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Economic Openness and Reform under Authoritarian Rule: Center-Local-International Linkages on China's Periphery

See-Won Byun
The George Washington University

Does openness to the international economy promote or undermine reform under authoritarian rule? While liberal proponents claim that economic globalization drives domestic liberalization in line with international market norms,[1] the impact in authoritarian regimes remains in question. Openness implies greater vulnerability to external forces of change,[2] but is also a key source of economic growth and political legitimacy.[3]

The Chinese case since 1978 demonstrates the success of economic reform and opening under an authoritarian leadership. But China's integration into the global economy has also produced clear provincial disparities, which emerged as a potential source of political instability by the early-1990s and prompted a shift from coastal to inland development from the early-2000s. This reorientation of national policy pushes to the center of analysis China's peripheral provincial economies that appear largely marginalized from three decades of reform and opening.

This study assesses provincial strategies of economic reform on China's inland periphery since 1978 to examine the domestic impact of economic openness under authoritarian rule. My question of interest is two-fold: (1) under what conditions does economic openness compel

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[1] Frieden and Rogowski 1996.
[2] Levitsky and Way 2010.
[3] Gallagher 2002.

reform? (2) What form does reform take? I argue that the interaction between international economic integration and the decentralization of state authority at home produces different reform strategies at the provincial level. While economic openness promotes liberal reform, these differences reflect the regime's selective approach to where and to what extent it pursues liberalization.

My assessment informs existing debates on the domestic impact of economic openness in three ways. First, the external dimensions of reform in authoritarian regimes remain largely understudied. Focusing on the relationship between central, local, and external forces of change, I emphasize the significance of both structural economic conditions and leadership policy preferences. Second, while international economic integration and the decentralization of state decisionmaking have drawn much scholarly attention in the China field, the interaction between these two processes demands more systematic analysis. In addition, my focus on variation within China's inland region rather than coastal-inland differences provides a sharper picture of the regional disparities. Third, China's case of economic liberalization under authoritarian rule importantly guides our understanding of hybrid regimes in the context of globalization.[4]

The next sections are organized as follows. First, I place the Chinese case within prevailing debates on economic openness and the political economy of reform to frame the relationship between openness, decentralization, and local reform. Second, I examine the patterns of reform since 1978 in two border provinces: (1) Jilin province in Northeast Asia's Tumen subregion, and (2) Yunnan province in Southeast Asia's Mekong subregion. Third, I assess the central, local, and international dynamics of reform under authoritarian rule and highlight the broader significance of my findings.

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[4] Diamond 2002.

Domestic Consequences of Economic Globalization and Decentralization

China's provinces have emerged as increasingly important actors in China's integration into regional and international markets.[5] Provincial patterns of foreign trade, however, reflect wide disparities since 1978.[6] An understanding of the impact of economic openness on reform strategies at the provincial level can be drawn from prevailing debates on the domestic consequences of (1) economic globalization and (2) decentralization, the two most important trends characterizing China's reform and opening since 1978.

Economic Globalization and Domestic Reform

Liberal explanations in political economy stress the impact of international forces on domestic behavior, as seen from Gourevitch's "second-image reversed."[7] Frieden and Rogowski claim that "exogenous easing" or declining costs of international exchange create new opportunities for domestic actors to push for economic liberalization regardless of domestic regime structure.[8] China's economic transition since 1978 demonstrates the liberalizing effects of external market forces. While Lardy argues that international market pressures enforced the liberalization of China's foreign trade regime,[9] Pearson shows that foreign investors and competing elites pushed for the deregulation of foreign exchange from the 1980s.[10] According to Zheng Yongnian, China's integration into the global economic system had a favorable effect on the evolution of China's regulatory institutions.[11]

[5] Zheng 1994; Ash 2005; Cheung and Tang 2001.
[6] Womack and Zhao 1994.
[7] Gourevitch 1978.
[8] Frieden and Rogowski 1996.
[9] Lardy 1992.
[10] Pearson 1991.
[11] Zheng 2004.

On the other hand, others point to the constraining effect of China's centralized political institutions on the process of "exogenous easing" to varying degrees across time and region.[12] As Shirk indicates, while the central leadership favored the opening of coastal areas given their comparative advantages in foreign trade, the "communist coalition" of inland provinces failed to draw similar preferential treatment until the mid-1990s.[13] Solinger similarly shows that lobbying from below had limited influence on central decisions to open specific sectors or regions in the early phases of reform.[14] China's foreign direct investment (FDI) liberalization from the early-1990s according to Huang and Gallagher was characterized by inefficient, "partial reforms" marginalizing China's private sector in favor of failing state-owned enterprises (SOEs).[15] China's domestic adjustments after entry into the World Trade Organization (WTO) in 2001 reflect sectoral differences: global market conditions enforced reform in China's textile and shipbuilding industries,[16] but domestic institutional and normative factors have constrained regulatory independence in strategic sectors like infrastructure and finance.[17]

The Chinese case of liberal economic reform points to the significance of both global market forces and the domestic institutional context in which policy choices are made.[18] Foreign trade institutions in socialist systems may undermine the impact of economic globalization by favoring capital-intensive state-owned industries over labor-intensive exports.[19] Political and

