

Fungible Borders and Informal Regionalism: Rethinking China's International Relations*

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Abstract

The processes of informal or soft regionalism driving China's engagement with the regional and global economy are resulting in nuanced understandings of state, security and the conduct of international relations in China. The paper looks at a set of three interrelated processes that made this engagement possible- the informal processes driving China's engagement; the graduated manner in which China has re-engaged with the regional economy; and the process of decentralisation of decision-making powers aimed at providing local incentives for growth. The paper argues that these processes represent instances of domestic-external interlinkages and makes the case that although not state-led, the Chinese state has played a critical role in setting the direction, pace as well as nature of China's external economic relations. The paper will then look at some of the inferences that can be drawn from China's engagement process.

China's initiatives to enhance economic interactions with its extended neighbourhood quickly became a catalyst for rapid economic growth and development across the region. Broadly, the post-Mao policy shifts in regional development have signalled an important ideological shift from the goal of regional self-sufficiency to one that stresses regional comparative advantage.

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Over the decades since 1949, China's developmental debate has seen several temporal and spatial shifts with priorities swinging from a focus on inland development during the Mao years to Deng's coast-led strategy and most recently back again to the inland provinces under the Western development programme. Interestingly, the Maoist pursuit of self-sufficiency had less to do with equity concerns as commonly understood and more with the overriding preoccupation with safeguarding national assets, as the *sanxian* policy (Third Front) clearly demonstrated.¹ The policy thrust imparted to regional comparative advantage thus set the stage for China's highly successful economic re-engagement with the regional and global economy. This was made possible as a result of a set of three concurrent processes-- the informal processes driving China's engagement; the graduated manner in which China has re-engaged with the regional economy; and the process of decentralisation of decision-making powers aimed at providing local incentives for growth.

The Bamboo Network: Informal Regionalism

A defining characteristic of China's Open Door policies has been the informal processes driving regional economic integration. Asian regionalism, as Peter Katzenstein observes has been characterised on the one hand by dynamic market institutions and weak formal institutional structures on the other.² The Southern China Growth Triangle is a case in point where there were no formal inter-state agreements between the member economies. The overseas Chinese business networks played a central role in defining and imparting its distinctive impact on the character of the regional political economy. These networks constituted a valuable source of information and entry point to overseas markets besides providing a critical impetus to the forces of regional economic integration through heavy infusions of capital into the mainland. The "Chinese Commonwealth" of entrepreneurial relationships as Kao notes operated as an "open architecture" with "access to local resources like information, business connections, raw materials, low labour costs, and different business practices in a variety of environments."³ The increasingly transnational nature of economic activity points to, as Shaun Breslin notes, "the disjuncture between national boundaries as the limits of political space."⁴ The success of the 'bamboo network', as it is also referred to, owed itself in no

¹ Terry Cannon and Alan Jenkins, ed., *The Geography of Contemporary China: The Impact of Deng Xiaoping's Decade*, (London, Routledge, 1990), pp. 37-38.

² Peter Katzenstein, *Regionalism in Comparative Perspective* ARENA Working Paper, no.1 (University of Oslo, 1996) accessed at <http://www.arena.uio.no/publications>.

³ John Kao, "The Worldwide Web of Chinese Business", *Harvard Business Review*, March-April 1993, p.24.

⁴ Shaun Breslin, "Greater China and the Political Economy of Regionalisation", *East Asia*, Spring 2004, vol. 21, no.1, p.7.

small measure to the high degree of flexibility of these informal arrangements that created the space for economic cooperation between divergent economic and political systems.

