As a result, Yunnan improved its position in national strategy and obtained benefits from the central government. The important role of SOEs in Yunnan's foreign trade and overseas investments further tightened the link between economy and politics. Therefore, I believe that the two provincial governments developed different logic with different concerns in the process of becoming involved in the global or regional economy.

[769] See Chapter 5, section 5.4.3, table 5-16 for detailed data.
[770] See Chapter 5, section 5.4.3, table 5-17 for detailed data.

6.5 Diversity as a Result of Changing Security Concept

Chapter 3 illustrated that changing security concept at the central level can influence international involvements at the subnational level.[771] The expanding idea of security threats enlarged the remit of foreign policy and thus induced interdependence between central and subnational levels in dealing with emerging non-traditional security issues. In other words, changing security concepts pulled SNGs into international security cooperation. However, security issues did not equally affect all provinces in China and thus differently influenced involvements in international security cooperation. Through the case studies, I found that Zhejiang and Yunnan displayed noticeable differences in this aspect. Firstly, as a border province, Yunnan was more vulnerable to various non-traditional security issues happened along its border, such as smuggling and illegal immigration. Secondly, Yunnan's location near the Golden Triangle in Southeast Asia worsened its security as a result of drug-related issues and terrorist threats.

Furthermore, border stability is a major concern for China, which is not only important for Yunnan's security and development, but for the country as a whole. Issues that occur in a border province can be politicized and can have influences that go beyond the border. In other words, issues in Yunnan can more easily influence China's border security or its relations with neighbouring states, for example, in relation to issues like environmental pollution in rivers that cross borders. But such an issue in Zhejiang can only bring limited influence inside the province and be regarded as more of a local development issue. In reality, Yunnan has become an important component in security cooperation between China and ASEAN, or in the GMS.[772] The most outstanding example has been Yunnan's participation in regional drug prohibition. Finally, Yunnan provincial government even framed the "Malacca Dilemma" to seek local interests.[773] To some extent, Yunnan's active role in security cooperation further strengthens its position in China's central strategy. But regarding Zhejiang's international cooperation, for example, with its sister cities, some of the issues beyond the economic development were also reviewed, although I argue that these were not as important as security issues,

[771] See Chapter 3, section 3.5 for more information.
[772] See Chapter 5, section 5.5 for more detailed discussion about Yunnan's involvement in regional security. cooperation.
[773] See Chapter 5, section 5.5 for Yunnan's utilization of energy security.

but more akin to local administration or development issues.

6.6 Conclusion

The comparative analysis of the two provinces in this chapter clearly show the diversity of their international involvements. The factors illustrated in the theoretical framework differently influenced the two provinces and also induced different central-provincial interactions, which ultimately differently affected the international involvements of the provinces. Firstly, China's diplomatic relations with different states in the different time periods affected the two provinces in different ways. In return, international interaction at the provincial level served the different aspect of diplomacy at the central level. The platforms for international interaction that grew out of foreign policy concerns from the central level were of different importance to Zhejiang and Yunnan provinces. Secondly, the uneven process of reform and opening up positioned the two provinces differently, which led to diverse responses from their provincial governments. The central-local interactions under the national policy complicated the international involvement of the provinces, illustrated especially in their involvement in the global economy. Finally, changing security concerns at the central level were more influential to Yunnan province, which was deeply involved in regional non-traditional security cooperation. Therefore, the principle of 'one size does not fit all' should be kept in mind when conducting research on the international involvements of SNGs.

Chapter 7: Conclusion

This thesis has sought to enhance the understanding of the international involvements of China's SNGs. It has addressed the research questions raised in Chapter 1, relating to the causes behind the phenomenon of SNGs' increasing international involvements. To this end, a theoretical framework which concentrated on the transformations at the national level and the resultant changing central-subnational interactions was developed in Chapter 2. Based on the ideas put forward in the theoretical framework, Chapter 3 explored in detail how these transformations were reflected in China, which provided contextualization for the case studies, reviewing the 'big picture' of the changes that affected SNGs' international involvements. Then, two cases of Zhejiang province in Chapter 4 and Yunnan province in Chapter 5 empirically showed how the factors in the theoretical framework caused and influenced the international involvements of the provinces. An in-depth case analysis of the provinces provided the foundation for comparisons in Chapter 6, which illustrated the diversity of international involvements at the subnational level. This chapter firstly summarizes the main theoretical and empirical findings of this research. Then it discusses how the findings of the thesis can contribute to filling the gaps in existing research into SNGs' international involvements. The final section of the chapter illustrates the limitations of the current work and points to possible directions for future research.