[12] Shirk 1996.
[13] Shirk 1998.
[14] Solinger 1991.
[15] Huang 2003; Gallagher 2002.
[16] Moore 2002.
[17] Pearson 2005.
[18] North 1990.
[19] Brada 1991.

economic elites also share a common interest in protecting SOEs and resisting the deregulation of foreign trade and investment.[20]

Economic Decentralization and Domestic Reform

The key question in China's case of economic openness under authoritarian rule is: to what extent have the two forces of economic globalization and the decentralization of state authority empowered local interests in pursuing reform and opening? As Chen Xiangming argues, the role of local governments in the success of subregional economic initiatives in East Asia has depended on the degree and timing of decentralization and the policymaking power of local governments relative to the centers.[21] In the Chinese case, Zweig shows how local actors in various sectors actively sought transnational linkages that undermined centrally-imposed institutional barriers to international exchange.[22] According to Florini et al., the creation of coastal Special Economic Zones (SEZs) in the 1980s prompted local experiments with administrative reforms which the central leadership later implemented in other regions to harmonize domestic and WTO regulations.[23] Moore and Yang emphasize both the empowering and restraining effects of economic openness on local interests: subnational actors have greater influence on policy feedback than formulation, either directly through formal channels or indirectly through adjustments to changes in national policy, with varying degrees of independence from the center.[24]

The prevailing literature underscores that a complete understanding of the domestic impact of economic openness requires a comprehensive framework that integrates together

[20] Kornai 1992.
[21] Chen 2005.
[22] Zweig 2002.
[23] Florini et al. 2012.
[24] Moore and Yang 2001.

structural conditions and leadership preferences at domestic and international levels of analyses. Existing studies, however, remain limited in two main aspects. First, while the domestic consequences of economic globalization and decentralization in China have drawn much scholarly attention, the interaction between these two trends requires further study. Framing China's path of reform in terms of the mutually-conditioning effects of these two processes allows a more systematic understanding of the domestic impact of economic openness.

Second, empirical research on the local dimensions of China's reform and opening remains largely focused on the coastal provinces as the key engines of export-led growth since 1978.[25] More importantly, few studies have examined how China's integration into the global economy in 2001 has interacted with the reorientation of national development priorities from coastal to inland areas from 2000. A focus on the variation in reform strategies within China's inland region since 1978 may provide a sharper understanding of the differences in provincial reform outcomes.

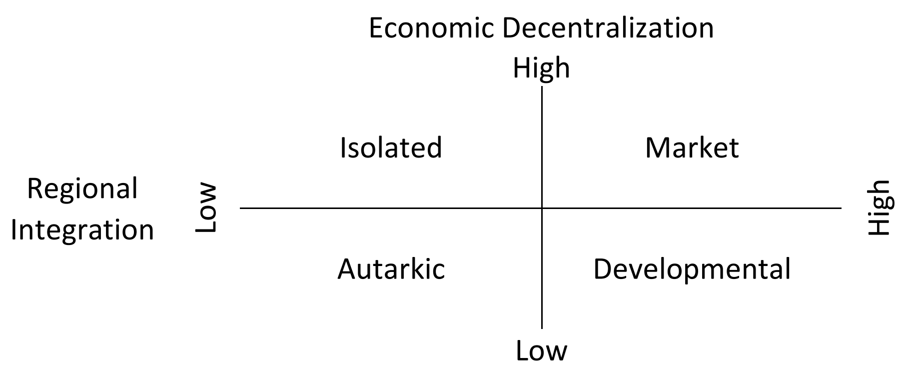
Regional Integration, Economic Decentralization, and Strategies of Local Reform

I argue that provincial development strategies depend on the interaction between the processes of (1) regional economic integration, understood as an increased flow of regional trade and investment across national borders based on comparative advantage and economic complementarities,[26] and (2) economic decentralization, the devolution of economic decisionmaking authority from central to local governments over the formal and informal rules governing these exchanges.[27] While regional integration involves changes in the external, horizontal relationship between states, decentralization involves changes in the internal, vertical

[25] Cheung et al. 1998; Zweig 2002; Ash 2005.
[26] De Lombaerde 2011; Chen 2005, 39-43.
[27] Zheng 2005, 244-249; Zweig 2002, 42-44; Chen 2005, 43-46.

relationship between central and local actors. This framework embodies the dynamic relationship between international, central, and local forces of reform. Variation in the local impact of regional integration and decentralization produces four types of local reform strategies **(Figure 1)**: (1) autarkic (2) isolated (3) developmental (4) market.

Figure 1: Regional Integration, Economic Decentralization, and Local Reform Strategies



On the horizontal, interstate dimension, an increase in the level of regional economic integration creates new opportunities for local actors to push for market-oriented reform. This expectation is in line with liberal views on the domestic impact of economic globalization.[28] On the vertical, center-local dimension, an increase in the level of decentralization empowers local elites in the implementation of economic policy. This takes into account the domestic institutional context shaping the level of state intervention.