A related factor has been the strong cultural identification which the ethnic Chinese diaspora has maintained with the mainland. This socio-cultural bonding was forged in the context of migrations from the mainland, over long periods of history, triggered by political turmoil, displacement, economic deprivation and reinforced by the fierce resentment Chinese immigrants faced at the hands of indigenous communities. It is thus little surprise that the first Special Economic Zones to be established in China were in the provinces of Guangdong and Fujian, from where the bulk of the overseas Chinese trace their traditional roots. Underlining the close mesh between the cultural and economic factors in defining the form of integration in the region, Darryl Crawford says, "Overseas Chinese social relationships have always been transnational in nature, but today their economic activities have come to match the transnationalism of their social connections and now constitute a series of coordinated socioeconomic networks that span the globe."⁵ Asia's informal or soft regionalism marks a point of departure from the thick web of formalised institutional arrangements that characterise economic blocs like the European Union. These trade and investment patterns as Michael Borrus notes "lie 'below' the aggregate regional picture but 'above' the interactions between states"⁶ This informal nature of economic integration adds enormous fresh insights to mainstream theories of economic integration and calls for a more nuanced definition of regionalism. Andrew Hurrell describes the new patterns that constitute soft regionalism as "regionalisation", which he defines as "the growth of societal integration within a region and to the often undirected processes of social and economic interaction."⁷

Triangles of Growth

What was distinctive was the graduated manner in which China has re-engaged with the regional economy. Given vast inter-regional diversity in endowments and assets, it was admitted that "the pace at which areas and

⁵ See Darryl Crawford, "Chinese Capitalism: Cultures, the Southeast Asian region and economic globalisation", *Third World Quarterly*, vol. 21, no.1, pp. 69-86, 2000, p. 180.

⁶ Michael Borrus, "MNC Production Networks and East Asian Integration: A Research Note," unpublished paper, The Berkeley Roundtable on the International Economy, University of California, Berkeley 1994 cited in Peter Katzenstein, *Regionalism in Comparative Perspective*, ARENA Working Paper No.1 University of Oslo, January 1996 accessed at <http://www.arena.uio.no/publications>.

⁷ Andrew Hurrell, "Explaining the Resurgence of Regionalism in World Politics", *Review of International Studies* 21 1995, p. 334.

peoples became prosperous will never be simultaneous.” The setting up of the SEZs perhaps best exemplifies the localised nature of its external engagement wherein only sub-regions or parts of China were to strive for external economic integration. The political logic of the decision to localise and restrict economic activity to spatially demarcated zones was informed by an acutely perceived need to confine any negative externalities should the experiment fail. Thus, it was no coincidence that the SEZs of Zhuhai, Shantou and Shenzhen were located in Guangdong province while Xiamen was in the Fujian province, which together came to be known as the Southern China growth triangle. Sub-regional economic zones or growth triangles came to be so known since geographically proximate sub-regions within two or more countries became important sites of transnational economic exchange.⁸ It was only after the success of the Southern China triangle that similar sub-regional economic zones were extended to the Pearl River Delta, Shanghai and other zones. In the same vein, many of the preferential policies such as tax concessions, land use rights, measures granting substantial financial autonomy to provinces were also introduced in these zones for the first time by way of experiment. For instance land use rights introduced in the Shenzhen SEZ in 1987 paved the way for the implementation of land use reforms throughout the country.

Looking in Two Directions: The Go-West Campaign

China’s re-engagement with the regional economy and the pursuit of comparative advantage has not been restricted to the coastal region alone. The idea of promoting sub-regional cooperation forms an integral part of China’s Go-West campaign aimed at developing its vast western region. The political thrust given to integrating southwestern China with the extended regional economy marks the latest temporal and spatial shift in the country’s regional development policy. The western region is home to nearly 300 million people spread across the six provinces of Shaanxi, Gansu, Qinghai, Sichuan, Yunnan and Guizhou; the three autonomous regions of Ningxia, Xinjiang and Tibet and the Chongqing Municipality. It is also home to 80 per cent of China’s ethnic minorities.

Rising regional disparities have imparted an added urgency to the drive to develop the largely inaccessible and backward region that covers about 56 per cent of China’s geographic area. That the problem of uneven regional development has been a cause of growing concern is evident from the writings of Chinese scholars on the subject. The existence of stark differences in regional development is likened “to an eagle spreading only one wing for flight.”⁹ A national conference of the heads of the nationalities affairs

⁸ Myo Thant, Min Tang, and Hisosh Kakazu, ed., *Growth Triangles in Asia: A New Regional Economic Cooperation* (Oxford, OUP, 1994)