7.1 Theoretical and Empirical Findings

The increasing international involvements of China's SNGs in the reform period that were the focus of this thesis have to some extent challenged traditional ideas which concentrated merely on the central government to understand China's foreign relations. This thesis endeavoured to understand the underpinning factors affecting the international involvements of China's SNGs both theoretically and empirically through the use of case studies. Furthermore, the thesis paid particular attention to the diversity of SNGs' international involvements as three aspects of transformations put forward in the theoretical framework differently acted on SNAs provided that SNGs vary in the aspects of geographic location, international linkages as well as resources for economic development. SNGs' variety in these variables affected their positions in the central domestic and foreign policy. Moreover, SNGs also made use of their different local

variables to response to the central policy and to act internationally. As a result, central-subnational interactions caused by the central transformations showed great diversity and thus induced the diverse pattern of SNGs' international involvements. This section briefly lists the findings of the research. Firstly, this research developed a theoretical framework concentrated on the transformations at the national level to address the first research question:

- What factors have induced and affected the international involvements of China's SNGs?

It is argued that several transformations originating at the national level greatly changed central-subnational interactions and thus caused and affected SNGs' international involvements. In the process, SNGs also positively reacted to these changes at the central level, which should not be ignored.

The theoretical framework developed in this thesis mainly explored three sets of transformations that derived from the central level which greatly changed central-subnational interactions. The international involvement of SNGs was a reflection of these changing interactions. First and foremost, a series of policies related to reform and opening up played a dominant role in promoting the international involvements of SNGs. Domestic decentralization and opening up together enabled SNGs to gain both autonomy and motivations to become involved in international affairs, especially in the economic sphere. The changes caused by reform and opening up policies made the international interactions at the subnational level expand from merely serving central foreign relations to serving both central diplomacy and local development. The close linkages between local development and global economy further motivated SNGs to promote international interactions. In the process, SNGs also developed specific local policies and measurements to promote international economic involvements. In some cases, SNGs could develop local initiatives and lobby the central government for approval.

Secondly, the research found that the changes in diplomatic relations at the central level also significantly influenced SNGs' international involvements. The first chapter in this

thesis illustrated the complex interaction between diplomacy and economy in the context of China. The research showed that the improved relations with numbers of foreign states offered a positive international environment for China's opening up. China's improved relations with industrialized states in the 1970s was important to facilitate the opening up of coastal provinces and its improved relations with neighbouring states in the early 1990s played a crucial role in the opening up of inland borders. More importantly, some of the platforms, such as the sister-city relationships and transborder projects, also originated from central diplomatic and foreign policy considerations. These platforms were then exploited by the SNGs to promote international involvements. Of course, SNGs' international interactions through these platforms in most cases also served central diplomacy. Thirdly, evolved security concepts and the resultant expanding agenda of foreign policy at the central level also provided space for SNGs to become involved in international security cooperation, which was especially clear in some border provinces, as explored in Chapter 5 of Yunnan case.

However, the applicability of the theoretical framework remained unanswered, which was further examined through the empirical case studies. Theoretical exploration alone cannot clarify the issue of how these factors acted differently on SNGs.
Therefore, two case studies were conducted to address the second research question:

- How have these factors differently acted on the SNGs and led to significantly diverse patterns of SNGs' international involvements?