The impact of economic decentralization on local reform strategies depends on the relative importance of the state-owned and private sectors, which shapes local incentives to

[28] Rogowski 1989; Frieden and Rogowski 1996; Milner and Keohane 1996.

pursue liberal market reforms. A stronger presence of state-owned industry implies higher costs of economic restructuring and greater local resistance to implementing reform. The local impact of regional integration depends on the formality or institutionalization of interstate ties. The greater the institutionalization of interstate exchange, the greater the degree of political and material support for sustained regional cooperation and development.

Regional Integration and Economic Decentralization on the Chinese Border

The reform and opening of China's border areas must first be placed in the context of China's long-term pattern of provincial development. While Deng Xiaoping's coastal development strategy in 1988 reversed the Maoist emphasis on interior regions, inland development initiatives from 2000 reflected a reorientation of central policy toward a more redistributive approach. Regional disparities emerged as a potential source of political instability from the 1990s, when lobbying by inland provinces for preferential treatment intensified with the deepening impact of pro-coastal growth.[29] Coastal provinces benefited further from China's FDI liberalization policies in 1992, which removed sectoral and regional restrictions and granted approval authority to local governments. Interior development was first emphasized at the Fourteenth National Congress of the CPC in 1992, and the Ninth Five Year Plan (1996-2000) introduced measures to address regional inequalities including preferential policies for special economic zones. Balanced development emerged as a domestic policy priority under Jiang Zemin, who initiated

[29] Yang 1997, 81-97.

the western development program in 2000, and under Hu Jintao, who launched the northeast and central development programs in 2004 and 2005 respectively.[30]

My assessment of the patterns of reform in China's border provinces captures the effects of: (1) regional multilateral development initiatives from the 1990s and (2) the shift in central policy from coastal to inland development from 2000. While the central government imposed strict restrictions on cross-border trade before 1978 given the political and military insecurities surrounding border regions, it began to liberalize border trade from 1985, transferring regulatory control to provincial governments in 1992. The State-Council's approval of 15 localities as state-level border economic cooperation zones from 1992 paralleled the designation of 14 open coastal cities in the mid-1980s.[31]

Jilin province in Northeast China presents a useful case for examining the provincial impact of regional economic integration and decentralization. It is the poorest among the three provinces in northeast China, a region characterized by political conservatism and a high concentration of SOEs.[32] The direction of local reform in Jilin can be understood in the context of the Tumen subregional development program from 1991. Yunnan province in Southwest China in the context of the Greater Mekong Subregion from 1992 presents an additional case for examining the dynamics of provincial reform.

The growth in the total volume of provincial trade (exports plus imports) in both Jilin and Yunnan provinces reflect the national pattern since 1978, clearly accelerating after China's WTO entry in 2001 **(Figure 2)**. As a proportion of the national total, however, provincial foreign trade steadily declined from the early 1990s and remained stagnant from the late 1990s,

[30] Goodman 2004; Chung et al. 2009; Lai 2007.
[31] Ministry of Commerce of the People's Republic of China 2012b.
[32] Rozman 1998; Li 2004.

recovering slightly from the mid-2000s **(Figure 3)**. FDI in Jilin and Yunnan stagnated during the 1990s but began to rapidly recover from the early 2000s, both in absolute terms and in terms of the share in the national total **(Figures 4 and 5)**.