⁹ Yan Zhong, “Tapping China’s Reserve Strength in the Western Regions”,

commissions in 1989 imparted a strong push to expedite the development of the minority areas. It recommended that the minority areas “open to other parts of China and the world with the introduction of an opening programme that looks in two directions simultaneously: south and east to the coastal areas and developed countries; west and north to neighbouring countries across the Chinese border.”¹⁰ Thus, emphasis was laid on developing a strategy that optimised the ‘petty advantage’ of border trade that geographic proximity conferred on it. In recent years, inland border provinces have been actively encouraged to seek economic cooperation with neighbouring countries across land frontiers. An Open Door policy for the western region was “aimed at converting the minority regions from remote places far from domestic markets into frontier areas adjacent to an international market.”¹¹ Article 42 of China’s Foreign Trade Law passed in 1994 enjoins upon the state to “adopt flexible measures and provide favourable treatment and convenience to the trade between its border towns and the border towns of bordering countries....” Policies such as the creation of border cities, economic cooperation zones and trading ports in several of the border regions galvanised trade across China’s border regions. As a result, there has been a rapid expansion in border trade which grew at an annual average growth rate of 35 per cent during 1998-2002, notching a high of \$6.7 billion.¹²

Reflecting these changed national priorities has been China’s New Security Concept structured around the values of accommodation and cooperative security. The strategy of diplomatic accommodation has been in keeping with its strategic requirements of seeking peace “as an entrepreneurial input for development”. For China, such a policy of diplomatic accommodation has “its greatest effects on bordering provinces, since they might change from being on the military’s front line to being first in line for trade...”¹³ The conceptual shift serves another important goal of Chinese foreign policy particularly in the region, namely that of raising the acceptability of China as a responsible and mature power. Cooperation and pragmatism have thus moved in tandem since the efficacy of any sub-regional

Beijing Review, 7 February 2000.

¹⁰ Yun Lu, “Expediting Development in Minority Areas”, *Beijing Review*, 27 March-2 April 1989, p.4

¹¹ Ibid.

¹² Robert F. Ash, “China’s Regional Economies and the Asian Region: Building Interdependent Linkages”, in David Shambaugh ed., *Power Shift: China and Asia’s New Dynamics*, London, 2005, p. 103.

¹³ Womack Brantly and Zhao Guangzhi, “The Many Worlds of China’s Provinces: Foreign Trade and Diversification” in David S. G. Goodman and Gerald Segal ed., *China Deconstructs: Politics, Trade and Regionalism*, London, Routledge, 1994, p. 160.

initiative is contingent on corresponding complementary moves across borders especially in building multi-modal connectivity by road, rail, air and water.

Why China Grows from Below¹⁴

The decision to engage with the regional and global economy was accompanied by a process of decentralisation of the decision-making powers aimed at promoting local incentives for growth. The new changes allowed local governments greater degree of decisional latitude over a range of economic policy making including production, distribution and resource allocation and increasing command over resources. Local governments were allowed to retain surpluses generated from tax revenues and as higher growth rates meant higher surpluses, officials came to develop direct stakes in economic growth. Higher provincial shares also meant higher cadre bonuses, a factor that also stoked competition. This was more so since developmental targets became accepted criteria to reward and punish the performance of officials. As Susan Shirk notes, ‘playing to the provinces’ was one reason why, far from opposing economic reform policies, local officials in China became active supporters and promoters of these measures.¹⁵ Institutional and ideological hurdles seldom were allowed to hinder economic activity and adaptations were aplenty. “Wearing the red hat” was one such innovative way of getting around the bias against private enterprise, which allowed private companies to use the seal of state-owned or collective enterprises.¹⁶ Policy has thus, more often than not, followed practice and it was only in 2004 that China amended its constitution to include protection to private property.

Central-local fiscal relations have also undergone several important changes. At the start of reforms, the fiscal system was highly centralised with all taxes and profits being collected by the centre and disbursed to the provinces. A revenue-sharing system was introduced in 1980 with a three-fold classification of taxes namely central-fixed revenues – those revenues and taxes that accrue to the centre; local-fixed revenues – those that accrue to the provinces; and shared revenues – those that are shared between the centre and the provinces. Under the new system, the revenue-sharing arrangement was reversed with the bulk of taxes now being collected by the provinces. The sharing of revenues moved from the provinces to the centre and the tax-collection effort bestowed important advantages to the provinces vis-à-vis the Centre. The system also afforded greater manoeuvrability to the provinces as regards budgetary and extra-budgetary funds. This was especially true of

14 Stoyan Tenev, “Why China Grows From Below”, *Far Eastern Economic Review*, January/February 2006, pp. 22-25.

15 Susan L Shirk, *How China Opened Its Door: The Provincial Success of the PRC’s Foreign Trade and Investment Reform*”, Brookings, 1994, p. 30.