Comparative analysis of the two cases clearly showed how the factors illustrated in the theoretical framework acted differently on the provinces of Zhejiang and Yunnan and thus induced different patterns of international involvements. Firstly, the diplomatic relations in different periods with different foreign states influenced international involvements of the two provinces. On the one hand, China's improved relations with industrialized countries, such as Japan and the US, provided a solid political foundation for Zhejiang to open up at the beginning of the reform period. China's improved relations with Southeast Asian states in the early 1990s provided a stable neighbouring surrounding for Yunnan province to go out. On the other hand, diplomatic concerns at

the central level provided different platforms for the provinces to promote international interaction. For Zhejiang, the sister-city relationships with its counterparts in foreign states was the primary means for it to facilitate international interaction. But for Yunnan, although sister-city relationships have been established in the past, their role has been limited. Instead, Yunnan provincial government relied much more on the GMS project to enhance cooperation with neighbouring states. The involvement in GMS further strengthened Yunnan's role in regional cooperation and improved its position in relation to China's neighbouring policy, which enabled Yunnan to obtain resources and support from both international organizations like ADB and the central government.

Comparative analysis of Zhejiang and Yunnan also showed the different effects of national policies in the reform period. The thesis highlighted how China's reform and opening up policy unfolded gradually and unevenly. Two province varied in the geographic locations and economic development resources, which significantly affected their positions in the reform and opening up policies. Different positions of two provinces in the reform and opening up policy in return induced their diversity in the international involvements. The deliberate arrangements of the central government caused Zhejiang to obtain an advantageous position in national policy, which led to the earlier and quicker development of its export-oriented economy and further motivated the provincial government to promote international interactions. Simultaneously, the disadvantages in the reform and opening up policy caused Yunnan to rethink its approach to opening up in the 1990s. As a result, Yunnan provincial government started to exploit the advantages of Yunnan's geographical proximity to Southeast Asia and its long history of engagement with these countries. The positive actions from the provincial level finally obtained the approval and support of central government. This response from Yunnan provincial government caused one of the most important characteristics of its involvement, which concentrated on promoting interactions with Southeast Asian states. Thus, policies at the national level not only immediately influenced the process of opening up at the subnational level, but also caused different responses from SNGs. The interaction between national and subnational governments further complicated the international involvements of SNGs.

Finally, the evolved security concept originating at the central level also differently

influenced the international involvements of the two provinces. As a border province, Yunnan was more vulnerable to a series of security issues, especially in consideration of its proximity to the Golden Triangle, which made it prone to drug-related security issues. These issues not only negatively affected the security of Yunnan province, but also threatened border security and stability of China. As a result, both provincial and central government were concerned about these non-traditional security issues, which made Yunnan an important participant in regional security cooperation with Southeast Asia. In Zhejiang province, security concerns did not stand out in its international involvements. I believe that some matters regarded as security issues in Yunnan were only considered local-development issues in Zhejiang. Therefore, a comparative study of the two provinces verified that their respective international involvements showed significant diversity. Diversity of local variables in two provinces affected both sides of central-provincial interactions, which ultimately led to the diverse patterns of their international involvements.

7.2 Research Contributions

This research explored how the international involvements of China's SNGs were caused and influenced by the transformations that began at the national level. The phenomenon of SNGs' increasing international engagements involved complex central-subnational interactions. Exploration of the international involvements of China's SNGs in this research succeeded in contributing to the current literature from the following perspectives. Firstly, the empirical study has enriched the canon of case studies of China's SNGs. Yunnan's international interactions had already attracted scholarly attention and some research that concentrated on the subregional cooperation between China and Southeast Asia had also considered the international role of Yunnan. The government's emphasis on interactions with Southeast Asia induced scholarly attention to Yunnan province.[774] But few of the previous studies made a systematic analysis of Yunnan's international involvement. Therefore, my research into the international involvements of Yunnan province based on the theoretical framework developed in Chapter 2 is able to fill the gap. Moreover, there has been little previous scholarly exploration of Zhejiang province, thus my research into Zhejiang's

[774] A review of the websites for Yunnan University and Yunnan Social Science Academy show several scholars have concentrated on studying Yunnan's relations with Southeast, and more recently, South Asian states.

international involvements succeeds in enriching the available case studies of Chinese SNGs. Last but not the least, this research provided abundant data of two provinces through the tables and figures, which has never found in the previous studies.