Figure 2: Total Volume of Foreign Trade

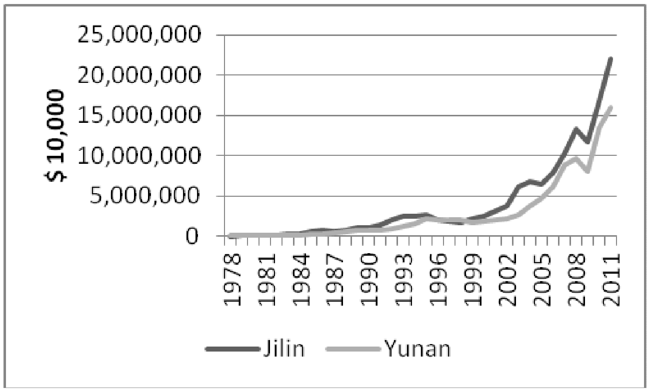


Figure 4: Foreign Direct Investment

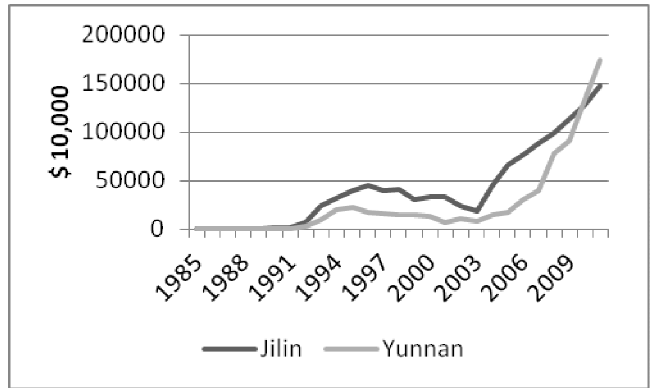


Figure 3: Share of Provincial Foreign Trade in National Total

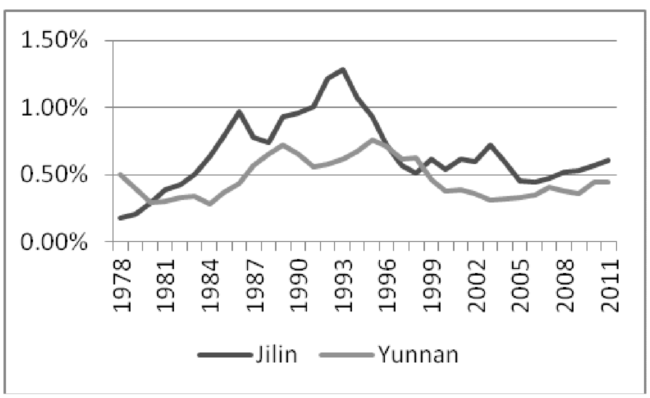
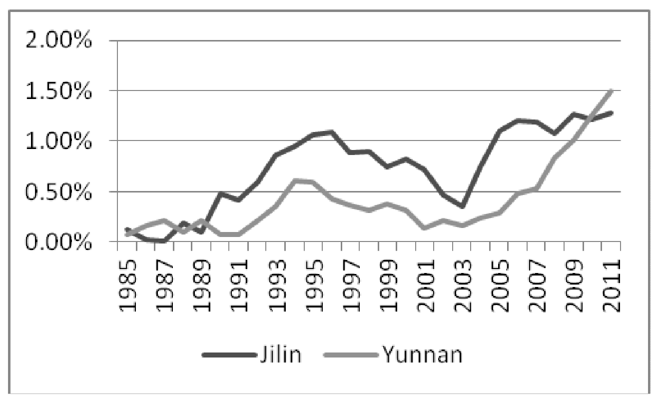


Figure 5: Share of Provincial Foreign Direct Investment in National Total



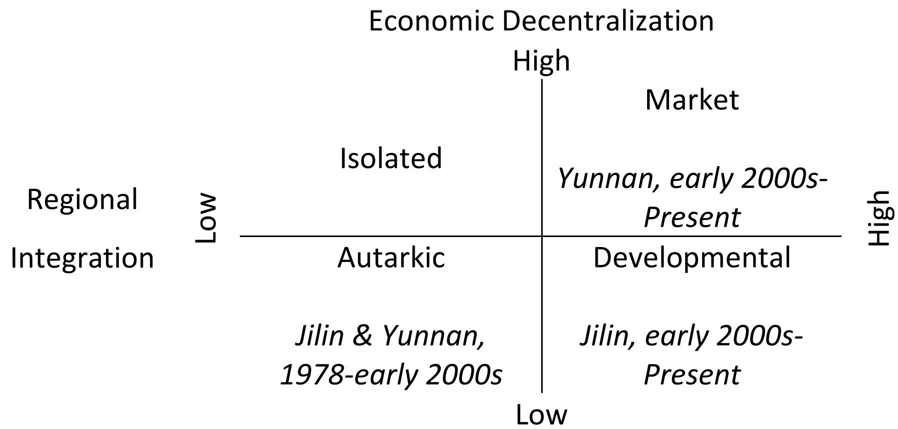
Sources: *Jilin Statistical Yearbook 2011*; *Yunnan Statistical Yearbook 2011*.

Jilin and Yunnan share several similarities that condition cross-border cooperation and development on China's inland periphery. First, the border provinces are geographically disadvantaged and economic marginalized as land-locked regions.[33] They have traditionally drawn central government support for military buildup rather than local development.[34] Second, the provinces share an external environment characterized by traditional or non-traditional security threats: insecurity on the Jilin-North Korea border and drug trafficking and other transnational crime on the Yunnan-Myanmar border.[35] Third, China's border regions have a significant ethnic minority presence, more than a third in Yunnan and Jilin's Yanbian Korean Autonomous Prefecture, implying close historical and cultural linkages across the border.[36] These factors both constrain and promote subregional economic exchange and reinforce the relationship between leadership perceptions of internal and cross-border stability, the key lens through which to assess the trends of regional integration and decentralization in China over three decades of reform.

The reform paths of Jilin and Yunnan provinces since 1978 are indicated below (**Figure 6**). Both provinces followed an autarkic economic model in the period of China's coastal-led export strategy until the early-2000s, with high levels of state intervention and limited regional integration. From the early-2000s, Jilin adopted a developmental model while Yunnan began to pursue a more market-oriented approach. A key factor in this divergence has been the stronger state-sector presence in Jilin as a constraint to local implementation of market reforms. The relationship between cross-border regional, central, and local development strategies is examined below.

[33] Gallup et al. 1999.
[34] Chen 2005.
[35] Rozman 2004; Freeman and Thompson 2011.
[36] Chen 2006, 34-36.

Figure 6: Reform Strategies of Jilin and Yunnan Province



Jilin Province and the Greater Tumen Initiative

The Tumen border region encompasses the Yanbian Korean Autonomous Prefecture in Jilin province, Rajin-Sonbong in North Korea, and Primorsky Territory in the Russian Far East (RFE). Centrally located at the borders of China, Russia, and North Korea, Jilin's port city of Hunchun serves as a key point of access to regional and international markets.