16 Tenev, n. 13, p.24.

China's coastal provinces. Regional identities are becoming stronger with several provinces erecting trade barriers to check the flow of goods from other provinces.

There is increasing evidence of a steady loss of fiscal control by the Centre as a result of the fiscal decentralisation introduced since 1981. As a result, provinces were able to retain a greater share of tax revenues at the expense of the Centre. From 1979 to 1993, the ratio of budgetary revenue to GDP has shown a declining trend, sliding from 28 per cent to nearly 13 per cent with the central government's share falling from 51 per cent to 28 per cent.¹⁷ There have also been instances of provinces not heeding to central government directives and the centre's control over the implementation of its policies being limited. The system also led to imbalances, creating surpluses in rich provinces and deficits in poor regions. The attempt in 1985 to allow weak regions to retain a greater share of revenues while tightening control over the rich provinces had the effect of depressing the incentive of these provinces to widen their tax base, also affecting their remittances to the centre. New measures introduced in 1993 to replace the fiscal contract system with a tax assignment system have not produced the desired effect of halting the declining trend in central government revenue receipts.

Rethinking China's International Relations

There exists a great deal of debate and speculation over the likely impact of increasing decentralisation on determining the future shape of China. With increasing opportunities for local initiatives and autonomy, the underlying tensions in the relations between the once all-powerful centre and provinces are often projected as a zero-sum equation.¹⁸ It will however be misleading to project the centre as being outwitted and overwhelmed by prosperous provinces. Even in the crucial area of fiscal resources, the frequent barometer used to measure the level of provincial autonomy, there is enough evidence to point to the Centre's continued power over the provinces. For instance, the Centre has frequently readjusted provincial budgetary sharing rates, slapped new taxes or extra-budgetary funds, reclassified certain taxes as central government revenues, forced provinces to make revenue remittances under various heads without repaying the amount, etc.¹⁹ While the three-fold

¹⁷ Jun Ma and John Norregaard, "China's Fiscal Decentralisation", Paper Presented at Conference on Agenda for Sequencing Decentralization in Indonesia, 20-21 March 2000, Jakarta, Indonesia, accessed at www.imf.org

¹⁸ See Maria Cheng, "China's Future: Regional, Federation or Disintegration", (Studies in Comparative Communism, Los Angeles), vol. 25/1992, pp. 211-227; Edward Friedman, "China's North-South Split and the Forces of Disintegration", *Current History*, Philadelphia, 575, 1993, pp. 270-274.

¹⁹ Jae Ho Chung, "Studies of Central and Provincial Appraisal", *The China Quarterly* (London), no. 142, 1995, p. 502.

classification of taxes has continued to remain in place, specific re-centralisation measures have been reintroduced. For instance, the central government established the National Tax Service with the mandate to collect both central-fixed taxes as well as shared taxes. The revenue from the shared taxes was to be transferred to the provinces as per the centre's decisions.

The Centre also has important political mechanisms which have allowed it considerable control and influence over provincial behaviour. The provinces are dependent on the Centre for the provision of preferential policies and incentives for the economic development of their regions and this grants the Centre an important mechanism to exercise overall control. This power to reward and punish constitutes an important lever of power which the Centre has used repeatedly with telling results. Of particular significance is the Party's effective use of the cadre responsibility system to evaluate and monitor local leaders as per four principal criteria, namely political integrity, competence, diligence and achievements.²⁰ At the township level, higher level cadres such as the Party secretary and the government heads sign contracts with the county level wherein they undertake personal responsibility to fulfil specific performance targets. Besides the annual evaluation by higher officials, a "democratic appraisal meeting" is also held wherein peers as well as representatives from the immediately lower administrative level conduct an anonymous performance rating of the officials, providing yet another vital source of information.²¹