Secondly, the comparative case study of the two provinces in this thesis has made a modest contribution in terms of methodology as existing literature mainly concentrated on single cases. The comparative case study shed lights on understandings about the diversity of SNGs' international involvements. Previous analysis of a single case was not able to clearly display the diversity of SNGs' international involvement. Thirdly, this research developed a theoretical framework to conduct a systematic analysis of SNGs' international involvements, which was lacking in the previous work of literature. The theoretical framework expanded the ideas from previous literature which simply emphasized the influences of the opening and reform policy. The theoretical framework put forward in this thesis explored three aspects of transformations affecting SNGs' international involvement and led to a much more systematic analysis of two cases than previous studies. Finally, the research on international involvements of China's SNGs also enriched the broader theoretical exploration of SNGs. As discussed in the literature review, existing theoretical approaches to understand the international involvements of SNGs mainly grew out of the experiences of federal or democratic decentralized states in North America or the EU. The experiences of SNGs from these states showed clear differences with those in China, especially considering central-subnational relations. Thus, my research into China's SNGs also provided insight into the general understanding of SNGs' international involvements and offered more diverse cases.

7.3 Understanding the Transformation in China

Exploration into the international involvements of China's SNGs also sheds light on the broader picture of state transformation in China in recent decades. China has become "increasingly fragmented, decentralized and internationalized," manifested in domestic and international relations.[775] It is incorrect to see China as a monolithic actor in its external outlook and ignore the possible influences of domestic actors in addition to the central government. The phenomenon explored in the thesis – SNGs' increasing

[775] Hameiri, S., & Jones, L. (2016). Rising Powers and State Transformation: The Case of China. *European Journal of International Relations*, 22(1), pp.72-98.

international involvements – have to some extent reflected the broader transformation in China. The thesis argued that central-subnational relations in China experienced significant changes in the reform period, which has induced the increasing international involvement of SNGs. Although the thesis started from the role of the transformations at the central level in changing central-subnational relations, it does not agree that SNGs acted internationally to seek national interest only. Chinese central government indeed imposes more control over the activity of SNGs than liberalized states, but it does not suggest that the central government can overwhelmingly contain and control the international involvements of SNGs. Instead, SNGs in China are largely motivated by the local interest in the reform period when they go internationally. Here the thesis does not deny the international interactions of SNGs in the pre-reform period. Instead, it suggests that SNGs' international involvements experienced significant changes in the reform period.[776] Those changes are not only reflected in the intensity of SNGs' international involvement. But more importantly, in the motivations of SNGs in promoting international interactions.

As explored in chapter 3, reform and opening up policy affected SNGs' motivations in developing international interactions. Inter-governmental decentralization in the reform period enabled SNGs to obtain fiscal arrangement autonomy and take primary responsibility for local development. While inter-governmental decentralization, together with the importance of local development to the local cadre promotion, further made SNGs regard economic development as the key to their work.[777] The opening up policy in the reform period made local economic development increasingly related to the global economy. As a result, the close linkage between economic development and local fiscal revenue promoted SNGs in China to develop international interactions for local economic development. Merely serving central diplomacy cannot provide enough incentives for SNGs to promote international interactions. Instead, SNGs became motivated to be involved internationally when local economic development stood out in the purpose of foreign interactions. Case analysis of both Zhejiang and Yunnan

[776] Case study of Zhejiang province in chapter 4, section 4.2 explored Zhejiang's international interactions before the reform period, which was limited in intensity.

[777] Su, C.H. (2008). Internationalization and Global Linkage: A Study of China's Globalization (1978-2008) [国际化与全球的地方联系(1978-2008)]. *World Economics and Politics*, (11), pp.24-32.

provinces displayed the local interests in promoting international involvements at the provincial level. As a result, SNGs in China seek suitable local ways for promoting international interactions. More importantly, it can see that the more developed the economy, the more developed the SNGs in international actions, which, to some extent, displayed the close relationship between the economic growth and the rising of localization.[778]