Regional Development Strategies

The primary regional impetus for Jilin's reform and opening has come from the United Nations Development Programme (UNDP)'s Tumen River Area Development Program (TRADP), initiated in 1991 to promote economic cooperation between five member states of China, Russia, North Korea, South Korea, and Mongolia. Based on geographic proximity, economic complementarities, and the geopolitical significance of the Tumen area, the UNDP promoted the project as an important opportunity for fostering development and stability in Northeast Asia.[37]

[37] UNDP Tumen Secretariat.

Tumen cooperation is focused on five sectors of trade and investment, transport and communications, the environment, tourism, and energy.

The TRADP formally evolved in three phases.[38] Research and planning in the first phase (1993-1996) shifted the program's focus from regional to local needs and resulted in various investment initiatives at the micro level. Based on a new regional framework for cooperation, the second phase (1997-2000) aimed to push forward multilateral cooperation in trade, investment, and environmental management, but faced setbacks from the 1997 Asian financial crisis. The third phase (2001-2004) focused on institutional reforms to make the TRADP financially and operationally sustainable. The eighth meeting of the TRADP Consultative Commission in September 2005 set new directions for the Tumen program, renamed the Greater Tumen Initiative (GTI), producing a long-term Strategic Action Plan for 2006-2015.

Three major trends can be identified in the evolution of subregional cooperation. First, member states assumed full ownership of the GTI, with the UNDP playing a continued facilitating role. This made the formulation and implementation of GTI policies more dependent on national initiatives, through increased participation by national working groups and the streamlining of Tumen Secretariat operations. Second, the geographic scope of cooperation expanded to include all three northeast Chinese provinces (Heilongjiang, Jilin, Liaoning) and Inner Mongolia, eastern port cities in South Korea, and eastern provinces in Mongolia. Third, the private sector received greater attention as the driving force for the GTI's success. As an external initiative, the Tumen program thus opened new opportunities for provincial participation in cross-border trade and investment from the early-1990s. From the mid-2000s, the success of

[38] UNDP Tumen Secretariat; Zhang 2005.

Tumen cooperation became more contingent on central government support in the facilitation of trade and investment and local private sector participation.

Central Development Strategies

TRADP initiatives in the early 1990s were complemented by the central leadership's granting of preferential policies to border localities in Jilin.[39] The State Council designated the Hunchun Border Economic Cooperation Zone in 1992 as China's first border economic zone in which export-oriented industries and foreign investment were to be concentrated. Tumen development was incorporated into China's Ninth Five Year Plan (1996-2000) in 1996, after which the Hunchun Export Processing Zone and China-Russia Free Market and Trade Zone were established in 2000 and 2001. These measures gave Hunchun the preferential treatment previously granted to coastal cities in such areas as land rights, property ownership, finance and taxation, exports, and investment.[40] The State Council created the Tumen River Area Leading Group as the central administrative body managing Tumen policy, led by the State Science and Technology Committee (the Ministry of Science and Technology from 1998) and consisting of central and provincial government representatives.

During the early stages of Tumen cooperation in the 1990s the central government pursued important domestic reforms to facilitate Jilin's regional economic integration.[41] In 1996, the State Council introduced a plan for integrating infrastructure development in the three northeast provinces to ensure an even distribution of trade benefits, enhance policy consistency, and strengthen central coordination of northeast China's opening to the regional economy.[42]

[39] Cotton 1996; Chen 2005, 142-182; Chen 2006.
[40] Bureau of Commerce of Yanbian.
[41] Zhou 1995.
[42] Christoffersen 2002, 235-236.

New opportunities for cross-border trade drove export-led growth strategies that shaped the course of Jilin's industrial restructuring, a key aspect of which was the consolidation of ailing SOEs into enterprise groups modeled on the Korean *chaebol* and Japanese *kereitsu* under Zhu Rongji's national restructuring program from 1997. Despite the centrally-led forces of reform within the context of Tumen cooperation, however, Jilin's heavy reliance on the state sector undermined local implementation of central reform directives. While regional trade and investment ties increased, state intervention remained relatively high.

China's "Program of Revitalizing the Old Industrial Bases" launched in 2004 embodied the central government's support of northeast development as a major policy initiative of the Hu Jintao-Wen Jiabao leadership.[43] The northeast revitalization program identifies Tumen cooperation as a key part of northeast China's growth strategy and complements the renewed objectives of the TRADP as a locally-led initiative. In 2005 the central government created a Leading Group for northeast development led by Premier Wen Jiabao and including senior party leaders from 28 functional departments of the State Council, with Zhang Guobao, Vice Chair of the National Development and Reform Commission (NDRC), as Director of the administrative office within the NDRC.[44] The goals of the northeast development program include industrial diversification, state sector reform, and private sector development as well as the mitigation of the social costs of economic restructuring since the 1990s.[45]

Provincial Development Strategies

Tumen subregional cooperation involved the active leadership of local actors in drawing support from various central government agencies for provincial participation. The TRADP since its

[43] Chung et al. 2009; Li 2004.
[44] The State Council of the People's Republic of China 2005.
[45] The State Council of the People's Republic of China 2007.

inception involved collaborative efforts between the UNDP, East West Center in Hawaii, and national and local institutions including the State Council's China Center for International Studies, Jilin Science and Technology Committee, and Jilin Academy of Social Sciences.[46] Jilin's political and economic elites had pushed for the creation of an economic zone around Hunchun from the late-1980s, after the reopening of the border with the RFE in 1985 and administrative upgrading of Hunchun from a county to municipality in 1988.