The centre has also wielded effective control over the provinces through the skilful use of the personnel policy, by making well-calculated transfers and promotions. To bridle powerful regions, non-natives have been regularly posted and a system of rotation of cadres has been put in place. A practice began in the 1990s of regularly rotating cadres between the coastal and hinterland provinces. Thus, there was a constant movement of officials across various provinces, for instance, between Jiangsu and Shanxi; Beijing and Xinjiang, Zhejiang and Ningxia and so on. Between 1991 and 1994, more than 10,000 officials were thus transferred. The Centre's monitoring capacity too has mushroomed with the process of economic reforms. An indicator has been the staff size of China's State Statistical Bureau which has gone up from 46 in 1976 to more than 1000 in 1994.²²

Diffused Policy Making Process

Examining the ongoing debate, one can see that the quick correlation often attempted between increasing decentralisation and destabilisation does not stand up to close scrutiny. While it is true that provinces are emerging as

²⁰ Maria Edin, "State Capacity and Local Agent Control in China: CCP Cadre Management from a Township Perspective", *The China Quarterly*, no. 173, p. 37.

²¹ Ibid, p. 43.

²² Jae Ho Chung, n.14, p. 503.

powerful actors in today's China, the interface between the state and sub-state actors- local state actors as well as a variety of non-state actors-has far from being conflictual as often portrayed, is evolving towards one that is complex, dynamic and symbiotic in nature. This is not to assume that this interface is devoid of tensions or contradictions but merely that it is neither unidirectional nor zero-sum.

A related argument is that the policy making in China today is a far more pluralistic process, involving numerous actors at various levels, than it is given credit for. If anything, the story of China's engagement with its extended neighbourhood points to the creation of increasing degrees of social spaces wherein while the state appears to exercise considerable formal control, it also allows for a host of non-state actors to 'negotiate' with the state varying spheres of functional autonomy to represent a variety of social interests, creating in the process state-NSA interrelationships that are symbiotic in nature.²³ A case in point is the Western development policy which can be described as a "soft policy: a fragmented cluster of diverse agendas, sometimes competing, but not necessarily contradictory as they appeal to different actors and are promoted in parallel."²⁴

Towards 'Contingent Relationships'

China today is dramatically different from the country which for decades put its faith in a self-chosen path of autarky and self-reliance. With phenomenal increases in foreign trade, different macro-regions of China are in the process of being bound to different parts of the extended regional and global economy. This development holds considerable import since it underlines the increasing role domestic imperatives are beginning to play in China's foreign and security policy.²⁵ As a corollary, the increasing levels of interdependence with the regional economy also mean that external linkages have become more important for these macro regions of China than ties with the domestic economy. Greater China, as William Callahan points out, is not "normal in IR" since it does not constitute a geopolitical entity but is best understood as a set of "contingent relationships" of highly mobile populations engaged in ties of trade, investment and tourism.²⁶

²³ Tony Saich, "Negotiating the State: The Development of Social Organisations in China", *China Quarterly* (March 2000), pp. 124-41.

²⁴ Heike Holbig, "The Emergence of the Campaign to Open Up the West: Ideological Formation, Central Decision-Making and the Role of the Provinces", *The China Quarterly*, 2004, p. 354.

²⁵ Madhu Bhalla, "Domestic Roots of China's Foreign and Security Policy", *International Studies*, vol. 42, nos. 3&4, July-December 2005, pp. 205-225.

²⁶ William Callahan, "Diasporic Tycoons, Outlaw States, and Beijing Bastards: The Contingent Politics of Greater China", *East Asia*, Spring 2004, vol. 21, no.1, p.68.

Fungible borders and the processes of informal regionalism driving these have innovatively reconfigured conventional notions of borders as fixed territorial markers reaffirming the overlap of domestic and international systems. In the process these have also reconfigured China's international relations, dramatically transforming relations with its neighbours, permitting a considerable measure of flexibility for divergent political and economic systems to cooperate. Central to this reconfiguring has been the role of the state in setting the direction, the pace as well as the nature of China's external economic relations. The processes of informal or soft regionalism driving China's external engagement are thus resulting in newer and more nuanced understandings of state, security and the conduct of IR in China.