This transformation of SNGs' aim in their international involvements, to some extent, has led to the possible convergence of central-subnational interests. In other words, local protectionism–"referring to the efforts by subnational authorities to privilege their own jurisdiction's economic interests at the expense of broader national interest"–become increasingly possible in SNGs' involvements.[779] Although the Chinese central government during the different periods of leadership made efforts to constrain local protectionism, it remains a big concern. Indeed, the importance of economic development to the party's legitimacy led to the difficulty and high cost for the central government to totally control the localism provided it risks in decreasing the incentives of SNGs to promote economic development. Central and subnational governments in China formed a high degree of interdependence in economic development. SNGs depended on the reform and opening up launched by the central government, which provided legitimacy for SNGs to involve in the global economy. At the same time, the central government relied on the SNGs to promote economic development, which has become an essential source of legitimacy for the party and central government in China. This reality in the reform period offered SNGs in China leeway to express local interests both domestically and internationally. It is particularly the case in coastal provinces where the export-oriented economy contributed significantly to the locals and obtained tremendous economic resources. The growing flow of FDI and rapid development of foreign trade at the subnational level made the local interests evident in the foreign policy, which induced SNGs in China to influence the central policymaking.[780] In this

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[778] Wang, Y.Z. (2009). Factor Analysis in China's Diplomacy [中国外交影响因子探析]. *World Economic and Politics*, (9), pp.6-17.

[779] Bulman, D. J., & Jaros, K. A. (2021). Localism in Retreat? Central-Provincial Relations in the Xi Jinping Era. *Journal of Contemporary China*, pp.1-20.

[780] Gong, li; Men, Honghua & Sun Dongfang (2009). China's Diplomatic Decision-Making Mechanism: Changes and Evolution Since 1949 [中国外交决策机制变迁研究 1949-2009]. *World Economics and Politics*, (11), pp. 44-54.

regard, the central government cannot develop China's foreign policy without paying attention to the local requirements. Instead, the formation of foreign policy in China involved central-subnational bargaining, especially in the issues related to local interest. SNGs in China can access the central policymaking and make the local voice heard in various with-in ways, such as the NPC session, Central Working Committee on Economic, or the leaders' meeting to the local.[781] Thus, local interests can be incorporated into foreign policy.

Besides, the gap between provinces in involvement in the global economy and the level of economic development is emphasized in the thesis, which also caused some provinces to be dissatisfied with the central policy. For inland provinces, the involvement in the global economy has not contributed to them to the same level as that in the coastal province. However, the underdevelopment induced them to lobby the central government for more benefits. More importantly, SNGs in China can strategically make use of the central foreign policy concerns to serve the local interests. Analysis of Yunnan province illustrated that China's neighbouring policy provided an excellent opportunity for the province to reposition itself and promote it as the gateway between China and Southeast Asia. As explored in chapter 5, a more obvious example is Yunnan's strategic use of the central government's concern of energy security to construct the pipeline between China and Myanmar. It enabled Yunnan to enhance its position as the gateway between China and Southeast Asia and to benefit from becoming the energy hub. However, it did not help China tackle the energy security challenge and even harmed the bilateral relations between China and Myanmar. Therefore, SNGs in China, in some cases, developed local interests and serving for the central policy can be technically used by the SNGs to achieve local interests.

Therefore, SNGs' international involvements and their changing motivations in the reform period can add a new dimension to understanding China's domestic and foreign policy. It is problematic to treat the Chinese central government as a monolithic actor who can control everything in China. It is not the case that the international

[781] Chen, Z.M. (2005). Coastal Provinces and China's Foreign Policy-Making. in Hao, Y.F. & Liu, S. eds. *China's Foreign Policy Making: Societal Forces and Chinese American Policy*. Social Science Academic Press, pp.187-207.

involvements of SNGs in China have been required by the central government and merely serve the foreign policy at the central level. Instead, local interest has become an important incentive for SNGs to act internationally. As a result, it is possible for SNGs in China to lobby the central government and influence foreign policymaking when local interests are affected. The interdependence of central and subnational governments in economic development made it difficult for the central government to ignore the local interests when forming foreign policy. Indeed, China's foreign policymaking is becoming more pluralistic, which has involved interactions among various stakeholders. The international involvement of SNGs is one of the crucial parts of China's state transformation. Transformation in China also has implications for the practitioners who engage with the country. The traditional method of dealing with Chinese issues that concentrates on the central government is insufficient – knowledge of SNGs is essential. For those who plan to conduct business in China, it is conducive to understand the specific local policy.