Jilin's provincial government specified Tumen cooperation as part of Jilin's external strategy in 1992 and transferred provincial-level rights of approval in border economic cooperation to the Hunchun municipal government.[47] The TRADP prompted institutional cooperation at the local level, including the formation of leaders' groups in charge of Tumen development by the governments of Jilin province, Yanbian prefecture, and Hunchun municipality. Hunchun authorities set up an administration committee in 1993 to manage the activities of foreign businesses in the Hunchun Border Economic Cooperation Zone, and the Jilin provincial government inaugurated the Tumen River Area Development Administration in Changchun in 1994.[48]

Held in collaboration with the UNDP and Ministry of Commerce (MOFCOM), the Tumen River Area Investment and Business Forum in Yanji in 1995 and Hunchun in 1998 marked the earliest local effort to promote foreign trade and investment.[49] The business forum in 2002 attracted 2,270 foreign investors representing 12 countries, more than four times greater than the number of foreign participants in 1998, in addition to 5,000 Chinese participants

[46] Cotton 1996; Cheung and Tang 2001, 116-119.
[47] Wang 1992.
[48] Chen 2006, 32-33.
[49] UNDP Tumen Secretariat.

including from Hong Kong, Macao, and Taiwan. Foreign investment worth $426 million accounted for more than a third of all signed agreements, including in infrastructure development, while trade contracts totaled $743 million, concentrated mostly in Hunchun, Tumen city, and Yanji.

These trade and investment fairs moved to the Jilin capital of Changchun from 2005, reflecting the expanded geographical scope and higher-level political support of regional cooperation.[50] UNDP, MOFCOM, and the Jilin government launched the annual Jilin-Northeast Asia Investment and Trade Expo in 2005, attended by Vice Premier Wu Yi and other senior officials, and domestic and foreign investors. The 2006 expo drew together 50 government officials at the ministerial level and above, 40,000 Chinese investors, and 6,000 foreign investors, more than double the number in 2005, and received more than three times the press coverage in 2005, attracting 1,000 domestic and foreign journalists.[51] However, the increased geographic and sectoral scope of regional trade and investment cooperation has also implied greater competition from other Chinese provinces.

As the worst performing northeast Chinese province, Jilin took aggressive steps to expand foreign trade and investment through the Northeast Revitalization Program from 2004. With central support, the provincial government implemented preferential policies to advance Jilin's export-oriented industries, expanding the scope of strategic sector development in its Eleventh Five Year Plan (2006-2010). The foreign-funded and private sectors accounted for 44

[50] People's Government of Jilin Province.
[51] Embassy of the People's Republic of China in the Republic of Korea.

percent of Jilin's exports in 2005, playing an important role in not only expanding provincial foreign trade but also addressing the province's heavy reliance on imports.[52]

Provincial Implications of Regional Integration and Economic Decentralization

The TRADP in 1991 presented significant economic opportunities for the region's localities, which lack ties to both national capitals and global markets as peripheral subregional units. Despite economic complementarities of Chinese labor, rich natural resources in Mongolia, the RFE, and North Korea, and South Korean capital and technology, however, the prospects for Tumen cooperation diminished considerably by the end of the 1990s given the lack of sustained political support and funding from donor countries, international financial institutions, central governments, and the private sector.

Jilin's total trade volume and FDI in particular stagnated throughout the 1990s **(Figures 2 and 4**). Notably, the share of provincial foreign trade and FDI in China's national total began to sharply decline during this period, from 1.53 percent in 1994 to 0.5 percent in 1998, reflecting the dominance of the coastal provinces in China's foreign trade and investment (**Figures 3 and 5**). Indicators of Jilin's economic openness in terms of the proportion of foreign trade in provincial GDP show that while openness increased during the 1980s, it drastically declined from 36 percent in 1993 to below 10 percent in 1998, recovering only from the early-2000s.[53] Provincial trade and investment, however, rapidly increased from 2003, suggesting a favorable impact of China's northeast development program. While national patterns of foreign trade suggest that other provinces have dominated trade relations with Northeast Asian partners, the

[52] Jia 2005.
[53] *Jilin Statistical Yearbook 2011*.

source of FDI has gradually shifted from Europe and North America to Northeast and Southeast Asia.

Despite greater central support of northeast development, a key obstacle to local implementation of preferential policies conducive to export and private sector-led growth has been the strong presence of state-owned heavy industries. The economic and social costs of SOE reforms from the 1990s constrained Jilin's response to Tumen cooperation in its early phases. State sector reforms resulted in widespread local corruption and serious labor unrest that peaked in the late-1990s.[54] At the time of the initiation of the Northeast Revitalization program in 2004, northeast China as a whole accounted for a quarter of China's 30 to 40 million layoffs of SOE workers since the 1980s with an estimated real unemployment rate of as high as 15 percent.[55] Although the level of integration with the regional economy increased from the early-2000s, cities such as Hunchun remained highly dependent on central and provincial government subsidies. With increasing regional integration but continued state intervention, Jilin's reform model evolved from autarkic to developmental from the early-2000s.