7.4 Directions for Future Research

This thesis has made a preliminary attempt to construct a theoretical framework which emphasizes the transformations at the national level and the two-level interactions between the central and subnational level to understand the international involvements of SNGs in China. The case studies herein demonstrate the validity of the theoretical framework. It has also made an initial attempt to examine the diversity of SNGs' international involvements through a comparative case study. However, this is not the final word on the international involvements of China's SNGs. The analysis in the thesis leaves many questions unanswered, which leaves space for further study on the international involvements at the subnational level.

Firstly, it will be worthwhile continuing to examine the possible changes in SNGs' international involvements in different periods of Chinese leadership. This thesis mainly pays attention to the general tendency of decentralization in the reform period, with little focus on the changes in different periods of leadership in the last few decades. For example, China's politics and economy significantly changed under President Xi's leadership, in which there is a tendency towards re-centralization of power to central government and especially the top national leaders. Since coming into power, Xi has

taken several measures to reform Chinese security and foreign policy institutional architecture.[782] For example, the National Security Council was established in November 2013 to better coordinate internal and external security issues, and Xi became its leader.[783] Also, there has been a tendency to reorganize the People's Liberation Army and strengthen the power of Central Military Commission(CMC). Additionally, Xi has promoted his political allies into the Politburo Standing Committee(PSC), like Li Zhanshu and Wang Huning. Through these measures, it is believed that Xi has concentrated more power into his own hands, making him a paramount leader in terms of foreign policy. These changes under Xi's leadership raise the question of whether the central-subnational relations have changed, with more power being recentralized into central government. As a result, it is possible that the international involvements of SNGs in the period have been influenced by this activity, and the international involvements of SNGs have become more constrained.[784] Thus, it would be fruitful to pay attention to the changes in different periods to assess how these changes have affected the international involvements of China's SNGs.

Secondly, the comparative case study of Yunnan and Zhejiang in this research shows how all the factors explored in the theoretical framework have acted differently on two provinces. This is a good way to demonstrate the application of the theoretical framework, but also leaves space for other possible comparisons which may provide more in-depth understandings of various factors. For example, provinces and cities in the Pearl River Delta (PRD) and Yangtze River Delta (YRD) were both at the forefront in the reform period, but their involvements in the global economy were very different. The PRD model of development was regarded as an externally driven, Hong Kong-infused development.[785] While the development of YRD, especially Shanghai, was driven by state investment, a favourable opening up policy, and the decentralization of

[782] Cabestan, J. P. (2017). China's Institutional Changes in the Foreign and Security Policy Realm Under Xi Jinping: Power Concentration vs. Fragmentation Without Institutionalization. *East Asia*, 34(2), pp.113-131; Hu, W. (2016). Xi Jinping's 'Big Power Diplomacy' and China's Central National Security Commission (CNSC). *Journal of Contemporary China*, 25(98), pp.163-177.
[783] Ji, Y. (2016). China's National Security Commission: Theory, Evolution and Operations. *Journal of Contemporary China*, 25(98), pp.178-196; Lampton, D. M. (2015). Xi Jinping and the National Security Commission: Policy Coordination and Political Power. *Journal of Contemporary China*, 24(95), pp.759-777.
[784] Interview in Kunming, Yunnan, June 2019.
[785] Eng, I. (1997). The Rise of Manufacturing Towns: Externally Driven Industrialization and Urban Development in the Pearl River Delta of China. *International Journal of Urban and Regional Research*, 21(4). pp.554–568.

power to the local government.[786] This suggests that differences did not exist between coastal and interior provinces, but also in different provinces inside the big cluster of coastal or interior states. Even inside the YRD, Zhejiang and Jiangsu also developed significantly different models of development, which could also affect their involvement in the global economy and influence their international interactions.[787]A comparative analysis of the provinces inside the same coastal area cluster is possible to further enrich the research. Also, for example, transborder cooperation projects were platforms for border provinces to become involved in international cooperation, but development of these projects varied significantly, with GMS (discussed in Chapter 5) being the most successful. Exploration of diversity in border provinces may add new dimensions to the research into SNGs' international involvements. Therefore, more comparative case studies could be conducted to obtain more in-depth understandings of factors within the current theoretical framework or bring new ideas to enrich the framework.