Yunnan Province and the Greater Mekong Subregion

Yunnan province presents a case for further examining the dynamics of reform on China's inland periphery. Since 1992, Yunnan has represented the only subnational participant in the Greater Mekong Subregion (GMS), which also includes neighboring states Myanmar, Laos, Vietnam, Thailand, and Cambodia. The economic transformation of GMS countries has involved a move

[54] Becker 2002.
[55] Miller 2005.

away from subsistence farming and an increase in cross-border trade, investment, and labor mobility.[56]

Regional Development Strategies

The GMS program provides the regional context for Yunnan's development, initiated by the Asian Development Bank (ADB) in 1992 to promote Southeast Asian economic cooperation in nine priority areas of transport, energy, telecommunications, environment, human resource development, tourism, trade, private sector investment, and agriculture. With the establishment of formal relations with the Association of Southeast Asian Nations (ASEAN) in 1997, the GMS supported efforts to integrate GMS members into broader regional trade and investment networks.[57] Most notable among these is the ASEAN-China Free Trade Area (FTA), the framework agreement for which was signed in 2002 and which went into effect in 2010.

While the GMS was formed in 1992, its implementation and consolidation did not really begin until 2002, after the signing of the ASEAN-China FTA framework agreement, China's joining of the Cross-Border Transportation Agreement and Economic Corridors, a transport facilitation initiative initially between Laos, Thailand, and Vietnam, and the creation of new administrative institutions at the local level.[58] GMS activities in the initial phases remained in the planning stage, and the 1997 Asian financial crisis further delayed implementation until 2001. Compared to the Tumen initiative, however, the greater institutionalization of the GMS has helped sustain political support, funding, and private sector participation.

[56] Asian Development Bank 2012.
[57] ASEAN Secretariat 1997.
[58] Lim 2009, 40.

Central Development Strategies

The central government objectives in GMS cooperation reflect similar motivations for supporting regional integration seen in the case of Jilin. The State Council identifies three main goals in China's participation in the GMS: first, to create a favorable international environment for reform and opening; second, to promote economic integration with Southeast Asia and South Asia; and third, to achieve mutual benefits of economic and social development.[59] As in the Jilin case, the designation of border cities Hekou, Ruili, and Wanding as state-level border economic cooperation zones in the early 1990s supported the GMS initiative by liberalizing trade across the China-Myanmar and China-Vietnam borders. GMS cooperation similarly led to institutional developments to facilitate regional integration. Under the NDRC, the central government established the National Lancang-Mekong Regional Development Preliminary Research and Coordination Group in 1994, with the State Science and Technology Commission, Ministry of Foreign Affairs, Ministry of Commerce, and Yunnan government representatives as deputy leaders, and the membership of ten ministries responsible for policymaking in specific sectors.[60]

Since 2002, China's role in the GMS has evolved from beneficiary to benefactor. For example, in 2004 China established a $20 million fund under the ADB for human resources development and poverty alleviation, including through direct financial assistance to small and medium-sized enterprises (SMEs) in the private sector.[61] The central government incorporated the GMS into its "going global" overseas investment strategy from 2004, channeling investment flows especially into less developed GMS states Cambodia, Laos, and Myanmar, to which China

[59] *Xinhua* 2011.
[60] Xiong and Wen 2009, 13-14; Zhu 2010, 8.
[61] Zhu 2010, 8; Lim 2009, 41, 43-44.

unilaterally granted zero tariff treatment from 2006.[62] Since 2006, China has spent a total of $4 billion in the construction of highways linking Kunming, Yunnan's capital, to different areas of the GMS, reportedly providing unconditional loans to GMS governments mainly for the construction of transportation infrastructure.[63] At the third GMS Summit in 2008, Premier Wen Jiabao pledged that China would lead the expansion of GMS activities into new areas and launched the annual GMS Economic Corridors Forum as a dialogue mechanism between the six GMS states. Wen's proposals were largely incorporated into the 2008-2012 Vientiane Plan of Action for GMS Development.[64] These developments indicate growing central government support for Yunnan's participation in the GMS in line with regional initiatives and national goals of China's western development from 2000.

Provincial Development Strategies

Zhu Zhenming of the Institute of Southeast Asian Studies, Yunnan Academy of Social Sciences, identifies several reasons for Yunnan's participation in the GMS that converge with central interests. First, Yunnan's geographic location at the upper reaches of the Lancang-Mekong River makes it the natural participant in GMS cooperation on the Chinese side. Second, as an underdeveloped, landlocked province, Yunnan seeks transport linkages with Southeast and South Asia to promote economic development. Third, the GMS provides Yunnan access to Southeast Asian and broader international markets. Fourth, economic cooperation with Myanmar, Laos, and Vietnam is conducive to stability along the southwest Chinese border.[65]

[62] Lim 2009, 44.
[63] Lim 2009, 41.
[64] GMS Secretariat.
[65] Zhu 2010, 10-11; He and Zhao 2007, 743-744.

The Yunnan provincial government prioritized the expansion of economic linkages with GMS states from the 1980s, producing its own policy for border trade as early as 1985, including tax concessions and bureaucratic streamlining. As seen in the Jilin case, the GMS promoted local-level institutional cooperation on trade and investment facilitation. In 2002, the provincial government established an administrative body for the GMS led by the Yunnan governor and the Yunnan Lancang-Mekong Coordination Group within the provincial Development and Reform Commission to manage the GMS in coordination with various departments at the provincial and prefectural level.[66] Yunnan province from 2002 also assumed responsibility for the implementation of the Cross-Border Transportation Agreement and Economic Corridors, which was launched on a pilot basis from 2005.

From the late-1990s, the Yunnan Provincial Chamber of Commerce began promoting local private sector participation in GMS cooperation and development, with key functions of providing input in the making and implementation of relevant laws and regulations, protecting the legal rights of members, and facilitating information exchange between foreign and local enterprises through business conferences and training programs. Including 60,000 members in more than 20 industries, the YPCC has built its international network in cooperation with other Chambers of Commerce of GMS states, and in 2000 joined the GMS Business Forum initiated by the ADB and Economic Social Commission for Asia and the Pacific (ESCAP) to enhance information-sharing among GMS states and potential foreign investors.[67]

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[66] Includes the Honghe Yi and Hani Autonomous Prefecture, Dehong Dai and Jingpo Autonomous Prefecture, and Xishuangbanna Dai Autonomous Prefecture. Xiong and Wen 2009, 11-12; Zhu 2010, 12.
[67] Xiong and Wen 2009, 15-16.

Provincial Implications of Regional Integration and Economic Decentralization

Annual rates of foreign trade growth in Yunnan increased above the national average after 1992. Yunnan's trade patterns with GMS partners from the early 2000s reflect two trends. First, the GMS is more significant in Yunnan's foreign trade than in China's total foreign trade. Trade with the GMS states represented almost two thirds of Yunnan's trade with ASEAN in 2005. Second, Yunnan's trade with bordering states Myanmar, Vietnam, and Laos is more important than that with Cambodia and Thailand. As the most developed state in the GMS, Thailand was the only partner showing negative trade growth with Yunnan in 2006.[68] Provincial foreign trade and investment patterns in Yunnan follow the similar trend as Jilin's trade and investment since 1978, stagnating in the 1990s and accelerating in growth from the early 2000s **(Figures 2 and 4**). The share of Yunnan's trade and FDI in the national total has remained below the equivalent levels for Jilin besides in 1996-1998, but the gap between the two provinces has narrowed since the early 2000s (**Figures 3 and 5**). In 2009-2010, FDI in Yunnan exceeded the level in Jilin for the first time, in both absolute terms and in terms of the national share.

Despite indications of increased regional economic integration, Yunnan has encountered similar challenges to cross-border cooperation seen in the Jilin case, most importantly, insufficient funding for infrastructure construction, competition from other Chinese provinces, and differences in the political systems and regulatory environment of member states.[69] A key difference from Jilin, however, is greater decentralization and local empowerment in the implementation of foreign economic policies. Compared to the Tumen program, China's central government and private sector support for local trade and investment facilitation also appear

[68] He and Zhao 2007, 746.
[69] Zhu 2010, 14-15; Lim 2009, 46-47.

stronger in the GMS given greater institutionalization of subregional cooperation over time. With increasing regional integration and decentralization, Yunnan's reform pattern suggests a shift from autarkic to market-led reform from the early 2000s.

Conclusion: Regional-Central-Local Dynamics of Provincial Development

As land-locked provinces on China's periphery, Jilin and Yunnan have faced common geographical, economic, and political obstacles to reform and opening since 1978. Provincial reform strategies can be understood in terms of the interaction between the processes of regional integration and economic decentralization, and alignment of policies at the international, central, and local levels. While the Tumen and Mekong regional initiatives from 1991 and 1992 presented local actors in both Jilin and Yunnan with new opportunities for pursuing liberal reform, the degree and pace of economic liberalization has varied.

A comparison of the northeast and southwest Chinese cases shows that liberalization varies with local responses to regional integration and decentralization. On the external, horizontal dimension of regional integration, political and material support for GMS cross-border projects were sustained by more formal intergovernmental ties and external institutional support from the ADB and ASEAN. On the internal, vertical dimension of decentralization, provincial leaders in Yunnan more aggressively pushed for border trade from the early 1990s than in Jilin, where the dominance of state-owned industries implied greater costs of and local resistance to market-oriented reform. The continued reliance of Jilin localities on state subsidies has undermined the liberalizing impact of the northeast development program since 2004.

While both Jilin and Yunnan experienced a period of autarkic development until the early-2000s, Jilin's economic model has followed a more developmental than market-led path given relatively high state intervention. Recent patterns of foreign trade and investment in Jilin and Yunnan suggest a shift from localized border trade to regional and global markets, with a narrowing of differences in economic performance arising from Yunnan's increasingly market-oriented approach. This assessment of China's inland development reinforces the view that the success of China's market transition depends on the sequencing of economic liberalization with politically difficult reforms in the domestic private and state-owned sectors.[70] It further suggests that the central government's selective management of the reform and opening of China's provinces is a key component of successful market transition under authoritarian rule.

[70] Gallagher 2002.

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