Thirdly, the case studies in this research concentrated on the provincial level, which also leaves space for further research to drill down to governments at a lower level. Cities are one of the major categories of SNGs which have gained scholarly attention. Scholars put much focus on the international role of cities and have developed the idea of city diplomacy.[788] Both theoretical and empirical research has been conducted to understand the international activities of cities. To some extent, the research into cities' international activities is more developed than that concentrated on the provincial level. Scholarly exploration of the cities reflects the reality that cities in China have obtained international roles as provinces have. Moreover, it may be reasonable to believe that

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[786] Sit, V. F. S. and Yang, C. (1997). Foreign-Investment-Induced Exo-Urbanisation in the Pearl River Delta, China. *Urban Studies*, 34 (4), pp.647–677.

[787] Qian, F.M. (2004). Comparative Analysis of Foreign Trade Development Model in Jiangsu and Zhejiang Province [江苏、浙江两省外贸发展模式的比较研究]. *Journal of International Trade*, (10), pp.38-42.

[788] Some example of the study on the international involvements of cities: Gao, S.T. (2010). *A City Study in International Relations* [国际关系中的城市行为体]. World Affairs Press; Zhao, K.J. (2014). Embedded Diplomacy: A Theoretical Explanation Towards China's City Diplomacy [嵌入式外交：对中国城市外交的一种理论解释]. *World Economics and Politics*, 11, pp.135-154; Chen, W. (2016). City Diplomacy in China-Japan-South Korea Trilateral Cooperation: Motivation, Modes and Prospects. *Global Review* [中日韩城市外交动力、模式与前景], 8(1), pp.76-97; Xiong, W. & Wang, J. (2013). City Diplomacy: Theoretical Debate and Practice[城市外交—理论争辩与实践特点]. *Public Diplomacy Quarterly*, 13, pp.14-19.

differences exist not only among different provinces, but also among different cities within the same province, which has not been studied by my research. For example, Zhao argued that some cities in Zhejiang province, including Wenzhou, Ningbo and Yiwu, developed different models of city diplomacy.[789] Exploration on the international involvements of cities can also show the interactions between provincial and city governments, which cannot be reached through a case study concentrated on the provincial level. Finally, drilling down to international involvements in different departments at the provincial level could also be explored in the future.[790] Scholarly exploration of bureaucratic politics in China's foreign policy at the central level shows coordination and conflicts between different ministers.[791] This reality at the central level raises questions about whether this kind of bureaucratic politics exists at the provincial or lower levels. Exploration of different departments may lead to discoveries about interactions among different departments or between departments and provincial government, which can further enrich the research.

In conclusion, this thesis has made a contribution by providing a systematic analysis on the international involvements of China's SNGs. The research made a theoretical contribution to the current literature by establishing a theoretical framework to understand the underpinning factors that have induced and affected the international involvements of China's SNGs. It has also provided substantial empirical evidence to demonstrate the ideas developed in the theoretical framework through case studies based on documentary analysis. The empirical work of the comparative case analysis also provided a preliminary illustration of the diversity that exists in relation to the international involvements between two different provinces. The thesis invites further exploration of the possible changes in terms of SNGs' international involvements in different periods, or under different leaderships, as well as further case studies that consider and compare departments at the provincial level or different cities within a province.

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[789] Zhao, K.J. (2014). *Zhejiang Model of City Diplomacy* [城市外交的浙江模式]. http://www.charhar.org.cn/newsinfo.aspx?newsid=8381

[790] According to the Zhejiang Foreign Affairs Yearbook, departments at the provincial level have all conducted international activities.

[791] For example, Lai, H., & Kang, S. J. (2014). Domestic Bureaucratic politics and Chinese Foreign Policy. *Journal of Contemporary China*, 23(86), pp.294-313.

Appendix

Appendix A: Administration Map of China

Source: https://www.nationsonline.org/oneworld/map/china_administrative_map.htm

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ADB, Projects, China: Yunnan Lincang Border Economic Cooperation Zone Development Project. https://www.adb.org/projects/49310-002/main#project-pds

ADB, Regional Cooperation and Integration. https://www.adb.org/what-we-do/themes/regional-cooperation/overview

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